Departament d'Economia de l'Empresa

Edifici B
08193 Bellaterra (Barcelona) Spain
Tel.: 93 581 12 09
Fax 93 581 25 55
E-mail: ecempresa@volcano.uab.es

Universitat Autònoma de Barcelona

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Coordinator of the Working Papers Series:
Dr. Jordi López Sintas
e-mail: Jordi.Lopez@uab.es

Block Transfers: Implication for the Governance of Spanish Corporations

Rafael Crespí
Carles Gispert

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Block Transfers. Implications for the Governance of Spanish Corporations

The characteristics of Spanish capital markets do not help in the development of the market for corporate control through the process of taking over inefficient companies, replacing management and the subsequent shareholder's stock value increase. The ownership structure of listed companies is highly concentrated, and the floating stock for some companies is extremely low.

There exists the possibility of disciplining management inefficiencies by transferring the ownership of significant blocks of shares as a market for partial corporate control. The objective of this paper is to empirically detect the causes and consequences of block transfers in Spain during the period 1990-1995.

The main results are: i) There is no evidence that previous poor performance of the companies is the cause of block transfers, nor in the case of disciplinary transfers, when executives are replaced. ii) Block transfers occur more frequently in companies with lower ownership concentration indices. After the block transfer, on average, the ownership of the largest shareholder increases. iii) After block transfers there are significant board changes, for both executive board members and also for non-executives. (iv) The transfer of blocks is associated more frequently with smaller companies.

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Introduction

The separation of ownership and control for large companies is a relevant economic issue. The financial debate is focused in terms of guaranteeing that shareholders receive the maximum return for their investments when managers bear information advantages and do not focus necessarily on the same objectives. This disparity of objectives may generate agency costs, which are able to influence the returns of the investments, and should be eliminated or minimized.

Corporate governance refers to the mechanisms that prevent or correct the possible conflicts between managers and shareholders. A typical classification distinguishes between internal and external devices. The first account for the supervision intensity exerted by large shareholders, the disciplinary role of Board of Directors, or the contractual arrangements via incentive contracts, among others. The external ones are market mechanisms such as products, executives or stock markets.

This paper focuses, for the Spanish case, on the external mechanism of the capital markets, where the transfer of stocks can change the ownership structure, which is one of the main issues of the corporate governance agenda. As a potential disciplining device, it allows investors to detect poor performing companies, firms with high potential growth or companies suitable for expanding strategies where potential gains are expected by changes in the management. Effectively, share purchases and subsequent replacement of managers correcting inefficiencies or reorganizing the firm can reward higher firm values (Hart, 1995).

There is a formal instrument that manages the mentioned disciplining process: the takeover process, regulated by the Stock Exchange Commission (CNMV) in the Spanish case. This formal takeover (OPA is the Spanish abbreviation) prevents an equal treatment of majority and minority shareholders.[1] The detection of underperforming target firms, the replacement of managers after changes in the ownership and voting structures are the main threats of hostile takeovers (Shleifer and Vishny, 1997;

[1] For an institutional approach to the Spanish characteristics of the ownership and governance structures, see Crespi (1997)

Martin and McConnell, 1991). From a historic perspective, the eighties were a decade characterized by an important number of hostile takeovers, which involved huge transactions without target management approval. The empirical evidence shows that increases of firm value followed, and higher shareholder returns were the norm (Bradley, Desai, Kim, 1988; Morck, Shleifer and Vishny, 1988; Milgrom and Roberts, 1992)

This phenomenon is possible where wide and efficient capital markets exist and the disciplining mechanism is exerted.

In the context of a non-market-oriented corporate governance system, like the Spanish case, a reduced number of firms are listed on the stock markets, a few of these concentrate the majority of turnover and market capitalization, and the relative importance of capital markets to the GNP is low. Ownership concentration is usually high, and therefore the floating stock is low, with the result that it is difficult to observe transactions without management approval. The consequence is a reduced number of hostile takeovers, and the market for corporate control is underdeveloped compared to the market-oriented governance systems as are found in the UK and the US.

Do alternative mechanisms to the formal takeover process to promote management discipline via the stock market exist? The Spanish takeover legislation establishes that controlling shareholders that are going to exceed the threshold of 25% and beyond have to offer the same price publicly to all shareholders. The question we shall attempt to answer is: Do transfers of significant blocks act as a correction mechanism of management failures? Block transfers mean changes in ownership structure, in terms of ownership concentration and changes on the composition of different categories of shareholders. In the event of disciplinary block transfers management changes in order to achieve better results would be expected. Unsatisfied shareholders would sell their stockholdings (option exit in the Hirshman, 1970, terminology), instead of playing an active role (option voice) correcting management inefficiencies by exerting higher levels of supervision and control.

On the demand side of these transactions, buyers with different expectation of the firm's cash flows, or executive teams with superior management abilities would try to enhance the firm performance by supervising or exerting control via blocks of shares.

The aim of this paper is to contrast, with the empirical evidence available, the determinants of block transfers, and their consequences in Spain for the period starting in 1990 until the end of 1995. The implications for the governance of firms when stock share purchases above 5% exist are focused on.

The approach to the governance problem is to look at block transfers as a complementary mechanism of the takeover process, hence the fundamentals of the agency model supported by the empirical research is, to some extent, adequate.

One contribution of this research is to address similar questions that have been answered in the UK and the US environments. Morck, Shleifer and Vishny (1989), Manne (1965), Shleifer and Vishny (1989) show that, on average, changes in management behavior lead to a shareholder's wealth increase. Our approach considers the block transfers as a market for partial corporate control,[2] and the comparison of empirical results between governance systems of the UK and the US with those of Belgium and Germany sheds some light on the key variables of the problem. Additionally, there is a lack of information and research about the impact of block transfers in Spain, even though some research has been published on the wealth effect of the formal takeover process (Fernández A.I. and S. Gómez-Ansón, 1999).

The paper is organized as follows: Section I is devoted to analyzing the evidence available, and Section II exposes the hypotheses to contrast. Section III includes the data description and the methodology. Section IV presents the estimation and the results. Finally, Section V states the conclusion.

I Block Transfers and Corporate Control

In the large capital markets that characterize the US and the UK, the ownership structure of firms is widely dispersed. The disciplinary role of capital markets through takeovers or block transfers is well documented (Manne, 1965; Jensen and Ruback, 1983; Jensen, 1993; and Shleifer and Vishny, 1997).

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[2] This term is used by Bethel, J.E., J. Porter, T. Opler (1998) when referring to the role of blockholders

On the other hand, in the European continental countries with concentrated ownership structures, the market for the control of corporations is rarely used to discipline managers (Franks and Mayer, 1990).

In the case of underperforming companies, the investors have incentives to acquire significant stakes of equity to influence the management of the company and increase the market value. This behavior is identified as ex-post efficiency (Demsetz and Lehn, 1985; Bolton and Von Thadden, 1998) in the sense that managers that do not create the expected shareholder value can be disciplined because of their inefficiencies (Morck, Shleifer and Vishny, 1989; Shleifer and Vishny, 1986). On the other hand, this threat stimulates managers to maximize shareholder's value (ex-ante efficiency) and transfers of significant blocks of equity would only occur for strategic reason or cases where the buyer expects higher cash flows than current shareholders (Grossman and Hart, 1980).

Both sides of the problem are focused on here, from the perspective that prevents poor performance and from the ex-post position, where the discipline of managers or of the board occurs.

Does concluding empirical evidence exist about the disciplinary role of block transfers in several countries? Is the disciplinary ex-ante rule dominant in the ex-post mechanism of executive turnover? Some of the empirical findings available are revised when the approach for the corporate control is through block transfers. The references are grouped according to the widely accepted categories of banking or non-market-oriented systems (Belgium and Germany) and market-oriented systems (the UK and the US).

Belgium

Renneboog (1996) shows that for the Belgian capital markets a significant set of block transfers follow a firm's poor performance figures. Moreover, low returns, compared to those of the companies in the same industry, are significant in explaining changes in the firm's ownership structure, increasing the concentration values.

In the Belgian case, some categories of shareholders, those with superior abilities to supervise or with higher potential control incomes, increase their ownership stakes to change the management. Selling shareholders are classified as a lower control-incentive group, with a low capacity to supervise

management and without possibilities of attaining the benefits from free-rider behavior. Additionally, empirical evidence shows as management teams are changed after changes in the ownership structure when preceded by poor performance.

Germany

Franks and Mayer (1997) show that, in spite of the lack of hostile takeovers in Germany, an active market of significant shareholder stakes exists. However, this market does not carry out form an effective corporate control.

The existence of a double control level of executives via the board of directors and the supervisory board, with the composition of this supervisory board closely related to the firm's ownership structure, means that ownership changes do not affect board turnover. Nevertheless, changes at the executive level are not a consequence of ownership changes. Block transfers are not a consequence of companies' poor performance, and share purchases do not play a disciplinary role.

Franks and Mayer (1997) conclude that there is no significant evidence of a market for corporate control around significant share purchases. Their findings suggest that supervisory board member changes are a consequence of ownership changes and do not follow companies' poor returns. The theoretical sequence of poor performance, block transfers and board changes do not take place.

United Kingdom

According to Franks, Mayer and Renneboog (1998) in the UK there is a significant market of block transfers, even larger than that of the takeover market. However, none of those markets disciplines bad management, given the lack of a relationship between poor performance and block transfers (see also Franks and Mayer, 1996).

Board changes after ownership structure variations are not related to companies' poor performance. In general, there is no evidence that new shareholders, or existing ones, are behind control changes in companies' lower returns. Only industrial companies that acquire significant equity stakes of poorly performing companies promote changes at the executive level.

United States

Bethel et al. (1998) show that in the US there exists an active market of block transfers, which performs like a market for corporate control. Investors who promote changes in the management of companies acquire significant share stakes (5% of equity) of poorly performing companies, usually with a diversified set of activities. These ownership changes are followed by CEO changes and better company performance figures, like share price increases, asset sales and higher profits relative to similar companies in the same sector of activity. Additional evidence for the US case is provided by Holderness and Sheehan (1985,1988), Barclay and Holderness (1989), Holthausen (1987) and Gilson (1990).

After block transfers, on average, ownership concentration does not change, although the typology of large shareholders becomes different. As a consequence, the conclusion for the US case is that block transfers are an instrument of the market for corporate control, where the firm's value depends on the management's abilities more than on the amount of shares that the large shareholders have (Barclay and Holderness, 1991).

In summary, the evidence for the four countries analyzed does not allow one to conclude that block transfers play a disciplinary role in managerial failures. Changes at the board or executive level follow changes in ownership structure, but in Germany and the UK those ownership changes do not follow a firm's low returns, which does not allow us to confirm the disciplinary hypothesis. On the other hand, for Belgium and the US the empirical evidence shows as block transfers and later board or executive turnover are highly significant in poorly performing companies. The hypothesis of expected better performance after management discipline means that block transfers are used as a market for partial corporate control.

The conclusion from the previous analysis is that the disciplinary role of block transfers is not associated to the degree of capital markets development or to the ownership structure when referring to variables of the non-market-oriented governance system. The block transfers are a potential control mechanism of the capital markets, but it is not relevant in a market-oriented context such as in the UK.

However, this market discipline is confirmed in the Belgian case where ownership structure and voting power are highly concentrated in structures which have a pyramidal form (Becht, 1997)

The question we address regards the implications for the corporate governance of block transfers in Spain, which cannot be classified as a market-oriented system. There are several hypotheses that need to be confirmed or rejected in order to know more about the relevance of this mechanism or not as a discipline of management.

II Hypotheses to contrast

An important aspect of block transfers, as a disciplining mechanism, is the impact on the ownership structure of the firm in the case of underperformance. The shareholder's structure is changed via the entry of new shareholders (Renneboog, 1996) or through the increase of the ownership stakes that existing shareholders have to exert more active control (Burkart, Gromb, Panuzi, 1996; Franks, Mayer 1995). This second possibility is recognized as a way to achieve the optimal ownership structure (Demsetz and Lehn, 1985). These authors for the American capital markets, Prowse (1992) for Japan, and Salas (1992) and Crespí (1998) for the Spanish case present evidence on the basis that the ownership structure is the consequence of an endogenous outcome, where the objective is to maximize company value, also including internal control mechanisms.

Bethet et al. (1998) assert that potential gains of acquiring a block of shares can be higher if the buyer can influence governance and management mechanisms to improve future company profits. After a period of poor company performance the transfer of blocks, purchased by new (external) shareholders or by existing ones increasing their stakes, concentrating the ownership structure, is expected.[3] Increases in the ownership structure are not necessarily linked to company profits (Demsetz and Lehn, 1985), but rather to improvement in the supervisory ability, that is, a greater control of majority shareholders.

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[3] Barclay y Holderness (1989); Renneboog (1996); Bethel et al (1998); Franks, Mayer and Renneboog (1998) and Franks and Mayer (1997) report empirical evidence in this sense.

Hypothesis 1. Block share purchases are associated to companies' previous poor performance

Certainly, for the mentioned research, ownership concentration is explained by higher supervisory capability. Potential gains from increases of ownership concentration, where shareholders can improve their supervisory activity, are higher for companies with dispersed ownership structures. This hypothesis assumes that all other determinants of the ownership structur, for example company size, environmental variables, the regulatory frame or the cyclical conditions of the economy remain constant. As a consequence, we would expect that among the target companies in concentration processes, there would be those with higher ownership dispersion degrees. The convergence to optimal ownership structures through block transfers is at the basis of this hypothesis.

Hypothesis 2: Block share purchases are focused on companies with dispersed ownership rather than on firms with concentrated ownership, resulting in higher concentration ratios.

Once we have postulated the relationship between block transfers and ownership structure, let us proceed a step forward in the disciplining side of the block transfers activity. Effectively, a way in which one type of discipline of management is reflected is through the replacement of firm executives or board members. (Morck, Shleifer and Vishny, 1989). For the Spanish case, Gispert (1998) verifies that companies' poor performance is one the causes of higher board member turnover. However, the relationship between board changes or executive replacements with changes in the ownership structure has not been tested. The mentioned studies of Renneboog (1996), Bethel et al. (1998), Franks Mayer and Renneboog (1998) and Franks and Mayer (1997) report empirical evidence on this subject. Assuming the disciplinary role of block, Hypothesis 3 should accomplish:

Hypothesis 3: The characteristic of discipline in the case of block transfers is associated with higher management replacements.

At this point, all components of the disciplinary role of block transfers have been accounted for: poor performance, significant transfers of company shares and management replacement. For the empirical analysis we are able to distinguish two types of block transfers to contrast these hypotheses. First, those in which there are no question about the management's ability to run the company, and the

motivation is not disciplinary.[4] In a second category we find the discipline as a consequence of the block transfer, which can be explained by the correction of management failures. From these two categories it is possible to draw consequences and implications for the governance of corporations under the capital markets' influence.

III Data and descriptive statistics

Our sample is made up of 113 companies listed in the Spanish stock markets during the period 1990-1995. The main source of data is the CNMV (the Spanish Securities and Exchange Commission). Under Spanish law, all listed companies have to report any kind of relevant information, or that can influence share prices. Among the available public information there are the quarterly accounting reports, board composition, and all major events that can affect the price mechanism of capital markets. There is also the formal obligation for all significant shareholders to report the amount of shares they own or have under their control starting with 5% and beyond of the companies' equity. In order to complete some information gaps that there are in the official files, it has been necessary to complete the information with additional sources, such as shareholder directories or companies' annual reports.

Our sample is smaller than the population made up of by all listed companies for several reasons. First, only non-financial companies and banks are considered. A second requirement which has been imposed on our data set is the availability of a complete panel of observation in 5 of the 8 years considered.[5]

Our sample covers 9 sectors of economic activity, excluding the financial non-banking sectors, according to the CNMV classification. These 113 companies represent 29% of the number of listed companies in all stock markets in 1995, although they account for 79% of market capitalization.

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[4] In this group it its also possible to include the block transfers that do not achieve the necessary voting power to promote management changes.

[5] The 1990-1995 period only accounts for 6 years, but some variables in our analysis have been lagged two periods, and the restriction of a panel of 5 years of 8 is justified.

Certainly, there is a bias toward the set of large companies in our data set. This fact should not be a problem in the sense that our research is based on the agency theory postulates, where the relevant issues are postulated in a context of separation of ownership and control. The focus on large companies implies accounting for firms with higher levels of ownership dispersion, where agency problems can easily arise.

The Spanish transposition of the European transparency directive,[6] which states the investors' obligation to inform of significant shareholdings of listed companies, gives us the possibility of identifying changes in the ownership structure between two periods of time. We define a block transfer when, for a given shareholders composition, variations in a one-year period are detected. A reduction in the amount of shares (larger than 5% of the total equity) owned by an investor is computed as sale, and an increase of 5% or more for a given shareholder is computed as purchase. The number of sales and purchases in our data set is shown in Table 1, where averages on a yearly basis are computed. Block transfers of companies as investors belonging to the same group have been removed.

Table 1 here

The relative number of sales and purchases, considering 113 firms and 6 years, is larger than the figures presented by Barclay and Holderness (1991) with 106 transfers for 97 companies during 5 years. The number of detected block transfers in Franks, Mayer and Renneboog (1998)is larger, a total of 303 for a sample of 243 companies in a 3-year period. It is also important to mention the high average values of block transfers and the lack of any temporary pattern in our analysis period.

The number of purchases is larger than the number of sales, although the average value of block sales (22%) is larger than the purchases (20%). The combined effect is a tendency toward higher ownership concentration, measured in terms of the largest shareholder or the sum of all significant shareholders.

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[6] Council Directive of 12 December 1988 (88/627/EEC).

The relative importance of several categories of shareholders as buyers and sellers is shown in Table 2. The sum of values in Table 2 differs from the ones presented in Table 1 because some sales and purchases by several shareholders took place in the same year. The affiliation of the largest buyer or seller is considered to assign the transaction to a given category.

Table 2 here

From Table 2 we detect that foreign companies are the most important category in terms of number of block purchases, which is consistent with the opening of the Spanish economy, and capital markets, to the European environment. It is also observed that financial companies are the most frequent category of sellers, with the largest average value of blocks sold. The 23 cases where a state agency is involved have been removed form the empirical analysis that follows. The reason is that it is difficult to distinguish among transactions for the reorganization of the public sector or correction of inefficiencies.[7]

As a consequence of this amount of block transfers, the structure of shareholders in large companies, in terms of the mentioned categories, has changed significantly.

The relevant variables used in our econometric analysis are explained in Table 3. The descriptive statistics of variables that are able to explain the causes and consequences of block transfers refer to performance measures, board turnover and ownership structure.

Table 3 here

To account for companies' performance two sources of information were used: accounting figures and stock market returns. Both measures are computed in absolute values and corrected by average sector returns. From this analysis it is possible to determine to what extent market performance measures capture inefficiencies better than accounting ones. One characteristic of the market return variables is

[7] However, the inclusion or not of these 23 observations in our econometric analysis does not change the conclusions of the paper.

the "noisy" effect[8] that can be introduced when evaluating management behavior. Both measures are lagged one period before the purchase in order to capture the cause-effect relationship.

The board and executive-board-member turnover helps in the detection of the disciplinary role of block transfers. The lack of precise information about the CEO and the availability of data of board composition allow us to distinguish between executive and non-executive board members. We understand that the executive board members who are replaced are a better sign of discipline than plain board members, that is, those without executive tasks.

The magnitude of ownership concentration is introduced by widely accepted measures. First, the amount of shares owned by the largest shareholders. Second, the amount of shares owned by the sum of n largest shareholders (in our case n considers all shareholders that have stakes larger than 5%, who are obliged to report the amount of shares they own). In this way, the relative importance of significant shareholdings other than the largest one is captured.

In order to correct distortions in our analysis a correction measure, company size by computing sales turnover is introduced. Alternative measures have been tested, for example, volume of assets, and the results do not change.

To distinguish disciplinary block purchases from the rest, the fact of board executive members' replacement is considered. This is considered as a proxy variable of the disciplinary role of block transfers.

In our econometric analysis, we also correct estimations with time dummies to filter the cyclical economic conditions, industry dummies try to fix sector characteristics, and ownership dummy category variables account for different supervisory abilities of shareholders. Finally a dummy variable that considers the use of formal takeover, (OPA) in Spain, associated with block transfers.

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[8] Lambert and Lacker (1987) document this effect.

IV Empirical results around block transfers

Performance and management discipline

A first test to contrast the hypothesis about the performance–block transfers relationship is done by splitting our sample of companies–year into parts. The first includes the observations where a block purchase higher than 5% occurs. The second subsample just includes the observation of companies without significant block purchases. The results can be drawn from the first two columns of Table 4.

Table 4 here

Low accounting profit ratios are not linked to block transfers, and no significant differences have been found between two subsamples. The average values of market return are lower in the cases of block purchases, although these differences are not significantly different from zero. Columns from 3 to 6 in Table 4 also show average market and accounting performance measures. There is neither a lineal pattern nor statistically significant differences in those performance values.

Table 5 establishes three groups of companies. The first one coincides with the contents of Column 1 of Table 4, companies without block transfers. The companies with block transfers in their ownership are split into two groups: one for those where there is no executive turnover, and those companies where, in the case of block transfer, executive board member replacement occurs.

Table 5 here

From the figures in Table 5 it is not possible to assert that previous poor performance is not associated with block purchases, neither for disciplinary nor non-disciplinary transfers. When compared between both types of block transfers, the results do not show differences.

The descriptive approach would lead us to not accept the proposed hypothesis of the performance-block transfer relationship. In order to have a more robust analysis we estimate a Probit model in which we include the variables that are able to determine the probability of a block transfer. Additionally, through a Tobit estimation we explain the determinants of the amount of shares

purchased in block transfers, including the case where no block purchase occurs.[9] This analysis is performed making a distinction between disciplinary block transfers, non-disciplinary block transfers and the full sample including all types. Both models have been estimated considering shareholder market return as a performance value (Table 6) and accounting returns (Table 7). All estimations are corrected by time and industry dummies, including the effect of ownership structure and firm size, and it is also possible to know the impact of takeovers (OPA) in the process.

Table 6 here

Table 7 here

Estimations in Tables 6 and 7 present results with a dummy-dependent variable for the Probit model, taking the value of "1" in the case of a block purchase and "0" otherwise. The dependent variable is censured in the Tobit model specification and includes the amount of the block purchase (perc_com). This variable takes the value of "0" when there is no block purchase or for block transfers below the 5% threshold. The upper limit is "1", a case in which an investor would purchase 100% of the shares of the company. The explanatory variable is the mentioned performance measures one period lagged. Tables with accounting and market performance measures corrected by industry averages are not reported. The reason is that the significance of models and the significance of variables do not change, probably due to the high correlation coefficients between absolute and corrected performance measures.

The estimated coefficients of the performance variables are not significant at all. Neither in the probability of a block transfer nor in explaining the amount of shares purchased in a block transfer. The coefficients do not present differences when splitting the sample between disciplinary and non-disciplinary block purchases.

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[9] The use of a Tobit model instead of OLS estimation is justified by the characteristics that the dependent variable is censured, with many observations with the value of "0". In this case, OLS estimators would be biased and inconsistent (Maddala, 1983).

Definitively, neither from statistical analysis nor from econometric estimation can't we conclude that poor performance is the cause of block transfers in Spain. Hypothesis 1 is not confirmed, which means that the interpretation of underperformance is not plausible, even in the case of disciplining executive board members. Block transfers do not seem to play the role of a market for partial corporate control.

Block transfers and ownership structure

Hypothesis 2 states a negative relationship among block purchases and the previous ownership concentration level. Table 4 shows as both concentration indices (C1 and C5), a year before the transaction of the block, are significantly lower for companies with a block transfer than for the subsample without block transfers. Furthermore, despite the differences in both subsamples, there is a convergence pattern toward higher concentration values.

From Columns 3 to 6 in Table 4 we observe a tendency in the analysis of the amount of shares purchased that leads us to conjecture that companies with lower concentration ratios have a tendency to be targets of a block purchase.

In Table 5 we can evaluate the impact of ownership concentration when the sample between disciplinary and non-disciplinary block transfers is split. Our hypothesis is that for companies that are correcting managerial inefficiencies there would not be a relationship between ownership concentration and block transfers. When companies converge to an optimal ownership structure, with higher supervision activity, the link would appear. The statistical data suggest this: that the average differences are without significance This relationship is only strong for the case of the largest shareholder.

As a step further in the statistical analysis, we include the variable C1_t-1 in Tables 6 and 7 as explanatory of the probability of a block transfer and of the amount of shared purchases in the block transfer.[10]

[10] We do not include the C5 variable in the econometric analysis due to the high correlation with the C1 values, and the additional information that it would provide would generate more econometric costs than information advantages.

The Probit analysis confirms our statistical approach: ownership concentration is inversely related to the probability of being a target for a block purchase. In the estimation with market returns as a performance measure, the associated coefficient of the ownership concentration variable is not significant for the disciplinary transfers, being significant for the non-disciplinary group. This different behavior of significant coefficients is not confirmed in Table 7 by accounting measures of performance.

The Tobit estimation shows negative and significant coefficients for the non-disciplinary purchases and for the full sample. This confirms the argument of optimal ownership structure. Neither in Table 6 nor Table 7, with accounting returns performance values, does the disciplinary group of block transfers have the ownership concentration as a significant explanatory variable. The coefficients of the model do not change when including or excluding dummy variables.

A related issue is the variation in ownership concentration around block transfers. Increases in ownership concentration would mean that existing shareholders increase their participation, exerting more control. In the case of block purchases without significant increases of ownership concentration, new shareholders have replaced existing ones. The results in Table 4 show us that the C1 average values increase 4.9% after a block purchase and the measure of all significant shareholders increases 6.7%. The most relevant issue is that the increase of ownership concentration is taken over by the largest shareholder. The increase of ownership concentration increases with the amount of shares acquired mainly by the largest shareholder.

The purchase of blocks in not due to ownership increases of existing shareholders exclusively. There are new shareholders that replace existing ones because the increases of ownership concentration (4.9% and 6.7%) are below the average values of share purchases (20.1%) detected in Table 1.

Empirical evidence shows us that block purchases are in companies with more dispersed ownership structures, increasing the concentration ratios after the transfer. The consequence is that we cannot reject the hypothesis that block transfers allow the achieving of better ownership structures, even with the inclusion of new shareholders.

Board turnover after block transfers

The data in Table 4 present evidence that board changes and executive replacements are significantly higher for companies in the subsample of block transfers than in the rest of the companies. This figure is confirmed when computing board replacements in the year of the block transfers, and for the subsequent year the relationship does not occur (not reported in Tables). From Table 4 we can also conclude that board turnover is an increasing function in terms of the amount of shares purchased. This statistical intuition has been tested via a Probit model, which is presented in Table 8.

Table 8 here

The Probit estimation confirms the previous intuition: block purchases increase the probability of board turnover. This is true for all board members and also for executive board members. At this point, it is important to mention two aspects. First is that the coefficient of variables of executive turnover is larger and the intercept is negative. This means that, for a given percentage of purchases, the probability of discipline is higher for any board member than for an executive member. This conclusion is trivial due to the fact that executive members account for, on average, 25% of the total board. The second observation refers to the influence of the OPA variable, which accounts for the formal takeover process. When introducing the dummy OPA, board turnover does not depend significantly on the amount of shares purchased, which is not the case for executive members. This can be interpreted in the sense that board turnover after a block transfer is due to the takeover process. The formal takeover process (OPA) does not affect the executive member turnover.

A final comment refers to the influence of the size variable as explanatory of block transfers. Table 4 suggests that target companies are smaller (measured by sales turnover) than non-block transfer sample companies. The analysis of Table 5, which introduces the concept of disciplinary and non-disciplinary block transfers, confirms that companies of disciplinary block transfers are significantly larger than non-disciplinary ones. This category also has a larger size than companies not affected by block transfers. This evidence is consistent with the hypothesis that wealth constraints do not influence transactions when the objective is the disciplining of management.

The results from Probit and Tobit estimations of Tables 6 and 7 confirm the descriptive figures: there is a negative relationship between company size and probability of being a target of a block transfer and the amount of that block transfer.

V Conclusions

The characteristics of the Spanish capital markets do not benefit a development of the market for corporate control through the process of taking over inefficient companies, replacing management and subsequent shareholder increase of value. A reduced number of companies are listed in the Spanish stock exchanges, and only a few of them are responsible for the majority of volume transactions and market value. The ownership structure of listed companies is highly concentrated, and the floating stock for some companies is extremely low.

The possibility of disciplining management inefficiencies by transferring the ownership of significant block of shares exists, as a market for partial corporate control. These block transfers, when focused on larger amount, have to be formalized via formal takeovers (OPA in Spain). The theoretical backgrounds of the takeover activity is applied to the block transfers, and the objective of this paper is to empirically detect the causes and consequences of block transfers in Spain during the period 1990-1995.

The main results are: (i) There is no evidence that previous poor performance of the companies is the cause of block transfers, nor in the case of disciplinary transfers, when executives are replaced. (ii) Block transfers occur more frequently in companies with lower ownership concentration indices. After the block transfer, on average, the ownership of the largest shareholder increases. (iii) After block transfers there are significant board changes, for executive board members and also for non-executives. (iv) The transfer of blocks is associated more frequently with smaller companies.

In summarizing, we cannot conclude that poor performance is behind block transfers, so the poor performance rule followed by block transfer and ending with management replacement, is not supported. The relationship between poor performance and board turnover tested by Gispert (1998)

does not function via block transfers and is probably exerted through internal processes by the existing shareholders.

Our results are similar to those presented by Franks and Mayer (1997) for the German case and Franks, Mayer and Renneboog (1998) for the UK. Ownership changes drive board changes, but no connection is found with previous poor performance. The market for partial corporate control does not operate in Spain via block transfers.

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Table 1: Purchases and sales of blocks of shares equal or larger than 5% of equity.

Year	Number of block purchases	Average (%) value of purchase stakes	Number of block sales	Average (%) value of sale stakes	Average (%) of shares owned by the largest shareholder. Direct plus indirect stakes(C1)	Average (%) of shares owned by all significant shareholders. Direct plus indirect stakes larger than 5% (C all)
1990	37	12.8	28	18.8	39.1	52.8
1991	39	25.1	21	21.2	41.5	57.1
1992	46	18.9	24	18.6	45.4	60.9
1993	29	15.7	13	28.6	46.9	61.9
1994	34	20.8	25	22.7	50.1	63.8
1995	41	21.0	30	26.1	47.7	64.5
Totals	226	20.1	141	22.2		

Source : Own calculation from the CNMV data set

Table 2: Block transfers according several categories of investors

	Largest buyer		Largest seller	
	Number of cases	Average (%) purchased	Number of cases	Average (%) sold
Financial companies	52	22.9	41	33.9
Non financial companies	38	27.7	32	20.4
Foreign investors	68	20.3	22	33.3
State ownership	23	34.6	12	28.0
Individuals or families	11	20.9	8	11.7
Total	192		115	

Source : Own calculation from the CNMV data set

Table 3: Descriptive statistics and explanation of main variables

Variable	Description	Mean (1990-95)	Standard deviation
B	Profits before tax over total assets (ROA)	0.0295	0.1187
B_CS	ROA corrected by industry	0.0023	0.1139
R	Shareholder's Returns: $R_t = \ln\left(\frac{P_t + DIV_t + DPS_t}{P_{t-1}}\right)$ [11]	0.0004	0.4918
R_CS	Id. Industry corrected	-0.0674	0.4302
TOT_TUR	Total Board Turnover: Replacements of board member during a year divide by board size	0.1235	0.2183
INS_TUR	Insiders' turnover: Executive board replacements during the year over the number of executives on the board	0.1252	0.3546
C1	Amount of Shares owned by the largest shareholder, direct and indirectly	45.17	29.84
C_5	Sum of all participation of significant shareholders with stakes larger than 5%	60.24	26.09
V	Sales turnover	103977	191852

Source: own calculations with data from the CNMV (stock prices, significant shareholdings, accounting data, board composition), companies' annual reports, Directory "Fomento 2500" and monthly report of the Madrid Stock Exchange.

[11] P=share price (listing), DIV=dividend per share, DPS= subscription right.

Table 4. Block purchases of different sizes.

	Percentage of shares purchased					
	<5%	**>5%**	**>5%,<10%**	**>10%, <25%**	**>25%, <50%**	**>50%**
n	486	169(a)	74	48	28	19
Performance						
Bt-1	0.022	0.034	0.050	0.021	0.035	0.003
Bt-1_CS	-0.002	0.009	0.024	-0.005	-0.001	0.004
Rt-1	-0.022	-0.026	-0.040	-0.105	0.031	0.148
Rt-1_CS	0.023	-0.013	0.012	-0.085	-0.042	0.104
Board Turnover						
TOT_TURt	0.095	0.196***	0.133	0.155	0.273	0.431
INS_TURt	0.104	0.189**	0.092	0.138	0.279	0.493
Ownership concentration						
C1t-1	48.1	35.0***	34.6	27.9	37.6	52.1
C1t	46.5	39.9***	34.1	31.3	50.6	73.1
Increases in ownership concentration	*-1.6*	*+4.9*	*-0.5*	*+3.4*	*+13.0*	*+21.0*
C_5t-1	61.5	53.1***	52.1	50.0	56.8	59.3
C_5t	59.7	59.8	50.6	58.1	70.5	84.2
Increases in ownership concentration	*-1.8*	*+6.7*	*-1.5*	*+8.1*	*+13.7*	*+24.9*
Company size						
Vt-1	109620	69178**	101781	36449	57106	40439

Source: own calculations with data form the CNMV (stock prices, significant shareholdings, accounting data, board composition), companies' annual reports, Directory "Fomento 2500" and monthly report of the Madrid Stock Exchange.

Differences significantly from first column. Signification level: *10%, **5%, ***1%.

(a) Block purchasers where state or governmental agencies are involved have been removed.

Table 5: Analysis of variance

t: year of the block transfer t-1, t+1: previous and subsequent years to the block transfer	Average values in the subsample 1: no block transfers of 5% or higher (N=486)	**Non-disciplinary purchases** Average values in the subsample 2: block transfers of 5% or higher without board executive members replacement. (N=135)	**Disciplinary purchases** Average values in the subsample 3: block transfers of 5% or higher and changes in executive board members (N=40)
Bt-1	0.022	0.036	0.023
Bt-1_CS	-0.002	0.009	0.009
Rt-1	-0.022	-0.019	-0.056
Rt-1_CS	0.023	-0.018	0.004
C1_t-1	48.1	33.8***	38.6
C1_t	46.5	38.6**	45.1
C_5_t-1	61.5	53.1***	53.4*
C_5_t	59.7	59.2	62.4
Vt-1	109016	51770***	129757(b)

Differences significant values in relation to subsample 1: *10%, **5%, ***1%.

Differences significant values in relation to subsample 2: (a) 10%, (b) 5%, (c) 1%.

Table 6: Determinants of block purchases. SHAREHOLDER RETURN

	PROBIT		
	Dependent Variable: 1 = Block purchase > 5%, 0 = otherwise.		
	All cases	Non-disciplinary purchases	Disciplinary purchases
Intercept	-0.1789 (0.141)	-0.3237** (0.152)	-1.1348*** (0.213)
Rt-1	-0.0073 (0.146)	-0.0733 (0.163)	0.1783 (0.225)
Ct-1	-0.0090*** (0.003)	-0.0086*** (0.003)	-0.0060 (0.004)
Vt-1	-0.94E-06** (0.44E-06)	-0.16E-05** (0.65E-06)	0.80E-09 (0.51E-06)
Log-likelihood	-183.1	-150.0	-74.4

Standard error in parentheses

Significance level: *10%, **5%, ***1%.

	TOBIT					
	Dependent variable: percentage purchase (perc_com)					
	All cases		Non-disciplinary purchases		Disciplinary purchases	
Intercept	-0.1252**		-0.1607***		0.0474	
	(0.056)		(0.055)		(0.032)	
Rt-1	0.0586	0.0279	0.0064	0.0412	0.0208	-0.1039
	(0.561)	(0.063)	(0.053)	(0.059)	(0.021)	(0.188)
Ct-1	-0.0023**	-0.0021**	-0.0020**	-0.0019**	-0.0002	-0.0018
	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.002)
Vt-1	-0.40E-06**	-0.37E-06**	-0.53E-06**	-0.36E-06**	-0.42E-07	-0.37E-07
	(0.17E-06)	(0.17E-06)	(0.22E-06)	(0.18E-06)	(0.42E-07)	(0.35E-06)
Dummies sector	no	yes	no	yes	no	Yes
Time Dummies	no	yes	no	yes	no	Yes
Dummies ownership	no	yes	no	yes	no	Yes
Dummy OPA	no	yes	no	yes	no	Yes
Log-likelihood	-145.5	-132.4	-109.5	-84.7	-64.2	-53.1

Standard Error in parentheses

Significance level: *10%, **5%, ***1%.

Table 7: Determinants of block purchases. ROA

	PROBIT Dependent Variable: 1 = Block purchase > 5%, 0 = otherwise.		
	All cases	Non-disciplinary purchases	Disciplinary purchases
Intercept	-0.1572 (0.144)	-0.3209** (0.156)	-1.0574*** (0.213)
Bt-1	1.0242 (0.827)	1.1658 (0.912)	0.4973 (1.153)
Ct-1	-0.0100*** (0.002)	-0.0093*** (0.003)	-0.0078* (0.004)
Vt-1	-0.96E-06** (0.44E-06)	-0.16E-05** (0.65E-06)	-0.17E-07 (0.51E-06)
Log-likelihood	-174.2	-141.7	-73.2

Standard Error in parentheses
Significance level: *10%, **5%, ***1%.

	TOBIT Dependent variable: percentage purchase (perc_com)					
	All cases		Non-disciplinary purchases		Disciplinary purchases	
Intercept	-0.1320** (0.059)		-0.1693*** (0.058)		0.0491 (0.033)	
Bt-1	0.1827 (0.298)	0.3782 (0.284)	0.2007 (0.284)	0.3374 (0.286)	0.0673 (0.073)	0.6358 (0.689)
Ct-1	-0.0026** (0.001)	-0.0021** (0.001)	-0.0022** (0.001)	-0.0020* (0.001)	-0.0003 (0.0003)	-0.0022 (0.002)
Vt-1	-0.40E-06** (0.17E-06)	-0.31E-06* (0.16E-06)	-0.54E-06** (0.22E-06)	-0.46E-06** (0.22E-06)	-0.41E-07 (0.43E-07)	-0.36E-07 (0.35E-06)
Dummies sector	no	yes	no	yes	no	yes
Time Dummies	no	yes	no	yes	no	yes
Dummies ownership	no	yes	no	yes	no	yes
Dummy OPA	no	yes	no	yes	no	yes
Log-likelihood	-141.3	-110.2	-105.4	-92.9	-68.6	-51.8

Standard Error in parentheses
Significance level: *10%, **5%, ***1%.

Table 8: Consequences of block purchases

Binary Dependent Variable: 1 = Board Turnover, 0 = otherwise.

	PROBIT (Total Board)			PROBIT (Executive Board Members)		
	(1)	(2)	(3)	(4)	(5)	(6)
Intercept	-0.0611			-0.9401***		
	(0.052)			(0.066)		
Perc_com	0.6127**	0.7392**	0.3567	1.1226***	1.1096***	1.0075***
	(0.319)	(0.339)	(0.378)	(0.329)	(0.342)	(0.382)
Dummies sector	no	yes	yes	no	yes	yes
Time Dummies	no	yes	yes	no	yes	yes
Dummies ownership	no	yes	yes	no	yes	yes
Dummy OPA	no	no	yes	no	no	yes
Log-likelihood	-445.1	-420.5	-417.5	-270.0	-262.1	-261.9

Standard Error in parentheses

Significance level: *10%, **5%, ***1%.