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Politics and Finance: An Analysis of Ultimate Ownership and Control in Canadian and US Corporations. Part I

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Abstract

We compare in this first paper the chain of ownership structure of 5089 North American firms (1,120 Canadian and 3,969 US listed firms). We analyze their ultimate and immediate ownership and control, and other ownership features. We find that ownership and control structures are significantly more concentrated in Canada than in US. Moreover, the separation of control from ownership is more pronounced in Canada than in US. In contrasting our results to those reported in East Asia and West Europe in previous studies, we find that Canadian corporate structure is more likely to concord with the Western European one (with more convergence to Italy and Spain), reported in Mara and Lang (2000). Overall, our findings sustain the hypothesis that the US ownership structure profile is not universal. Canada as many other countries shows a completely different picture. We conjecture that the sharp contrast between US and Canadian ownership structures is rooted in the difference between the political systems of the two countries and can be explained from a historical standpoint.

Key words: chain of ownership; expropriation; political system.
JEL Classification: G32.

1. Introduction

Traditionally, finance theory has not distinguished the owners of shares of stock. The generally accepted view was that ownership of a publicly traded firm is widely held by dispersed and homogeneous group of relatively uninvolved absentee owners. Consequently, the need to gather capital from many diversified shareholders shifted corporate control from owners to managers. This was the Berle and Means's proposed image of *Modern Corporation*. In fact, Berle and Means (1932) have proposed an accurate image of ownership of large American corporations, they stipulated that widely held corporations are the prevalent firms in United States, where managers have the main corporate control. Then the conflicts between managers and owners resulting from the separation of ownership and control have given rise to a large body of literature. More recent interest has been sparked by the concept of identifying the ultimate controlling shareholders of publicly traded firm and by the examination of means used to enhance the separation between ownership and control within the corporation. What is surprising is that these empirical studies have shown that Berle and Means's image is far from a universal image, even in rich countries[1].

Empirical evidence from recent studies leaves us with a very different picture of separation of ownership and control than that suggested by Berle and Means. Widely held firms appear to be relatively uncommon, unless we look at specific countries, or focus on restrictive measures of control and on very large firms. Conversely, family control is common within corporations around the world. Ownership is concentrated in hands of family and/or other major shareholders who control a significant number of firms in many countries, including many wealthy ones[2].

To examine the nature and pattern of control by large shareholders, La Porta, Lopez-de-Silanes and Shleifer (1999a) traced the chain of ownership to ultimate owners for a limited sample of 30 firms per country for 27 countries and documented the nature of the ultimate controlling owners and the means they used to enhance control. Their findings suggested that ownership and control can be separated through deviations of one-share one-vote, pyramiding and cross-holdings to the benefit of the large shareholders. A follow-up study by Claessens, Djankov, and Lang

[1] See Mara and Lang (2000) and Laporta et al. (1999).
[2] Shleifer and Vishny (1986), Holderness et al. (1999), Morck, Shleifer and Vishny (1988).

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(2000) and Mara and Lang (2000) contributed to the literature by expanding the sample size to 2,980 listed firms and to 3,740 in nine East Asian countries and in five Western European countries[1]. They documented the overwhelming control of wealth by a small number of families and confirmed a significant separation of ultimate ownership and control.

Despite the obvious and growing importance of large public companies in the Canadian economy, studies on their control are next to nonexistent. The main reason for this lack of investigation is the high degree of association between the governance, market structures, and corporate decision between Canada and the United States. Since recent empirical evidence left us with the fact that the US model is an exception rather than a rule, and since Canada has a different corporate culture and organization and the degree of sophistication of general investors is advanced, it would be interesting to document the ultimate ownership structure for a sizable Canadian corporations sample and contrast it to US ownership structure. Such study is the focus of the present paper.

Accordingly, the primary motivation of this paper is to conduct an in-depth empirical analysis of corporate control and its separation from ownership within Canadian and US publicly traded firms. Our studies provide a contribution to the literature by constructing the ultimate ownership data for a large sample of listed Canadian and US firms, documenting the nature of controlling owners and the separation of ownership from control, and highlight the differences or the degree of association between Canadian and US ownership structures. We also relate our findings to those of Mara and Lang (2000) on the Western European and East Asian corporations, and those of La Porta *et al.* (1999a) on 27 countries around the globe. Finally, following in the footsteps of Claessens *et al.* (2000) as well as Mara and Lang (2000), this study further contributes to the literature by releasing new ultimate ownership data for future research.

We collect ultimate ownership data for 1,121 Canadian and 3,969 US listed corporations. We include a large number of medium and small-sized corporations. Our definitions of ownership from control rely on cash flow and voting rights. For example, if a family owns 25% of Firm A which in turn owns 20% of Firm B, we would say that this family owns 5% of the cash-flow rights of Firm B – the product of the two ownership stakes along the chain – and controls 20% of Firm B – the weakest link in the chain of voting rights. We present examples to illustrate both cash flow rights and control rights.

We first answer the question "Who controls North American Corporations" by analyzing the nature of the ultimate controlling owners. For the whole sample, we report that 34.30 (62.01)% of companies are widely-held at 10 (20)% cut-off. Families are the most pronounced types of controlling shareholders in North America. However, the corporate structure in Canada is sharply different from the US one. In that, we report that 17.79 (36.35)% of Canadian firms are widely held at 10 (20)% cut-off, compared to 38.96 (69.25)% in US. Families control 56.17%[2] of Canadian firms, while this proportion is only 38.27% for U.S., 38.3% in East Asia and 54.24% in Western European countries. We analyze how concentrated family control is. For example, on average the immediate or direct first blocholder (usually families) control 33,78% which is significantly lower than the US counterpart (18.74). We note that 58.21% of Canadian listed firms from the full sample have ultimate owner at 20% cut-off, compared to only 29.20% in US. These results show that in Canada a relatively small number of families control a sizable number of corporations. More interesting, the Canadian ownership structure is completely different from the US one.

We then discuss the means used to achieve a separation of ownership and control. In particular, we report evidence on the use of multiple classes of voting shares, pyramidal structures and cross-holdings[3]. In contrast to previous studies, we report that the magnitude of the deviations from the one-share one-vote, through the use of multiple class voting shares, is generally high in Canada (15.98%). Overall, we report that in our sample, pyramids and cross-holdings are used respectively to gain control in 33.81 and 8.18% of Canadian listed companies, and only 8.52 and 1.15 of US listed

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[1] Hong Kong, Indonesia, Japan, South Korea, Malaysia, the Philippines, Singapore, Taiwan and Thailand and France, Germany, Italy, Spain and the UK.

[2] At the 10% cut-off.

[3] Pyramidal structures are defined as owning one corporation which in turn holds the stock of another – a process that can be repeated a number of times. Cross-holdings occur when a company further down the chain of control has some shares in another company in the same business group which in turns owns companies in the chain.

firms. Consequently, in Canada, the controlling shareholder owns 18.31% of the cash flow rights to control 20% of the votes. However, the American controlling owner needs to get higher cash flow rights (19.32) to control the same votes; this ratio is equal to 19.76 for East Asian firms and 19.34 for Western European ones. We identify two other means to strengthen ultimate control, namely being a controlling owner alone, and having a member of the controlling family as the top manager. In this study, a controlling shareholder is considered the only controlling owner at 10% (20%) cut-off when no other owner controls a minimum of 10% (20%) of the voting rights. Our data show that a second ultimate owner exists in 37.40% of Canadian firms[1] compared to 22.67% (at 10% cut-off). We document that in 44.32% of Canadian traded firms, the controlling shareholder (usually a family) points a member from his families into (top) management positions, which is significantly lower than 27.45% in US traded firms. As a result, we document a significant separation of ownership from control for Canadian firms which is not the case in US.

The paper is organized as follows. In section 2 we provide a historical review of the relevant literature. Section 3 describes the construction of the database. In section 4 we answer the question "Who controls Canadian and US Corporations?" In section 5 we discuss the effect of size on corporate control distribution. Means to separate ownership from control are reported and analyzed in section 6. In section 7, we discuss the size effect on the separation of ownership from control. In sections 8, 9 and 10 we present evidence of expropriation. In section 11, we compare our findings to those reported in recent studies. Section 12 concludes the paper.

2. Historical review

The Berle and Means's (1932) model of widely dispersed ownership has recently been criticized as for being uncommon outside the US[2]. Several studies have documented the nature and consequences of concentrated ownership around the globe. However, there are few studies on concentration in large corporations in Canada and no deep analysis was carried to compare the American ownership style to the Canadian one, taking for given that the two countries are very similar.

In Canada, concerns expressed about corporate concentration form the basis for enactment of the first legislation in 1889. At that time, questions relating to large aggregations of capital and economic power were raised in the Parliament debates. Conversely, it was until the early part of this century that the first empirical measures of corporate concentration were put forward. According to Myers (1914), less than 50 men controlled one third of Canada's wealth as expressed in railways, banks, factories, mines, land and other properties and resources. The Royal Commission on Price Spreads (1935) put forward the first and comprehensive set of financial data on aggregate, industry and ownership concentration and concluded that corporate concentration levels were high in Canada and have increased over time (Khemani (1987)). It was estimated that in 1923, 100 largest companies accounted for 25.5% of total assets which by 1932 had grown to 35%. These computations excluded the two largest railways, and when included, the corresponding rates for the two years became 65 and 70% respectively. In its analysis of ownership and control of the 145 largest non-financial companies, the Commission reported that 34% (23% of assets) were deemed to be closely held and that for one-half of these large corporations, there was separation between ownership and control. The commission put forward a wide set of proposals which were insightful, and in many respects ahead of the times. The recommendations included strengthening competition legislation, government supervision of financial reports, prohibitions on insider trading, buttressing internal governance of firms, and greater information disclosure.

In the post-war period, the subject of corporate concentration was revisited by the Royal Commission on Canada's Economic Prospects (1957); the Economic Council of Canada (1969), and most recently by the Royal Commission on the Economic Union and Development Prospects for Canada (1986). While the views expressed in these reports vary, it was commonly acknowledged that large firms are not inherently against the public interest. The need for strengthening

[1] With ultimate owner.
[2] See Shleifer and Vishny (1986, 1997), Morck, Shleifer and Vishny (1988) and Holderness *et al.* (1999).

competition legislation was identified, particularly with respect to mergers that were likely to increase market concentration resulting in adverse economic effects.

The study of Rao and Lee-Sing (1995) identifies many characteristics of 766 Canadian firms. They reported that the majority of Canadian firms in all size classes and in most industry groups is legally controlled. In that, one or small group of shareholders owning, directly or indirectly, more than 50% of the voting shares of the company. They also found that, on average, 55% of the Canadian firms are legally controlled, and that, on average, over 20% of company shares are held by insiders (directors or officers of the firm). These results are similar to the findings of Morck and Stangland (1994).

On the other hand, La Porta, Lopez-de-Silanes and Shleifer (1999a) identified the ultimate controlling owners for the twenty largest firms, in 27 wealthy economies, as well as for a sample of ten medium size firms, from each country. They reported that the ownership structure of large firms is generally not dispersed. They documented the nature of the ultimate controlling owners and concluded that families represent the most frequent type of controlling shareholder, especially for medium size firms. Their study also documented the means controlling owners used to enhance control. In particular, they reported a marginal use of multiple class of shares, and a significant use of pyramids and cross-holdings to achieve control. They further reported that the top management position is often taken by a member of a controlling family for very large firms (73% of cases), and the controlling owner is, in 78.7% of cases, the only controlling shareholder. These findings suggested that ownership and control can be separated to the benefit of the large controlling owners. Their study, however, was limited to primarily a few of the largest firms. Therefore, it provided little evidence on the governance structure of the vast majority of middle-sized and small corporations, and it also raises a criticism on the robustness of the results.

Claessens *et al.* (2000) contributed to the literature by expanding the sample size to 2,980 (both financial and non-financial) East Asian corporations and by focusing on the separation between ownership and control. For this large sample, they traced back ultimate ownership and control. In particular they examined the extent of deviations from the one-share one-vote rule, the use of pyramiding and cross-holdings, and the presence of the controlling shareholder as a top manager of the company. Their study showed that more than two-thirds of East Asian firms are controlled by a single shareholder, which often turns out to be a family. For these firms, the controlling shareholder is often a top manager of the firm. Pyramidal structures are very common. In contrast, the use of multiple class of shares is rather limited. They documented a significant separation of ultimate ownership and control. They further documented the overwhelming control of wealth by a small number of families. At the extreme, the largest ten families in Indonesia and the Philippines control more than half of the corporate assets (57.7% and 52.5% respectively). The concentration of control in the hands of large families in other countries is also high with the exception of Japan.

A similar attempt in analyzing the ownership structure in Europe for a sizable sample also occurred. These studies include Becht and Boehmer (1998) for German companies, Bianchi, Bianco and Enriques (1998) for Italian companies, Bloch and Kremp (1998) for French companies, Crespi-Cladera and Garcia-Cestona (1998) for Spanish companies, de Jong *et al.* (1998) for Dutch companies, Renneboog (1998) for Belgian companies, and Georgen and Renneboog (1998) for UK companies.

More recently Mara and Lang (2000) analyzed the ultimate ownership and control of 3,740 corporations in five Western European countries. They documented that families are the most pronounced type of controlling shareholders in Western Europe. In fact, they control 43.9% of Western European firms. They also documented a significant concentration of wealth within a small number of families. They report that, in West Europe, pyramids and cross-holdings are used to gain control, and hence a significant separation of ownership from control is achieved but not to the benefit of controlling owners.

3. Data and Method

No electronic databases on Canadian or american ownership firms exist. Therefore data on the identity and size of direct and ultimate ownership and control stakes of shareholder hold-

ings were collected manually from 2 sources for Canada : 1) *The Financial Post* (FP) "Survey of Industrials" and "Survey of Mines and Energy Resources" for 1996, 2) *Intercorporate Ownership in Canada* (LP) from Statistics Canada (1996). On the other hand, data on US corporations were collected from Worldscope and the sec.gov internet site (webmastered by the Securities and Exchange Commission).

The information was processed in two stages. In the first stage an observation was kept if the two information sources concurred with both the principal shareholder's identity and the size of each block of shares that he owns or controls. Cases where the sources had contradictory information on identity or block size were treated in a second stage. The objective of the second stage was to reconcile disagreements among information sources through additional research. We reversed the process while checking to see if the shareholder has in fact some holdings in the firm. The third source of verification is Stock Guide for Canadian data and firms' prospectus for US data.

We follow the methodology of La Porta *et al*. (1999a) and Claessens *et al.* (2000) to construct our ultimate ownership database. We imposed two restrictions on our sample. In particular, we excluded all affiliates of foreign companies (i.e., when a foreign company controls at least 50% of the votes) since we could not follow their ownership chain. Also, in several cases we were not able to trace back the ultimate owners because of the use of nominee accounts. Thus, after this screening, we are left with 1,120 Canadian and 3969 US companies.

In analyzing cash flow and control rights, we look at all shareholders who control at least 5% of voting rights. In many cases the shareholders are corporate entities or financial institutions. In these cases we identify their owners, as well as the owners' respective chain of ownership, and so on. If the shareholder is an unlisted company, then we consider the company to be family controlled[1] (with the exception of companies controlled by unlisted financial institutions). Finally, when we encounter individual shareholders, we do not distinguish between family members and use the family group as a unit of analysis. Following previous studies, we used two cut-offs for our analysis, the 10% and the 20% of votes.

Our definitions of ownership and control rely on cash-flow and voting rights, respectively. These two measures may differ because of the use of multiple class of shares, pyramiding structures, and cross-holdings. We define a pyramid as an entity (i.e., a family, or a company) that owns one corporation, which in turn owns another corporation, and so on. Cross-holdings are defined as a condition that exists when a company has a controlling shareholder and owns shares in a firm that belongs to its chain of control. Let's consider a pyramidal structure. For example, if a family owns 25% of Firm X, which in turn owns 20% of Firm Y, then we would say that the family owns 5% of the cash-flow rights of Firm Y – the product of the two ownership stakes along the chain – and controls 20% of Firm Y – the weakest link in the chain of voting rights. We can also include cross-holdings in the same example. Suppose that a family owns 25% of the publicly traded Firm X, which in turn owns 20% of Firm Y. The same family owns 4% of Firm Y directly. Then, the family owns 9% (O) of cash flow rights of Firm Y – the sum of the products of the ownership stakes along the two chains – and controls 24% (C) of Firm Y – the sum of the weakest links along the two chains of voting rights.

Overall, our variables may be classified in three categories: variables related to (immediate and ultimate) control distribution, variables related to means to enhance the control, and variables related to the existence of an ultimate owner and its type. For instance, to analyze the distribution of corporate control in Canada and US, we compute the first, second, third, and fourth and fifth largest direct blocs of control, we then compute their sum (concentration) in the same way as Demsetz and Lehn (1985). These variables will allow to get an idea about corporate control distribution, however, they may not be conclusive. So, we deep our analysis by tracing back the control and ownership chain till the ultimate controlling owner. For that, we compute the ultimate ownership and control stakes of the first and second largest owners. We also compute the ratios of first ultimate ownership over the first ultimate control to shed light on the separation between control and ownership. We also compute the ratios of first stakes (control and ownership) over the second

[1] This happens because we generally cannot identify the owners of unlisted companies. We recognize that this procedure biases our measure of ultimate ownership.

stakes, to identify the eventual power of the second ultimate owner, to impede the expropriation chain of the first ultimate owner. On balance, these variables will allow us to characterize the control distribution in North America.

Subsequently, we identify the means used by the controlling shareholders to overarch their control and accentuate the separation of control from ownership. Accordingly, the ultimate owner will enterprise an expropriation behavior, to expropriate minority interest and protect his private benefits of control. For that, we use a set of dummy variables to verify the presence of non voting shares, multiple class of shares, pyramidal holdings, cross holdings, reciprocal holdings, and the presence of family related members in top management positions. We also compute the minimum needed capital to control 20% of the votes, this will infer a direct indication of the deviation from the one-share one-vote rule that might signal an expropriation opportunity.

In a separate step, we divide corporations into widely-held firms and firms with ultimate owners. A widely-held corporation is a corporation which does not have any owner with control rights above the 10% or the 20% threshold limit. We allow for six types of ultimate owners: 1) a family or an individual, 2) the State, 3) a widely-held financial institution 4) a widely-held corporation, 5) a miscellaneous investor (i.e., a charity, a voting trust, a cooperative, a minority foreign investor), or 6) foreign firms (that do not have legal control on the considered corporation). These variables are binary variables. We also compute the sum of control stakes hold by institutional investors (e.g. banks, investment funds, insurance companies, etc.) controlling at least 5% in order to investigate the role in the corporate governance system in the both countries of this study.

We claim that a corporation has an ultimate owner, at the 20% threshold, if this shareholder's direct and indirect control rights reach at least 20%. From our definition, a company may have more than one significant owner. If, for example, the firm has two owners, each having 12% control rights, we would say that the firm is ½ controlled by each type of owner at the 10% level. At the 20% level, however, the firm is widely-held. Now, consider a company with two ultimate owners, a family with 20% control rights, and a widely-held corporation, with 19% of control rights. Once again, at the 10% cut-off level we say that the company is ½ controlled by each type of owner. However, at the 20% level, the firm has only one relevant owner and, in particular, it is family-controlled.

4. Who Owns Canadian and American firms: Corporate Control Distribution

In this section, we compare the control structure of Canadian and US Corporations (Table 1). We, first, examine the distribution of the immediate largest shareholders. Secondly, we look at the nature of the ultimate controlling owners by tracing back ownership chain till the ultimate owner, according to the 10% and the 20% cut-off levels.

For the immediate control, we find that the first largest shareholder in Canada controls 33.79% of votes on average, which is significantly higher than the US one (18.75%) (Panel A of Table 1). The second direct bloc of control is almost alike between the two countries[1]. The magnitude of direct control may be considered as a symptom of minority expropriation, but we still need to deep our investigation by examining the ultimate ownership (control) distribution. In that, we fellow the footsteps of recent research (Claessens et al. (1999) and Mara and Lang (2000)). Our results are reported in Panel B of Table 1.

We find that only 17.79 (36.35)% of Canadian firms are widely held at the 10% (20%) cut-off level. However, 38.97 (69.25)% of US firms are widely held at the 10% (20%) cut-off levels, and the difference between US and Canada is significant at the two cut-offs. Our findings are similar, to some extent, to other recent empirical results. In fact, Canadian corporate structure is different from US and is nearer to the Western European one, reported in Mara and Lang (2000)[2] who found that 15.13 (38.34)% of Western European firms are widely-held. On the other hand, our findings for US firms are close to those of La Porta et al. (1999) who reported that more than 80% of just large U.S (at 20% cut-off) firms are widely held.

[1] The third bloc of control is higher in US firms than in Canadian ones, but lower than 5%.
[2] Data on Western European and East Asian firms are reproduced in Table 9.

Table 1

Corporate control distribution of publicly traded companies in US and Canada

The newly-assembled data for a total number of 5,089 publicly-traded corporations (1120 Canadian firms and 3969 US firms), including both financial institutions and non-financial institutions, are collected from the *Financial Post* (FP) "Survey of Industrials" (1996) and *Intercorporate Ownership in Canada* from Statistics Canada (1996) for Canadian Data and Worldscope Global 1996 Discloser and Securities & Exchange Commission Web site for US Data.

Panel A: Direct Control Distribution			
	US (N=3969)	Canada (N=1120)	t
First immediate control rights	18.75	33.79	20.19*
Second immediate control rights	6.33	6.83	1.92
Third immediate control rights	3.06	1.70	-9.00*

Panel B: Ultimate Control Distribution						
	10 percent cut-off			20 percent cut-off		
	US	Canada	t	US	Canada	t
Widely-Held firms (%)	38.97	17.79	-12.96*	69.25	36.35	-20.21*
Ultimate owner (%)	60.63	81.54	12.75*	30.20	62.69	20.01*
Family control (%)	38.27	56.17	10.48*	19.94	40.85	14.19*
Widely-held financial institution control (%)	19.94	17.81	-1.54	5.16	11.07	6.92*
Institutional investor	12.38	14.66	3.56*	-	-	-
Widely-held corporation control (%)	4.46	10.80	7.79*	2.4	9.68	10.72*
State control (%)	0.23	4.42	11.5*	0.079	2.02	7.99
Miscellaneous control (%)	3.02	10.79	10.63*	1.28	4.92	7.38*

It is worthy to notice that 81.54% of Canadian firms have ultimate owner which is significantly higher than the proportion of US ones (60.63%). As the ultimate owner has generally influential control stake, he may use his "power" to expropriate minority interest[1]. The probability of expropriation will depend on the type of the ultimate owner, his control and cash flow stakes, and other institutional factors (law origins, shareholder protection, etc.) as described in La Porta et al. (1999). As a matter of fact, family control is more pronounced in Canada than in US. In particular, while US families control 38.27 (19.94)%, Canadian families control 56.17 (40.85)% at 10 (20)% threshold. The difference between the two countries is statistically significant for the two cut-off levels. Similarly, Mara and Lang (2000) reported for their overall Western European corporations that family control is 54.24 (43.88)% at 10 (20)% cut-off, and La Porta et al. (1999) found that families in US control only 20% (at 20% cut-off). The result for US family controlled firms may be surprising, as they are relatively more pronounced than one may guess. This may be due to the presence of private benefits of control (control of founded project or technology, prestige, etc.) even in US. We find that more than 40% of family controlled firms does have the FMR Corp in their ultimate ownership chain, which is hold by the Johnson family.

Financial institutions, in Canada (US), control 17.81 (19.94)% of publicly traded companies at 10% cut-off, this proportion becomes 11.07 (5.16) at 20% cut-off. We can infer from this result, that financial institutions control in the two countries tend to be alike at 10% cut-off. How-

[1] We will examine in more details the eventuality of expropriation in the following sections.

ever at the 20% cut-off, it becomes surprisingly sharply more pronounced in Canada than in US. Again, the result for Canada is close to that of Western European countries (21.63 and 10.21% at 10 and 20% cut-off respectively). Canadian financial institution control is even directly compared to those reported for Italy and Spain[1]. Besides, our results show that institutional investors (e.g. banks, investment funds, insurance companies, etc.) control rights are significantly higher in Canada than in US.

We should note that the Canadian government is playing relatively important role with a control right of 4.42 (2.02)% at 10 (20)% cut-off, conversely, the US government control rights in American corporations are rather nonexistent (0.23 and 0.079). Obviously, the difference between the two countries is statistically significant. On the other hand, in comparison with Canada, the State usually plays a more important role as a controlling shareholder in continental Europe. This is especially true for Italy, where the State controls more than 10% of votes in almost 10% of listed firms. We also find that widely-held corporations in Canada play a more significantly important role as controlling shareholders than in US, in particular, they are controlling 10.80 (9.68)% in Canada and 4.46 (2.4) in US at 10 (20)% cut-off. By contrast, control by widely-held corporations in Western European countries is lower at the two cut-offs (1.45 and 2.16 respectively at 10 and 20% cut-offs). Miscellaneous control in Canada is more concentrated and significantly different from US one.

Thus, at first glance, we may stipulate that corporate control in Canada is concentrated in hands of large shareholders, mainly families, and at lower level financial institutions, this is significantly different from US corporate control distribution. Even more, our findings for Canadian control distribution is too much close to those of some Western European countries (e.g. Italy and Spain). Accordingly, these results reveal the eventuality of expropriation opportunities for Canadian ultimate owners. Before shedding more lights on this eventuality, we verified the size effects on corporate control distribution. Our findings are discussed in the next section.

5. The Effects of Size on Corporate Control

We use total assets as a proxy to divide our sample into four quartiles: the largest size (Q_1), the medium size (Q_2), the small size (Q_3), and the smallest size (Q_4). We should note that Mara and Lang (2000) used in their study market capitalization as proxy for firms' size, and we choose total assets as a proxy for the size. Our choice was motivated by the high correlation of the two proxies. Table 2 shows that size has some effects on ownership concentration. Generally, large firms are more likely to be widely held than small firms, both in Canada or US and at the two cut-off rates. Similarly, there is more chance to find ultimate owner in the smaller firms than in larger ones. However, we find that Canadian smaller firms are significantly more concentrated than smaller US ones, and larger Canadian firms are significantly less widely-held than larger US ones. What is noticeable is that the presence of ultimate owner, at 10 and 20% cut-offs, is the most pronounced within medium size firms. The presence of ultimate owner decreases when we move from the smallest to the small size firms, and the chance to observe an ultimate owner within any Canadian firm size category is significantly higher than in its correspondent US one. This corresponds with our findings in the former section where we show that Canadian corporate ownership is sharply different from the US one (i.e. ownership is more concentrated in Canada than in US) and the association of Canadian firms to the US firms is rather an illusion than a reality.

We then examine the relationship between corporate control distribution (type of ultimate owner) and firm size. Consistent with previous studies, we find that size is a relevant factor in explaining the ownership patterns of firms. Mainly, we find that family ownership decreases with size. Family control is weakest among the largest companies in Canada (43.23), but still significantly relatively high compared to US (21.56). La Porta et al. (1999) reported that the proportion of family controlled business is even lower for the medium-sized US publicly traded firms. We should note that the decrease in family control is more significant at 10% cut-off than at 20%.

[1] However, the highest level of ownership by widely-held financial institutions (32.64%) is in the UK.

Table 2

The effect of size on corporate control distribution

The newly-assembled data for a total number of 5,089 publicly-traded corporations (1120 Canadian firms and 3969 US firms), including both financial institutions and non-financial institutions, are collected from the *Financial Post* (FP) "Survey of Industrials" (1996) and *Intercorporate Ownership in Canada* from Statistics Canada (1996) for Canadian Data and Worldscope Global 1996 Discloser and Securities & Exchange Commission Web site for US Data.

Category		Widely-Held (%)	Existence of ultimate owner (%)	Family (%)	State (%)	Widely-Held Financial (%)	Widely-Held Corporation (%)	Miscellaneous
Panel A: 10 percent cut-off								
All firms	US	38.97	60.63	38.28	0.23	19.93	4.46	3.02
	CAN	17.79	81.53	56.17	4.42	17.80	10.80	10.79
	t	-12.96	12.75	10.47	11.5	-1.53	7.8	10.64
Largest	US	59.11	40.48	21.56	0.31	14.46	3.33	2.29
	CAN	22.92	76.56	43.23	6.25	18.23	7.33	11.98
	t	-9.52*	9.50*	6.42*	6.75	1.33	2.58*	6.43*
Middle	US	38.53	60.96	34.37	0.21	22.12	4.98	3.85
	CAN	13.74	86.26	59.34	2.75	19.78	8.79	12.09
	t	-6.56*	6.69*	6.46*	4.06*	-0.70	2.05*	4.65*
Small	US	29.94	69.85	46.83	0.31	22.14	5.10	2.71
	CAN	17.49	82.51	62.09	5.46	15.30	11.54	9.34
	t	-3.46*	3.51*	3.80*	6.12*	-2.08*	3.33*	4.35*
Smallest	US	28.06	71.44	50.58	0.11	20.99	4.43	3.26
	CAN	16.00	84.57	68.00	1.71	14.29	12.00	6.86
	t	-3.35*	3.63*	4.27*	3.30*	-2.04*	4.02*	2.28*
F (KW)*	US	86.93(244.3)	86.90(244.3)	74.06(210)	0.40(1.20)	8.21(24.50)	1.48(4.44)	1.50(4.49)
	CAN	1.98(5.91)	2.33(6.94)	8.84(25.7)	2.18(6.50)	0.83(2.49)	5.41(3.08)	1.03(3.67)
Panel B: 20 percent cut-off								
All firms	US	69.27	30.18	19.93	0.079	5.16	2.4	1.28
	CAN	36.34	62.69	40.48	2.02	11.07	9.68	4.92
	t	-20.22	20.02	14.21	7.99	6.93	10.72	7.38
Largest	US	81.48	18.11	8.85	0.21	3.54	1.77	0.94
	CAN	34.90	64.06	35.42	3.13	13.02	6.91	4.69
	t	-14.56*	14.43*	10.34*	4.48*	5.51*	4.07*	3.85*
Middle	US	71.34	28.45	17.13	0.00	4.57	3.01	1.77
	CAN	30.77	68.13	46.15	1.10	9.89	8.05	5.49
	t	-11.05*	10.81*	9.00*	3.27*	2.92*	3.22*	3.05*
Small	US	62.58	36.38	25.60	0.10	7.07	2.92	1.25
	CAN	37.16	63.93	46.15	2.19	10.38	11.30	5.49
	t	-6.51*	7.10*	5.69*	3.94*	1.55	5.15*	3.85*
Smallest	US	61.43	38.04	28.35	0.00	5.49	1.89	1.16
	CAN	36.57	61.71	46.29	1.14	10.29	11.11	2.87
	t	-6.21*	5.92*	4.75*	3.31*	2.42*	6.31*	1.76
F (KW)*	US	40.10(116.7)6	38.82(113.1)08	48.32(139)	1.22(3.65)	4.41(13.20)	1.77(5.30)	0.94(2.81)

We note that State control is higher within largest companies, and this control stake generally decreases with size. However, for financial institution, their highest stake (19.78%) was

* F=test de fisher and KW, a kruskal-wallis test, is under parenthesis.

reported within medium size corporations at the 10% cut-off, and within the largest firms (13.02%) at the 20% cut-off, for Canadian firms. An analogous result is reported for US firms, but the difference between the two countries on financial institution control stake (according to firm size) is less obvious. In that, at 10% cut-off, differences are significant only for the small (Q3) and smallest (Q4) firms, and for the largest (Q1), small (Q3) and smallest (Q4) at 20% cut-off. Overall, financial institutions in Canada have more concentrated control stakes than in US. Surprisingly, widely-held controlling firm's stake is (in general) negatively related to size at the two thresholds (it passes from 12.00 (11.11)% within the smallest firms to 7.33 (6.91)% for the largest firms at respectively 10 (20)% threshold, for Canadian firms. Similar results are reported for US firms).

On balance, we may conjecture that size has an impact on the choices the ultimate controlling shareholder would have on the ownership and control features of the firms they control, may be because expropriation is less likely to be exercised in large firms than in small ones. This may be due to the fact that information disclosure requirements and market discipline is higher for large firms than for small ones, and opportunities for earnings management are fewer in large firms than in small ones.

On the other hand, our findings reveal that ownership is more concentrated in Canada than in US and it is more likely to observe an ultimate owner in Canadian firms than in US firms, this may represent a feature of expropriation in Canadian corporations. Accordingly, we are motivated to further deep our investigation of corporate governance in these two countries to check for the means used by large controlling shareholders to overarch their control and expropriate minority interests. This will be done in the following sections.

6. Summary and Conclusions

This paper constructed the ultimate ownership data for a large sample of Canadian and US listed firms and compared them to the ultimate ownership structures of West Europe and East Asia. The separation of ownership from control confronts all corporations with an agency problem. Amongst US corporations, the agency problem is between managers and dispersed shareholders. Managers can expropriate shareholders by diverting corporate resources for personal consumption, e.g., through excessive perquisites and empire building. In Canada, the separation of ownership from control is between controlling owners and minorities shareholders since widely-held corporations are rather rare and the predominant ownership structure is controlled by families which often appoint their related members in top management positions. Therefore, the salient agency problem is expropriation of outside shareholders by the controlling shareholder. Corporate wealth can then be expropriated by the insiders who set unfair terms for intra-group sales of goods and services and transfers of assets and control stakes.

Our findings reveal that ownership is more concentrated in Canada than in US and it is more likely to observe an ultimate owner in Canadian firms than in US firms, this may represent a feature of expropriation in Canadian corporations. As a matter of fact, we document that size is not neutral for the configurations the ultimate controlling shareholders want to give the ownership of the firms they strongly control. May be because expropriation is less likely to be exercised in large firms than in small ones. This may be due to the fact that information disclosure requirements and market discipline are higher for large firms than for small ones, and opportunities for earnings management are fewer in large firms than in small ones.

In investigating the presence of second ultimate owner, we report 37.40% of Canadian firms have a second ultimate owner compared to only 22.67% in US firms. This may be an excellent indicator of corporate governance, as it is theoretically argued that second ultimate owner may have the role as an effective monitor that is likely to represent a threat to the largest shareholder, and to weaken the channels that lead to expropriation. However, the second ultimate owner may have the opposite role, he may collude with the first ultimate owner and conspire with him to expropriate minority interests, especially when the ultimate owner is a family. We think that the presence of a second ultimate owner in Canada, would enhance the controlling power of the largest ultimate owner, as investor protection and market discipline (e.g. market efficiency, regulation and law) on insiders trading, disclosure requirements, and manipulative practice are weaker in Canada than in US.

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