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Akshay Narayanan
Masters' Union

Ashok Banerjee
Indian Institute of Management Calcutta

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Akshay Narayanan^{1,2},

Ashok Banerjee³,

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¹ Corresponding author. Email – akshay.narayanan@mastersunion.org, Postal Address – 3B, Third floor, 380/45, Uday Nagar, Sector 45, Gurgaon, India - 122003

² Assistant Professor, Masters' Union School of Business, G33R+29P, Phase II, Udyog Vihar, Sector 20, Gurugram, Haryana, India, 122022

³ Professor, Indian Institute of Management Udaipur, Balicha Campus, Udaipur, Rajasthan, India, 313001; Professor, Indian Institute of Management Calcutta, Diamond Harbour Rd, Joka, Kolkata, West Bengal, India, 700104

Abstract

In the current paper, we examine the impact of the presence and contestability among Multiple Large Shareholders (MLS) on corporate transparency. Using five individual measures comprised of three measures of earnings quality, one of auditor quality and one representing the level of monitoring faced by the firm, and a compound aggregate measure, to better reflect the multi-dimensional nature of corporate transparency, we examine the impact of the presence of two or more block holders on corporate transparency. Our findings suggest a negative association between MLS presence and corporate transparency, suggesting that the collusion effect supersedes the monitoring effect. We also find that the identity of the large shareholder has an important role to play in determining whether the collusion or monitoring role is dominant, with the presence of a non-promoter large shareholder being associated with higher firm transparency. We additionally examine the impact of contestability/ownership wedge which measures the relative shareholding positions of the large shareholders and thereby the non-controlling large shareholders' ability to contest the controlling owner's power and find that a lower ownership wedge (greater contestability) is associated with lower firm transparency and the results are consistent across the different OW measures. Finally, we examine the moderating role of retail shareholder presence on the relationship between MLS and corporate transparency and find that the negative association between the two is weakened in high retail shareholding contexts. To the best of our knowledge, we are the first to empirically examine the impact of MLS presence and nature on firm transparency and our results suggest that MLS presence and firm transparency have a conflicting relationship. Our results are robust to the use of multiple measures of corporate transparency and

to the use of industry and year fixed effects, firm level controls and heteroskedasticity robust standard errors.

Introduction

Agency theory has long been one of the major perspectives which has guided and motivated corporate finance research. However, research over the past few decades has suggested that ownership of the modern corporation is typically concentrated in the hands of a few large shareholders, rather than a large number of distributed small shareholders, resulting in a shift in focus from the traditional conflict of interest between the manager and the distributed shareholders (Jensen & Meckling, 1976; Ross, 1973; Bebchuck, Kraakman & Triantis, 2000) to those between large controlling shareholders and the minority shareholders (Shleifer and Vishny, 1997; Johnson et al., 2000; Bennedsen & Wolfenzon, 2000). The literature suggests a consensus towards the conflicts of interest between large shareholders and the minority shareholders as being the dominant source of agency conflict faced by the firm, particularly in economies outside the US and the UK, where concentrated holdings are ubiquitous (La Porta et al., 1999; Barca & Becht, 2001). It is in this context that the presence of a non-controlling large shareholder or multiple large shareholders (MLS) becomes important. MLS, it has been proposed, can eliminate both forms of agency conflicts - with the concentrated shareholders monitoring the managers and the non-controlling large shareholder monitoring against rent extraction by the majority shareholder (Bennedsen & Wolfenzon, 2000; Attig, Ghouil & Guedhami, 2009; Maury & Pajuste, 2005).

On the one hand, the proponents of MLS, the monitoring view, argues that MLS reduces both forms of agency problems as large shareholders have the incentives and the ability to monitor both the managers and each other (Bennedsen & Wolfenzon, 2000; Attig, Ghouil & Guedhami, 2009; Maury & Pajuste, 2005). A contrarian view, the collusion view, however, suggests that MLS may

not be as effective in managing agency problems as a single concentrated owner. This could be on account of a free rider problem among the large shareholders which reduces the level of monitoring (Fang, Hu & Yang, 2018; Pagano & Roell, 1998) or due to the large shareholders colluding together to expropriate benefits from the minority shareholders (Cai, Hillier & Wang, 2016; Cheng et al., 2020; Luo et al., 2013). The governance role of MLS and its impact on several important firm outcomes such as costs of capital (Attig, Guedhami & Mishra, 2008; Wang et al., 2022), capital structure choice (Boateng & Huang, 2017; Boubaker, Rouatbi & Saffar, 2017; Chandra et al., 2021), firm performance (Boubaker, Manita & Routabi, 2021; Cheng, Lin & Wei, 2013; Sacristán-Navarro, Gómez-Ansón & Cabeza-García, 2011) and corporate investment choice (Jiang et al., 2018; Boubaker, Nguyen and Rouatbi, 2016) to mention a few, have received significant research attention. In the current paper, we examine the impact of MLS on an important, but hitherto neglected, firm outcome - firm transparency.

Corporate transparency may be broadly defined as the availability of firm-specific information to stakeholders outside the firm (Bushman & Smith, 2001, 2003; Parris et al., 2016). Over the years, corporate transparency has emerged as a multifaceted system which deals with the production, gathering, dissemination and validation of corporate information, including, but not limited to financial information, and comprising a comprehensive view of the information environment of the firm (Bushman, Piotroski, & Smith, 2004; Dechow & Gillett, 2013; Baraibar-Diez, Odriozola & Fernández-Sánchez, 2016). Corporate transparency has been shown to impact the level of information asymmetry surrounding the firm (Bushman & Smith, 2001, 2003; Verrecchia, 2001), to influence its investment decisions (Zhong, 2018; Verdi, 2006; Biddle, Hilary & Verdi, 2009), flow and costs of capital (Dechow & Gillett, 2013; Botosan 1997; Botosan & Plumlee 2002) and

trust (Augustine, 2012; Elia, 2009; Lee & Nam, 2021). As a result, corporate transparency has received significant research attention among finance and allied management disciplines.

In the current paper, we examine the impact of the presence and nature of MLS on firm transparency. On the one hand the monitoring argument would suggest that the presence of MLS would lead to increased monitoring as large shareholders attempt to reduce the information asymmetry and the associated agency conflicts (Bennedsen & Wolfenzon, 2000; Attig, Ghoul & Guedhami, 2009; Maury & Pajuste, 2005) implying an increase in firm transparency. The increase in firm transparency is particularly important given that effective monitoring by non-controlling large shareholders is dependent on the availability of timely and reliable corporate information. On the other hand, the collusion argument would suggest that the large shareholders will collude together to maintaining their information edge over the minority shareholders, enabling them to maintain their private benefits of control (Fang, Hu & Yang, 2018; Cai, Hillier & Wang, 2016; Cheng et al., 2020; Luo et al., 2013), implying a reduction in corporate transparency. Large shareholders are more likely to have the incentives and the ability to extract the real position of the firm from an opaque information environment and therefore may be less impacted by corporate transparency. Additionally, the presence of multiple large shareholders could also result in free rider problems and/or inter- large shareholder conflicts (Chakraborty & Gantchev, 2013; Fang, Hu & Yang, 2018; Pagano & Roell, 1998) resulting in a more opaque firm information environment. Finally, both transparency and MLS may be viewed as governance mechanisms and may complement or substitute each other. Therefore, in the current paper, we view the relationship between MLS and corporate transparency as an empirical problem.

Using five individual measures comprised of three measures of earnings quality, one of auditor quality and one representing the level of monitoring faced by the firm, and a compound aggregate measure to better reflect the multi-dimensional nature of corporate transparency, we examine the impact of the presence of two or more block holders with 5% or more ownership stakes on corporate transparency. Our findings suggest a negative association between MLS presence and corporate transparency, suggesting that the collusion effect supersedes the monitoring effect of MLS in the firms in our sample as far as the outcome of corporate transparency is concerned. Our results are robust across all six measures of corporate transparency and to the use of industry and year fixed effects, firm level controls and heteroskedasticity robust standard errors. Our results contrast with the findings of Boubaker and Sami (2011), who find a positive relationship between the presence of MLS and earnings informativeness in their sample of ~400 French firms, from which they surmise a positive relationship between MLS presence and earnings quality. Our analysis which uses multiple measures of transparency to better account for its multi-dimensional nature suggests a negative relationship between MLS presence and firm transparency in the Indian context. Our results are consistent with the large shareholders colluding to maintain an opaque information environment to extract information rents from the minority shareholders in the Indian context.

Next, we examine whether the identity of the large shareholders impacts the firm transparency environment. Prior studies have suggested that the identity of the non-controlling large shareholder may play a role in determining whether the monitoring role or the collusion role becomes prominent. For instance, Maury and Pajuste (2005) find that for family controlled firms, the presence of a second family large shareholder is associated with a reduction in firm value, whereas,

the presence of a non-family large shareholder is associated with an increase in firm value. Boubaker, Rouatbi and Saffar (2017) that the monitoring effect dominates when the non-controlling large shareholder's identity is that of a family or a financial corporation and the collusion effect dominates in case the second large shareholder is government or a retail shareholder. In our study, we examine the impact of the presence of a non-promoter large shareholder on corporate transparency, and find that their presence, in contrast to our previous overall results for MLS presence, is positively associated with firm transparency. Our results are robust across all six measures of corporate transparency and suggests that the presence of a non-promoter large shareholder reduces the negative impact of MLS on firm transparency, at least partially.

We additionally examine the impact of contestability/ownership wedge which measures the relative shareholding positions of the large shareholders and thereby the non-controlling large shareholders' ability to contest the controlling owner's power. On the one hand, lower ownership wedges (higher contestability) enables non-controlling large shareholders to monitor and effectively contest the decisions of the controlling shareholders in the monitoring paradigm (Maury & Pajuste, 2005; Boubaker & Sami, 2011; Boubaker, Nguyen & Rouatbi, 2016) which leads to a prediction of negative (positive) association between ownership wedge (contestability) and transparency, particularly given that effective monitoring by non-controlling large shareholders requires the availability of timely and reliable corporate information. Additionally, when two large shareholders with similar ownership structures are present, they are more likely to compete with each other for control of the firm via forming coalitions with the remaining shareholders (Kahn & Winton, 1998; Pagano & Roell, 1998; Zwiebel, 1995), resulting in improved

governance. On the other hand, lower ownership wedges (higher contestability) may lead to an increase in free riding and/or co-ordination frictions leading to a reduction in monitoring (Chakraborty & Gantchev, 2013; Guthrie & Sokolowsky, 2010; Wang & Xiao, 2011) and by extension, in firm transparency. Additionally, shareholders with lower ownership wedges are likely to have similar value functions and therefore are more likely to collude together to protect their private benefits of control at the expense of the minority shareholders (Attig, El Ghouli & Guedhami, 2009; Bennedsen & Wolfenzon, 2000; Cai, Hillier & Wang, 2016).

Using six popular measures of ownership wedge from the literature, we examine the impact of ownership wedges/contestability on firm transparency. Our results suggest that a lower ownership wedge (greater contestability) is associated with lower firm transparency and are consistent across the different OW measures. Our results are consistent with the large shareholders with similar ownership structures and therefore, similar, value functions, colluding to maintain an opaque information environment to extract information rents from the minority shareholders.

Finally, we examine the moderating role of retail shareholder presence on the relationship between MLS and corporate transparency. On the one hand, retail shareholders have the least incentive as well as ability to decipher the true picture of the firm in an opaque information environment and therefore, have the highest demand for firm transparency. In the presence of MLS, large shareholders compete with each other for control of the firm through forming a controlling coalition with the remaining shareholders leading to large shareholders being more reactive to the needs of the minority shareholders. This suggests that the relationship between MLS and firm transparency is likely to be more positive when retail ownership is higher. On the other hand,

institutional shareholders may be more effectively able to mobilize their votes resulting in the relationship between MLS and firm transparency being more negative with higher retail presence. Our results suggest the negative results observed between MLS and firm transparency is driven by firms with low retail ownership.

To the best of our knowledge, we are the first to empirically examine the impact of MLS presence and nature on firm transparency. The closest work in this context is by Boubaker and Sami (2011) who examine the impact of the presence of large shareholders on earnings informativeness, which has been used as one of the proxies for firm transparency. In one of their hypotheses, they also cursorily examine the impact of the control contestability by the non-controlling large shareholder on earnings informativeness. In our study, we use a more comprehensive view of the information environment of the firm by using several measures of firm transparency to better account for its multi-dimensional nature.

Our work contributes to the literature in several important aspects. We add to the literature studying the determinants of corporate transparency by being the first to rigorously examine the role of MLS presence and nature on corporate transparency. We complement prior studies such as Liu et al. (2018), Cheng & Wang (2021) etc. who suggest that ownership structure plays an important role in corporate transparency by examining the specific impact of MLS. We also extend prior works on the governance role played by MLS by being the first to its impact on corporate transparency. Additionally, we examine a possible channel through which MLS could impact agency problems and firm outcomes, namely, through influencing the information environment of the firm. Finally, we augment the empirical research on the determinants of the information

environment of the firm by studying the Indian context. Indian firms are typically closely held with a large share of family enterprises. Moreover, a large share of Indian firms are often controlled by more than one large shareholder (Suman and Singh, 2020; Suman & Singh, 2022). Combined with the poor minority investor regime characterized by inadequate and ineffective regulatory regime (Lodh, Nandy & Chen, 2014; Chauhan, Pathak & Kumar, 2018), the ownership concentration allows for severe agency conflicts between the controlling and minority shareholders. Thus, the Indian context provides for an excellent context to examine the role of MLS in the choice of firm information environment.

The Indian economy is one of the largest developing economies, it is an English speaking country, has a legal system modeled after the UK system, its financial institutions are similar to those found in the Organization for Economic Co-operation and Development (OECD) (La Porta, Lopez-de-Silanes, Shleifer, and Vishny, 1998) and Indian accounting and financial data are generally accepted to be of good quality (Baghai and Becker, 2018) enhancing the generalizability of our results. Nevertheless, our focus on the Indian context is an acknowledged limitation of this study since our findings could be dependent on the Indian regulatory, cultural, institutional, and market characteristics.

Data, Sample Selection and Methodology

The data for our empirical analysis is primarily obtained from the PROWESS database maintained by the Centre for Monitoring Indian Economy (CMIE), which is a comprehensive source of high quality financial and other sources of corporate information on Indian corporates. The PROWESS database has also been used in several previous empirical studies examining Indian corporations (Bertrand, Mehta & Mullainathan, 2002; Khanna & Palepu, 2000; Baghai & Becker, 2018 etc.). We have collected data on the annual financials of the firm, the shareholding pattern, the board of directors, their market performance, auditor details and the data on ownership by major shareholders from CMIE Prowess for the current study. We limited our analysis to the period from 2010 onwards to avoid the 2008 global financial crisis. The global financial crisis of 2008 resulted in a push towards greater transparency from both the regulators and the investors and resulted in a marked difference in the corporate transparency regimes post the crisis (Aggarwal & Jorion, 2012; Ntim, Lindop & Thomas, 2013) and we focus on the post-crisis corporate transparency in the current study. As our primary variable of interest concerns the presence of MLS, we remove all firm-years pairs without information on the equity ownership of the major investors. We also remove all financial firms from the sample and are left with ~3000 firms (The exact number of firms varies across the years and ranges between a minimum of 2984 firms for 2012 and a maximum of 3482 firms for 2019).

Given the multidimensional nature of transparency (Bushman, Piotroski & Smith, 2004), we use five individual measures of corporate transparency and a compound measure based on the average

decile rankings of the five individual measures in our current study. Our first measure of transparency is based on the levels of earnings aggressiveness (EA). We follow prior works such as Qian, Gao & Tsang (2015), Zhong (2018), Nair et. al. (2019) etc. and use total accruals scaled by the lagged total assets as our first measure, EA. Following Dechow, Sloan & Sweeney (1995), Leuz, Nanda & Wysocki (2003) etc., we measure accruals as

$$Accruals = \Delta CA - \Delta CL - \Delta Cash + \Delta STD - DEP + \Delta TP$$

Where CA denotes the current assets, CL denotes the current liabilities, STD denotes the short term debt, DEP denotes depreciation and TP denotes the tax payable. Earnings aggressiveness is thus a measure of accruals scaled by the assets of the firm and may be viewed as the level of flexibility available for earnings management. We scale EA by -1 to create Inverse Earnings Accruals (IEA), a measure increasing in transparency.

Our second measure of transparency is an earnings smoothing (ES) measure measured as the standard deviation of net income scaled by the standard deviation of cash flow from operations in line with earlier works (Myers, Myers & Skinner, 2007; Leuz, Nanda & Wysocki, 2003; Nair et. al., 2019). Earnings smoothing is expected reduce the standard deviation of net income vis-à-vis that of the cash flow from operations and the measure is expected to increase with firm transparency. Our third measure of transparency, Accrual Smoothing (AS) is the contemporaneous correlation between changes in total accruals (measured as defined earlier) and changes in operating cash flow (Leuz, Nanda & Wysocki, 2003; Myers, Myers & Skinner, 2007; Zhong, 2018). More negative values of the AS measure represent an increase in opacity.

While our first three measures are earnings quality metrics and therefore represent transparency measures internal to the firm, the fourth and the fifth metrics reflect measures of private information collection by external stakeholders of the firm. The first of the external monitoring measures is leverage which reflects the monitoring role of debt holders who both influence and rely on the quality of the information provided by their borrowers (Debosky & Gillett, 2013; Debosky & Gillett, 2019; Bushman, Piotroski & Smith, 2004). The second external monitoring measure is big4, a binary variable which takes the value of 1 if the auditor of the firm belongs to the big 4 auditors and 0 otherwise (Debosky & Gillett, 2013; Debosky & Gillett, 2019; Johl et. al., 2021; Liang et. al., 2019). In addition to these individual measures, we also create a compound measure of corporate transparency. For the compound measure, the four continuous measures of transparency are converted into deciles and scaled by 10 to obtain measures bounded by 0 and 1 and the averages of all five measures is used to obtain the compound measure.

Our primary independent variable is a binary variable, MLS presence, which takes a value of 1 if the firm has two or more shareholders each holding 5% or more of the outstanding shares and 0 otherwise. We use the threshold of 5% for the MLS presence in line with earlier papers such as Chen, Firth & Xu (2009), Jiang & Peng (2011), Luo et. al. (2013) etc⁴. Additionally, in order to examine if the nature of the large shareholders has an impact on transparency, we also create an additional variable non-promoter large shareholder presence which takes the value of 1 if at least one of the non-promoter shareholders holds 10% or more of the outstanding shares. We employ a 10% threshold for the non-promoter shareholding in line with papers such as Cai, Hillier & Wang (2016) which suggest that non-promoters will require larger shareholding levels to have sufficient

⁴ Our results are also robust to the use of 10% threshold for identification of a large shareholder

motivation as well as voting rights to effectively contest the decisions of the promoters. For instance, the companies act, 2016 requires that a minimum threshold of 10% of share capital/voting rights be met for convening an Extra-ordinary General Meeting (EGM). Cai, Hillier & Wang (2016) also find that the optimal ownership for the second largest shareholder is slightly above 10%.

Additionally, we also create six measures of contestability from the prior research (Maury & Pajuste, 2005; Laeven & Levine, 2008; Nair et. al., 2019). Our first two measures are vote21 and vote 231 which are calculated as the ratio of the ownership share of the second and combined ownership of second and third largest shareholders respectively scaled by the ownership of the largest shareholder and are increasing with an increase in contestability. Our next three measures are variations of Herfindahl based concentration measures, the first of which is Herfindahl differences (HI_diff) measured as sum of the squared differences between the ownership shares of the first and second, and the second and third largest shareholders $((Own1 - Own2)^2 + (Own2 - Own3)^2)$, the second (HI_diff_exp) is an expanded version of the first up to the fifth largest shareholder $((Own1 - Own2)^2 + (Own2 - Own3)^2 + (Own3 - Own4)^2 + (Own4 - Own5)^2)$ and the third (HI_Conc) is a sum of the squared ownership shares $(Own1^2 + Own2^2 + Own3^2)$. All Herfindahl measures have been log transformed to control for skewness. Our final measure of contestability is a dispersion measure (Disp) calculated as the difference in shareholding between the largest two shareholders scaled by the sum of their shareholdings $((Own1 - Own2)/(Own1 + Own2))$. Our final four measures of ownership contestability are decreasing with an increase in contestability.

Additional firm level variables have been introduced in the models to control for factors which have been shown to impact firm transparency. The size of the firm, age of the firm, its financial leverage, market to book ratio of the firm and the percentage of independent directors in the board have been controlled for in addition to the use of year and industry fixed effects. The exact definitions of the control variables have been detailed in annexure 1.

We employ a pooled Ordinary Least Squares (OLS) regression with industry and year fixed effects in our main model to study the impact of MLS on firm transparency with additional firm level controls to account for firm heterogeneity. For Big 4 which is a binary variable, we use a pooled logistic regression model with controls and fixed effects similar to the other OLS models. Heteroskedasticity robust standard errors have been employed and presented in all our regression models. All continuous variables have also been winsorized at the 5% levels to remove the impact of outliers.

Empirical Results and Discussion

The summary statistics of the main variables used are presented in Table 1 below. The results suggest that a large share of the companies (~80%) have at least two shareholders with ownership of 5% or higher. The presence of a non-promoter large shareholder holding 10%(5%) or higher levels of ownership is far lower at ~17% (~43%⁵) suggesting that a large portion of the large shareholders are promoters of the companies. The size, the market-to-book ratios and the leverage show a high degree of variation between the companies. The pair-wise correlations are presented in Table 2. MLS presence is positively associated with company size, age and board independence and negatively associated with market-to-book ratio, leverage and retail ownership. The univariate association of MLS presence with the transparency variables are mixed with ES measure and leverage negatively associated with MLS and other measures positively associated with MLS though in case of the AS and IEA measures, the relationship is not significant.

Table 1: Summary Statistics

	N	Mean	Std. Dev.	min	Median	max
MLS Presence	35304	.81	.39	0	1	1
Non-Promoter LS Pre	35304	.17	.37	0	0	1
Log Size	31250	6.48	2.31	2.51	6.23	10.87
Log Age	35304	3.35	.53	.69	3.33	5.06
Board Independence	34679	.42	.16	0	.43	1
Market to Book	31178	1.8	2.07	-.3	1.04	7.67
Leverage	30347	.35	.31	.01	.28	1.34
Retail Ownership	35271	.31	.19	0	.27	1
<u>Transparency Measures</u>						
IEA	33358	.03	.13	-.2	.02	.33
ES	29606	.91	1.22	.02	.44	5.03
AS	22417	.29	.57	-1	.42	1
BIG4	35056	.12	.32	0	0	1
Leverage	30347	.35	.31	.01	.28	1.34
Combined Measure	35283	.45	.16	0	.45	1
<u>Contestability Measures</u>						
vote21	35111	.56	.31	0	.59	1

⁵ Figures not presented in table

	N	Mean	Std. Dev.	min	Median	max
vote231	35111	.95	.56	0	.97	2
HI_diff	35032	-4.63	2.5	-10	-4.35	-.99
HI_diff_exp	35226	-4.26	2.09	-8.63	-4.14	-.99
HI_Conc	35304	-2.61	1.15	-5.12	-2.55	-.79
Disp	34401	-1.08	1.13	-3.94	-.67	-.01

Table 1 presents the summary statistics for the major variables used in the study. The detailed definitions of the variables is provided in Annexure 1.

Table 2: Pairwise correlations

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
(1) MLS Presence	1.00													
(2) Non-Promoter LS Pre	0.18**	1.00												
(3) Log Size	0.05**	-0.01	1.00											
(4) Log Age	0.02**	0.03**	0.21**	1.00										
(5) Board Independence	0.02**	0.00	0.13**	0.04**	1.00									
(6) Market to Book	-0.03**	-0.02**	0.44**	0.03**	0.06**	1.00								
(7) Leverage	-0.01**	0.03**	-0.20**	-0.01**	-0.04**	-0.20**	1.00							
(8) Retail Ownership	-0.29**	-0.09**	-0.54**	-0.12**	0.01*	-0.18**	0.08**	1.00						
(9) IEA	0.00	0.01**	-0.01**	-0.03**	0.01**	-0.02**	0.06**	-0.01**	1.00					
(10) ES	-0.02**	0.00	-0.07**	0.01**	-0.01**	-0.04**	0.22**	0.05**	0.04**	1.00				
(11) BIG4	0.01**	0.01	0.43**	0.10**	0.05**	0.20**	-0.10**	-0.23**	0.02**	0.02**	1.00			
(12) Leverage	-0.01**	0.03**	-0.20**	-0.01**	-0.04**	-0.20**	1.00**	0.08**	0.06**	0.22**	-0.10**	1.00		
(13) AS	0.00	0.01**	-0.02**	0.03**	0.00	0.02**	0.00	0.01**	-0.06**	-0.08**	-0.03**	0.00	1.00	
(14) Combined	0.05**	0.01**	0.23**	0.15**	0.10**	0.05**	0.44**	-0.16**	0.44**	0.39**	0.49**	0.44**	0.36**	1.00

** $p < 0.05$, * $p < 0.1$

Table 2 presents the pairwise correlations for the major variables used in the study. The detailed definitions of the variables is provided in Annexure 1

In the next section, we examine the multivariate relationship between MLS presence and firm transparency after adjusting for firm level controls and year and industry fixed effects. The regression results are presented in Table 3 with our six transparency measures presented in different columns. The results of the impact of MLS presence on all six of our transparency measures are negative and significant suggesting that the presence of multiple large shareholders is associated with a reduction in firm transparency. Our results are in contrast with Boubaker and Sami (2011) who find a positive relationship between the presence of MLS and earnings informativeness in their sample of ~400 French firms, from which they surmise a positive relationship between MLS presence and earnings quality. Our analysis which uses multiple measures of transparency to better account for its multiple dimensions suggests a negative relationship between MLS presence and firm transparency in the Indian context. Our results are consistent with the large shareholders maintaining an opaque information environment to extract information rents from the minority shareholders.

Table 3: Regression Results – Impact of MLS presence on firm transparency

	(1)	(2)	(3)	(4)	(5)	(6)
	IEA	ES	BIG 4	Leverage	AS	Decile Combo
MLS Presence	-.005** (.002)	-.123*** (.023)	-.506*** (.059)	-.018*** (.005)	-.025** (.012)	-.017*** (.002)
Non-Prom LS Pre	.004* (.002)	.045** (.022)	.15** (.062)	.024*** (.005)	.019* (.011)	.004*** (.002)
Size	-.002*** (0)	-.01** (.004)	.775*** (.015)	-.024*** (.001)	-.023*** (.002)	.016*** (0)
Age	.003** (.001)	.085*** (.016)	.083** (.039)	-.003 (.003)	-.036*** (.009)	.023*** (.002)
Board Ind	.003 (.006)	.127** (.061)	.092 (.197)	-.012 (.015)	-.003 (.03)	.021*** (.005)
MTB	-.002*** (0)	-.004 (.005)	-.036*** (.012)	-.017*** (.001)	.008*** (.002)	0 (0)
Leverage	.039*** (.003)	.765*** (.039)	-.634*** (.12)		.005 (.017)	.239*** (.003)
Constant	.055***	.367***	-7.169***	.54***	.312***	.216***

	(1)	(2)	(3)	(4)	(5)	(6)
	IEA	ES	BIG 4	Leverage	AS	Decile Combo
Observations	(.006) 25314	(.069) 23060	(.228) 26320	(.013) 26460	(.039) 17837	(.007) 26460
R-squared	.226	.064	-	.139	.108	.273
Adj R ²	.224	.061	-	.137	.105	.272

*** $p < .01$, ** $p < .05$, * $p < .1$

Table 3 provides the results of the pooled OLS regression of firm transparency measures on MLS presence and the presence of non-promoter large shareholders with additional firm controls and year and industry fixed effects. The detailed definition of the variables are presented in Annexure 1. All specifications employ robust standard errors and robust standard errors are presented in parenthesis.

We find that a large share of the large shareholders are promoters of the firms as well with only 12.5% of the largest shareholders and 31.6% of the second largest shareholders being non-promoter shareholders. Promoter large shareholders being internal to the operations of the firm, are unlikely to be largely effective in monitoring and reducing agency problems, particularly majority shareholder-minority shareholder agency problems. Additionally, being internal to the operations of the firm, they are less likely to be reliant on publicly available information of the firm to evaluate or govern firm performance and therefore are less likely to benefit from increased corporate transparency. Therefore, we also examine the impact of the presence of non-promoting large shareholders on firm transparency and find that the presence of a non-promoter large shareholder (Non-Prom LS pre in Table 3) is associated with an increase in firm transparency. The results are positive and significant across all six of our transparency measures, albeit at only 10% significance levels for IEA and AS measures. Our results suggest that the relationship between MLS and firm transparency is dependent on the identity of the large shareholder and that while non-controlling promoter large shareholders collude with the controlling promoter shareholders resulting in a more opaque firm environment, the presence of a non-promoter large shareholder is associated with more transparent firm environments.

Next, we examine the impact of ownership wedge which measures the relative shareholding positions of the large shareholders and thereby the non-controlling large shareholders' ability to contest the controlling owner's power. We use six popular measures of ownership wedge from the literature. Our first two measures are increasing in contestability and the remaining four are decreasing with an increase in contestability. On the one hand increased control contestability (lower ownership wedge) might enable the non-controlling large shareholders to better monitor the policies and decisions of the controlling shareholder resulting in a more transparent firm environment. On the other hand, in firms with greater contestability (lower ownership wedge), the ownership shares of the large shareholders are more similar and as a result, they have similar value functions and therefore greater incentives to collude and extract private benefits at the expense of the minority shareholders. Our results are in line with the latter with a lower ownership wedge (greater contestability) being associated with lower firm transparency. The results are consistent across the different OW measures and all the coefficients of OW measures are significant at the 1% level.

Table 4: Regression Results – Impact of ownership wedge on firm transparency

	(1)	(2)	(3)	(4)	(5)	(6)
	Firm Transparency					
MLS Presence	-.01*** (.003)	-.01*** (.003)	-.012*** (.002)	-.015*** (.002)	-.008*** (.003)	-.012*** (.002)
vote21	-.014*** (.003)					
vote231		-.01*** (.002)				
HI_Diff			.002*** (0)			
HI_Conc				.004*** (.001)		
HI_Diff_exp					.069*** (.011)	
Disp						.003*** (.001)
Size	.016*** (0)	.016*** (0)	.015*** (0)	.016*** (0)	.015*** (0)	.016*** (0)

	(1)	(2)	(3)	(4)	(5)	(6)
	Firm Transparency					
Age	.023*** (.002)	.023*** (.002)	.023*** (.002)	.023*** (.002)	.023*** (.002)	.023*** (.002)
Board Ind	.02*** (.005)	.02*** (.005)	.02*** (.005)	.022*** (.005)	.023*** (.005)	.019*** (.005)
MTB	-.001 (.001)	-.001 (.001)	-.001** (.001)	-.001* (.001)	-.001** (.001)	-.001* (.001)
Leverage	.239*** (.003)	.239*** (.003)	.238*** (.003)	.239*** (.003)	.239*** (.003)	.238*** (.003)
Constant	.221*** (.007)	.222*** (.007)	.225*** (.007)	.227*** (.008)	.207*** (.007)	.218*** (.007)
Observations	26355	26355	26307	26460	26460	25965
R-squared	.275	.276	.275	.274	.275	.273
Adj R ²	.273	.274	.273	.272	.273	.271

*** $p < .01$, ** $p < .05$, * $p < .1$

Table 4 provides the results of the pooled OLS regression of the combined decile ranking based firm transparency measure on MLS presence and different measures of shareholder contestability with additional firm controls and year and industry fixed effects. The detailed definition of the variables are presented in Annexure 1. All specifications employ robust standard errors and robust standard errors are presented in parenthesis.

We further examine the mediating role of retail ownership on the relationship between MLS presence and firm transparency. Since retail shareholders usually have the least expertise to tease out the real position of the firm from the reported financials and are also likely to be at the greatest risk of expropriation due to agency issues, retail shareholders are most likely to value firm transparency as compared to other classes of shareholders. The results of the pooled OLS regression analysis examining the moderating role of retail ownership on the relationship between MLS and firm transparency is presented in table 5. The first model adds retail ownership and the interaction of retail ownership with MLS presence to our initial regression specification. The second and the third models are sub-sample analysis for firms with lower than median and above median retail ownership respectively and the t-test results for the test of equality of coefficients of MLS presence in the two models are presented. Similarly the fourth and fifth models are sub-sample analysis for firms in the first quartile and fourth quartile of retail ownership respectively and the t-test results for the test of equality of coefficients of MLS presence in the two models are

presented. In model 1, we find that the interaction term is positive and significant suggesting that in the presence of high retail ownership, MLS presence is more positively associated with firm transparency. The overall impact is graphically presented in figure 1 which presents differential impact of MLS presence on firm transparency between the 10th and the 90th percentile values of retail ownership. The figure suggests that the negative relationship between MLS presence and transparency is driven by firms with low retail ownership, whereas in firm with the higher levels of retail ownership the impact is muted/not present.

Table 5: Regression Results – Impact of MLS on firm transparency – Moderating role of retail presence

	(1)	(2)	(3)		(4)	(5)	
	Interaction	Below Median	Above Median	Test	Q1	Q4	Test
MLS Presence	-.028*** (.005)	-.026*** (.003)	-.006* (.003)	4.35***	-.023*** (.005)	-.004 (.004)	2.73***
Retail Ownership	-.032*** (.011)						
Interaction of MLS presence and retail ownership	.035*** (.012)						
Non-Prom LS Pre	.004** (.002)	.011*** (.003)	-.005 (.003)		.019*** (.004)	-.009* (.005)	
Size	.016*** (.001)	.019*** (.001)	.01*** (.001)		.024*** (.001)	.007*** (.001)	
Age	.023*** (.002)	.019*** (.002)	.032*** (.003)		.008*** (.003)	.025*** (.006)	
Board Ind	.021*** (.005)	.021** (.008)	.017** (.007)		-.006 (.012)	.008 (.011)	
MTB	-.001* (.001)	0 (.001)	-.003*** (.001)		0 (.001)	-.004*** (.001)	
Leverage	.239*** (.003)	.255*** (.005)	.221*** (.004)		.28*** (.008)	.213*** (.006)	
Constant	.227*** (.009)	.205*** (.01)	.219*** (.012)		.195*** (.015)	.248*** (.02)	
Observations	26457	15325	11135		7496	4244	
R-squared	.274	.246	.331		.244	.373	
Adj R ²	.272	.243	.327		.237	.363	

*** $p < .01$, ** $p < .05$, * $p < .1$

Table 5 provides the results of the pooled OLS regression of the combined decile ranking based firm transparency measure on MLS presence, retail ownership and the interaction of the latter two with additional firm controls and year and industry fixed effects. The detailed definition of the variables are presented in Annexure 1. All specifications employ robust standard errors and robust standard errors are presented in parenthesis.

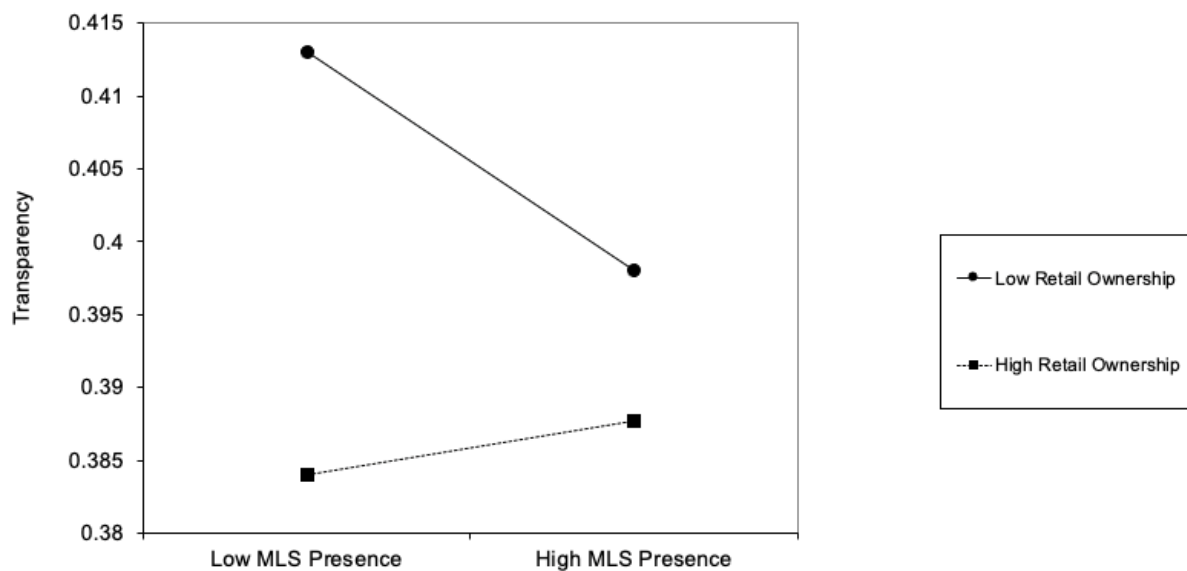


Figure 1: Impact of MLS on firm transparency – Moderating role of retail presence

The sub-sample analysis also suggests similarly that the negative relationship between MLS presence and transparency is driven by firms with low retail ownership, whereas in firm with the higher levels of retail ownership the impact is less significant both statistically and economically. Our results are consistent with large shareholders competing with each other for the proxy voting rights of the minority shareholders resulting in improved governance outcomes for the firm.

Conclusion

We examine the impact of the presence and ownership wedges between multiple large shareholders on an important, but, hitherto understudied firm outcome – firm transparency. Among ownership structures, MLS has been proposed as a gold standard for its ability to counteract both manager – shareholder and majority – minority shareholder type agency problems. Similarly, firm transparency has increasingly been studied as an important firm variable which influences critical firm outcomes such as availability and costs of capital, investments, efficiency metrics, innovativeness and trust among others. On the one hand, MLS may play a governance role resulting in an increase in firm transparency, an outcome which is particularly important given that transparent high-quality information environments may be needed to facilitate/enable the monitoring role of non-controlling large shareholders. Alternatively, large shareholders may collude to preserve their informational advantages and the economic rents that accrue thereof resulting in a decrease in firm transparency. With the exception of Boubaker and Sami (2011) who cursorily examine the impact of Large Shareholders on earnings informativeness (one of the several dimensions of transparency), to the best of our knowledge, we are the first to examine the relationship between MLS and firm transparency. Our findings suggest a negative association between MLS presence and corporate transparency, suggesting that the collusion effect supersedes the monitoring effect. We also find that the identity of the large shareholder has an important role to play in determining whether the collusion or monitoring role is dominant, with the presence of a non-promoter large shareholder being associated with higher firm transparency. Our analysis of the impact of contestability/ownership wedge which measures the relative shareholding positions of the large shareholders and thereby the non-controlling large shareholders' ability to contest the controlling owner's power suggests that a lower ownership wedge (greater contestability) is

associated with lower firm transparency and the results are consistent across the different OW measures. Finally, we examine the moderating role of retail shareholder presence on the relationship between MLS and corporate transparency and find that the negative association between the two is weakened in high retail shareholding contexts. Our work contributes to the literature in several important aspects. We add to the literature studying the determinants of corporate transparency by being the first to rigorously examine the role of MLS presence and nature on corporate transparency. We complement prior studies such as Liu et al. (2018), Cheng & Wang (2021) etc. who suggest that ownership structure plays an important role in corporate transparency by examining the specific impact of MLS. We also extend prior works on the governance role played by MLS by being the first to its impact on corporate transparency. Additionally, we examine a possible channel through which MLS could impact agency problems and firm outcomes, namely, through influencing the information environment of the firm. Finally, we augment the empirical research on the determinants of the information environment of the firm by studying the Indian context.

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