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LARGE SHAREHOLDERS, BANK OWNERSHIP AND INFORMATIVENESS OF EARNINGS

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This paper analyses the influence of large shareholders and bank ownership on earnings informativeness, measured by the earnings-return relation, in Spain. The results suggest that the expropriation effect is dominant at any level of ownership concentration. Furthermore, bank ownership is positively associated with the explanatory power of earnings for returns, being consistent with the role of banks as shareholders that actively monitor the firm's business performance. This effect is similar regardless of whether the bank is the major shareholder of the firm or not.

Key words: Informativeness of earnings, large shareholders, bank ownership, monitoring effect, expropriation effect.

JEL classification: G21, G32, M40.

Previous studies have analysed how the separation of corporate ownership and control and concentrated ownership affect both the informativeness of accounting earnings and the accounting choices of managers. Agency theory suggests that management and external shareholder interests diverge when management owns a lower number of shares in the firm [Jensen and Meckling (1976)], thus increasing the need for accounting-based performance measures to monitor managers. However, management typically has the possibility of exerting discretion over the recognition of accruals and this discretion may be used by managers to signal their private information or to opportunistically manipulate earnings. Insofar as managers use their discretion to manipulate accruals, earnings will become less informative. Moreover, via their choice of accepted accounting procedures, managers may choose to reflect either the economics un-

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derlying the transactions or accounting numbers for personal benefit. Examining US data, Warfield *et al.* (1995) find evidence of a positive relationship between managerial ownership and the information content of earnings.

Several papers have extended the study of Warfield *et al.* (1995). On the one hand, Gabrielsen *et al.* (2002) report a negative relationship between managerial ownership and the information content of earnings among Danish firms. This finding highlighted the difference between the two institutional settings. Yeo *et al.* (2002), on the other hand, find a non-linear relation between managerial ownership and the informativeness of earnings for companies listed on the Singapore Stock Exchange. At low levels of management ownership, the informativeness of earnings increases with managerial ownership. At higher levels of managerial ownership, however, the relationship is reversed, suggesting that the entrenchment effect may have set in. In consonance with the role of a large shareholder acting as a monitor, the evidence also shows a positive relationship between external, unrelated block holdings and the informativeness of earnings.

Large shareholders and ownership concentration constitute a response to the lack of legal protection. If legal protection does not provide sufficient control rights to small investors, then investors can probably obtain more effective control rights by being large [La Porta *et al.* (1998)]. Some concentration of ownership of a firm's shares is typically efficient in providing large investors with incentives to monitor managers [Shleifer and Vishny (1997)]. Large shareholders have incentives to collect information and monitor management and, thus, address the agency problem because they have both a general interest in value maximization and enough control over the assets of the firm to make their interest respected (the so-called "monitoring effect"). On the other hand, large investors can represent their own interests, using their control rights to maximize their own welfare and expropriate minority shareholders (the so-called "expropriation effect"). The evidence on the role of large shareholders in exercising corporate governance is conflicting. Among others, Kaplan and Minton (1994) and Gorton and Schmid (2000) have upheld the view that large shareholders play an active role in corporate governance. However, Morck *et al.* (1988) and Weinstein and Yafeh (1998) present evidence in which large shareholders earn rents from their control over firms. Since controlling shareholders oversee accounting reporting policies, the informativeness of earnings reveals whether the large shareholders act as active shareholders monitoring managers or, to the contrary, they represent their own interests and enjoy private benefits of control.

Within this context, the aim of this paper is to analyse the influence of large shareholders on earnings informativeness in Spain. This was done by analysing the earnings-return relation. The explanatory power of earnings for stock returns is a measure of the informativeness of earnings that has been widely employed [Collins *et al.* (1987); Collins and Kothari (1989); Warfield *et al.* (1995)][1]. Accrual-based

(1) Nonetheless, Poveda and Iñiguez (2001) reveal that firms which smooth earnings yield higher stock returns than firms which do not, showing that stock markets may not be efficient in evaluating earnings management.

models focussing on management's use of discretionary accruals have also been used to detect earnings management. These models require an estimation of the discretionary components of reported income using models such as the one proposed by Jones (1991) [Dechow *et al.* (1995); Kothari *et al.* (2005)]. This has been the alternative followed by most studies that have analyzed earnings management practices in the Spanish case[2]. The effect of ownership structure on earnings management in non-financial Spanish firms has been studied by García-Osma and Gill de Albornoz (2005), Santana-Martín *et al.* (2007) and Sánchez-Ballesta and García-Meca (2007). The second paper reveals a negative relationship between the concentration of ownership and the credibility of accounting information. García-Osma and Gill de Albornoz (2005) show that the presence of board members who represent the interests of large shareholders acts as a constraint on manipulative practices. Recently, Sánchez-Ballesta and García-Meca (2007) have shown a non-linear relationship between insider ownership (common shares held by board members) and the informativeness of earnings. Insider ownership contributes to the informativeness of earnings when the proportion of shares held by insiders is not very high. However, they do not find a negative influence of ownership concentration on earnings' explanatory power for returns as Santana-Martín *et al.* (2007) do. None of these studies analyze the effect of bank ownership on the informativeness of earnings or the possible existence of a non-linear effect between ownership concentration and the informativeness of earnings.

Within this context, the present paper first analyses role of banks as a monitor of management through their influence on the informativeness of earnings. Furthermore, the paper also analyses the existence of a different role of the bank depending on whether it is the major shareholder or not.

Secondly, the paper examines the influence of the ownership structure on the informativeness of earnings. Since previous evidence has not produced consensus, this is an important issue. Moreover, the existence of a non-linear effect of ownership by the major shareholder on the informativeness of earnings is studied. Since we jointly consider bank ownership and the equity ownership of the main shareholder, the paper provides more comprehensive evidence on the link between ownership structure and the quality of financial reporting.

Spain is a natural setting for examining these issues, as it features relatively weak protection of minority shareholders, high ownership concentration and an abundance of bank ownership. These characteristics are common to many countries [La Porta *et al.* (1999)] and, hence, the obtained results may be extrapolated.

Findings show that ownership structure has an influence on the informativeness of earnings. Bank ownership is positively associated with the explanatory power of earnings for returns. This monitoring effect is similar regardless of whether the bank is the major shareholder of the firm or not. Moreover, a negative relationship exists between ownership concentration and earnings informative-

(2) Apellániz (1992), Saurina (1999), Poveda and Iñiguez (2001) and Blasco and Pelegrin (2005) have shown the existence of profit smoothing in Spanish financial and non-financial firms.

ness, measured by the earnings-return relation. This evidence is consistent with the expropriation effect being dominant at any level of ownership concentration.

The remainder of the study is organized as follows: Section 2 reviews the relationship between ownership structure and earnings informativeness; Section 3 describes the data and methodology employed, while Section 4 presents and discusses the results; and, finally, Section 5 summarizes and presents the conclusions of the study.

1. Ownership structure and earnings informativeness

The degree of ownership concentration affects the nature of contracting, creating agency problems between managers and outside shareholders. When ownership is diffuse, as for example in the US and the UK, agency problems stem from the conflicts of interest between outside shareholders and managers who own an insignificant amount of equity in the firm [Jensen and Meckling (1976)]. The managers of low managerial ownership firms have greater incentives to manage accounting numbers. Thus, the informativeness of earnings is predicted to be positively related to managerial ownership, as Warfield *et al.* (1995) have shown. On the other hand, a substantial shareholder has incentives to collect information and monitor management, thereby avoiding the traditional free-rider problem. In consonance with this control activity by large shareholders, Yeo *et al.* (2002) and Jung and Kwon (2002) show a positive relationship between the existence of large shareholders and the informativeness of earnings. This would be the predicted relationship if the monitoring effect derived from the presence of large shareholders were dominant.

However, when ownership is concentrated, as is typical in Spain, the nature of the agency problem shifts from manager-shareholder conflicts to conflicts between the major shareholder (controlling owner) and minority shareholders. Large shareholders represent their own interests and enforce decisions that afford them some private benefits of control at the expense of minority shareholders. Minority shareholders face the uncertainty of whether the controlling owner may opportunistically deprive them of their rights. As a consequence, an increase in major shareholder ownership may result in an expropriation of minority shareholders, as the controlling shareholder is increasingly less subject to market discipline regarding corporate control. This is further influenced by weak legal systems [La Porta *et al.* (2002)].

The expropriation effect of ownership concentration potentially affects the financial reporting of firms. As the controlling owner oversees accounting reporting policies and is recognized as having strong opportunistic incentives to expropriate minority shareholders, the market presumes that the owner will not report high-quality accounting information. This market perception will reduce the credibility of accounting earnings reports and, consequently, the informativeness of these earnings. Accounting numbers produced by controlling shareholders would thus be less informative to the market, a negative relation being expected between ownership concentration and the informativeness of earnings. Fan and Wong (2002) find this result in their study in seven East Asian economies.

A complementary argument is that a higher ownership stake allows firms to limit their information disclosure to the public [Fan and Wong (2002)]. Opacity can be a good strategy, because it prevents leakage of proprietary information about specific knowledge to competitors. In this respect, it is in the interest of both the major shareholder and the minority shareholders to release as little accounting information to the public as possible. This information effect argument suggests that high ownership concentration is associated with low earnings informativeness, as is likewise found for the expropriation effect.

The distinction between the monitoring effect and the expropriation effect of large shareholders on the informativeness of earnings is thus an important issue. The above arguments lead to the first hypothesis.

H1: "The relationship between large shareholder ownership and the informativeness of earnings will be positive if the monitoring effect is predominant. If, however, the expropriation effect predominates, this relationship will be negative".

The study also tests the influence of bank ownership on earnings informativeness. Since banks are often characterised as sophisticated investors who have advantages in the acquisition and processing of information, they may be considered as monitoring institutions that scrutinize management, thus implying fewer opportunities for accruals management or earnings manipulation. Information asymmetries are central to the literature on financial intermediation as developed by Diamond (1984) and others [see Bhattacharya and Thakor (1993) for a review]. In fact, the rationale underlying the existence of banks may well reside in their role in mitigating informational asymmetries. Theoretical work by Leland and Pyle (1977), Diamond (1984), Ramakrishnan and Thakor (1984), and Fama (1985) suggest that banks possess certain cost advantages in the domain of information collection and processing. For example, Fama (1985) argues that, as insiders, banks have access to inside information, whereas outside (public) debtholders must rely mostly on publicly available information. As they have superior information, banks can provide more efficient monitoring, thus lowering the monitoring and bonding costs of other debt claimants. If scale economies exist in information production and information is durable and not easily transferred, these theories suggest that a firm with close ties to financial institutions should have a lower cost of capital and greater availability of funds compared to a firm without such ties [Petersen and Rajan (1994); Berger and Udell (1995); Datta *et al. (*1999)].

Banks can hold equity stakes in industrial firms in diverse countries such as Germany, Japan and Spain. In Spain, banks take equity in firms, play an active role in General Assemblies of Shareholders and maintain board representation[3]. Ownership concentration and the close ties between banks and firms are the main control mechanisms in Spain. If banks are active shareholders monitoring the firms in which they have equity stakes, this situation leads to closer monitoring or scrutiny of managers and implies fewer opportunities for accruals management or

(3) A further channel of substantial influence comes via the proxy votes that small shareholders delegate to the banks acting as custodians for their stock portfolios.

earnings manipulation. Several papers have reported evidence along these lines. Hsu and Koh (2005) suggest that long-term oriented institutions can act as a corporate governance mechanism to mitigate aggressive earnings management. Douthett and Jung (2001) show that the close relationships within the *keiretsu* group increase the informativeness of earnings.

As large shareholders, however, banks can enforce decisions that would give them some private benefits of control. Moreover, banks can choose from a wide range of ways to obtain private benefits[4]. They can use the traditional credit channel by charging interest at above market rates [Weinstein and Yafeh (1998)], or they can provide an extensive variety of services at a premium above the market rate. Boehmer (2000) analyses the role of banks as large shareholders in a sample of German bidder firms. Takeovers only increase the value of an acquiring firm that has banks as blockholders if bank control is counterbalanced by another large shareholder and firms controlled by banks effect the worst takeovers. Casasola and Tribó (2005) find that the effect on a firm's returns is negative when a bank buys the largest stake, while this effect does not apply when a bank buys the second largest stake. These arguments show the importance of distinguishing between the monitoring effect and the expropriation effect of bank ownership on the informativeness of earnings, depending on whether the bank is the major shareholder or not, and lead to the second hypothesis.

H2: "Bank ownership will be positively associated with the explanatory power of earnings for returns as a consequence of the existence of a monitoring effect, especially if the bank is not the major shareholder of the firm".

2. Database and empirical analysis

2.1. Database

The degree to which the large shareholders in firms, and especially banks, affect earnings informativeness is analysed for the non-financial firms listed on the Spanish Stock Exchange over the period 1991-2003. The Spanish financial system is a bank-oriented system in which banks maintain close ties with industrial firms, taking equity in them. Ownership and financial data are collected from the Ownership Database and Financial Database distributed by the CNMV (Spanish SEC) and are available for the end of each year from 1990 to 2003[5]. The stock returns data of publicly traded companies are obtained from the Madrid Stock Exchange Database. In order to be included in the sample, ownership data, annual

(4) The empirical literature has not reached consensus on the effect of bank ownership on firm returns. While papers such as those by Cable (1985), Gorton and Schmid (2000) or Boehmer (2000) have shown a positive effect, Morck *et al.* (2000) or Goergen *et al.* (2005), among others, have found a negative influence. In Spain, Zoido (1998) provides weak evidence in favour of the idea that banks exercise their control rights as shareholders over the decisions that firms make. This control is reflected in a lower cost of financing new projects and in the way that firms solve their financial distress problems.

(5) The test of the informativeness of earnings requires price data for a previous year, in this case, 1990.

earnings per share and data necessary to compute stock returns must be available. These criteria yield 235 firms. The complete sample consists of 1,681 firm-year observations.

TABLE 1: SUMMARY STATISTICS OF OWNERSHIP VARIABLES

Variables (%)	Mean	Standard Deviation	First Quartile	Median	Third Quartile
OWN1	39.90	26.47	17.68	33.65	57.52
OWN3	54.15	24.91	33.55	54.65	72.25
OWN5	58.65	24.04	41.03	59.72	75.69
BANKOWN	10.62	16.59	0	3.80	15.02

The table presents the characteristics of ownership concentration and bank ownership for Spanish Stock Exchange listed firms over the period 1991-2003. OWN1 / OWN3 / OWN5 are the respective percentages of common shares held by the major / three major / five major shareholder/s. BANKOWN is the percentage of common shares held by banks.

Source: Own elaboration.

The average banking stake in non-financial firms and ownership concentration is reported in Table 1. In 52.97% of the firm-year observations, a bank has a percentage of the firm equity. The mean (median) percent of bank ownership in the sample is 10.62 (3.80) %. La Porta *et al.* (1999) show that there are several countries in which banks take important stakes in firms. While the sample average of financial institution-controlled firms is 5%, financial institutions control 30% of firms in Belgium, 15% of firms in Germany, Portugal and Sweden and 10% in Spain and Greece, if we say that a corporation has a controlling share when its direct and indirect voting rights in the firm exceed 20%.

Spanish firms are characterised by ownership concentration; in fact, the mean (median) percentage of equity held by the major shareholder is 39.90 (33.65) %. This increases to 54.15 (54.65) % and 58.65 (59.72) % when we considerer the top three or five major shareholders, respectively. Becht and Röell (1999) report a median largest voting block of 34.2% for 193 Spanish firms. In many parts of continental Europe, there are generally large blockholders present who can and do exercise control over management. The median largest voting blocks are, for example, 54.53% in Italy, 52.1% in Germany, 52.0% in Austria, 50.6% in Belgium and 43.5% in The Netherlands [Becht and Röell (1999)].

2.2. Model and variables

The following model is formulated to test for the differential informativeness of earnings conditional on bank ownership:

$$AR_{it} = a_0 + a_1 NI_{it} + a_2 SIZE_{it} + a_3 MB_{it} + a_4 LEV_{it} + a_5 OWN1_{it} + a_6 BANKOWN_{it} + a_7 NI_{it} * SIZE_{it} + a_8 NI_{it} * MB_{it} + a_9 NI_{it} * LEV_{it} + a_{10} NI_{it} * OWN1_{it} + a_{11} NI_{it} * BANKOWN_{it} + \sum_{t=1991}^{2003} Y_t + \upsilon_i + \varepsilon_{it} \quad [1]$$

where $AR_{i,t}$ is the return of firm i for period t minus the expected return according to the CAPM[6], $NI_{i,t}$ is the net earnings in year t divided by the market value of equity at the beginning of year t, $SIZE_{i,t}$ is a dummy variable that takes the value of 1 if the natural logarithm of the market value of equity in thousands of euros is higher than the median value and 0 otherwise, $MB_{i,t}$ is the market value of equity divided by the book value of equity at the beginning of year t, $LEV_{i,t}$ is the total liability divided by total assets at the beginning of year t, $OWN1_{i,t}$ is the percentage of equity of the major shareholder at the beginning of year t, $BANKOWN_{i,t}$ is the percentage of bank ownership at the beginning of year t, $\sum_{t=1991}^{2003} Y_t$ is a set of dummy time variables, u_i is the individual effect and ε_{it} is the error term in year t. Fixed effects of calendar years are included in the regressions though, for the sake of simplicity, I omit reporting them here. The 1991 dummy is omitted from the regressions. A set of variables is included to control for observed variations in the earnings-return relation which are likely to be due to causes other than ownership structure: market-to-book ratio, size and leverage. These variables were included both as explanatory variables of returns and multiplicative variables of earnings. The market-to-book ratio (MB) is included to control for the effects of growth on the earnings-return relation. High-growth firms may be more risky, which weakens the earnings-return relation [Fan and Wong (2002)]. Growth opportunities, on the other hand, are likely to be positively associated with future earnings levels and/or earnings persistence [Collins and Kothari (1989)]. In such an environment, the net effect of growth on the earnings-return relation is an empirical issue.

As managers have greater incentives to manage accruals in the presence of covenant constraints attached to leverage, earnings quality and, hence, the earnings response coefficient are expected to be lower for firms with higher leverage [Watts and Zimmerman (1986); Sweeney (1994)]. Leverage could also be a proxy for the riskiness of debt or default risk [Dhaliwal *et al.* (1991)]. Highly levered firms are associated with high risk and, hence, their earnings-return relation is weakened. In addition, I include firm size (SIZE) as a control for other missing factors that may affect the earnings-return relation. In this respect, prior literature [Atiase (1985); Freeman (1987)] has reported that public disclosure and private development of non-earnings information are increasing functions of firm size. However, Collins *et al.* (1987) shows that the information content of earnings is inversely related to firm size, since it may also be associated with other economic characteristics of the firm, e.g. political costs. The description of the variables is reported in Appendix A.

(6) Alternatively, the return of the firm and the return of the firm minus the stock market return were used. Since the results are qualitatively similar to those obtained using the abnormal return of the firm, they are not reported. Theo and Wong (1993) also obtained similar results regardless of whether the abnormal return is defined as the return minus the market return or as the residual from a market model regression.

The summary statistics of the dependent and independent variables of the regression are reported in Table 2. The mean abnormal stock return is 15.24% and the mean NI is 98%[7]. The table also shows the descriptive statistics depending on the existence of bank ownership or not. The differences between the two subsamples are only significant for the variable SIZE. Firms with bank ownership are larger. The correlations between the independent variables are reported in Table 3. These are generally small, except for the measures of ownership concentration, suggesting that colinearity is not a serious problem. Table 3 also reports multicolinearity tests. The values of Tolerance and the Variance Inflation Factor (VIF) allow us to rule out the existence of problems of multicolinearity.

In line with the main goal of this paper, the parameters a_{10} and a_{11} measure the joint relation between earnings informativeness and ownership concentration and bank ownership, respectively, and reflect the extent to which the informativeness of earnings is affected by a large shareholding level. The effect of NI_{it} on AR_{it} is positively (negatively) related to bank ownership if a_{11} is significantly greater (less) than zero.

Two methods were used to test the non-linear relationship between ownership concentration and the earnings-return relation. The first involves including the square of the major shareholder ownership to test for the existence of a quadratic relationship between ownership concentration and the informativeness of earnings.

The second method is a general extension of the piecewise model developed by Morck *et al.* (1988), which shows the influence of ownership concentration on the earnings-return relation by means of break points. Instead of allowing the coefficients on the ownership concentration variables to change at pre-determined levels of ownership, the break points are determined endogenously. The stock return of the firm is regressed against ownership concentration and its square. We control for firm size, debt ratio, and intangible fixed assets [Morck *et al.* (1988) and McConnell and Servaes (1990)]:

$$R_{it} = \beta_0 + \beta_1 OWN1_{it} + \beta_2 SQ(OWN1_{it}) + \beta_3 SIZE_{it} + \beta_4 LEV_{it} + \beta_5 INTANG_{it} + \varepsilon_{it} \quad [2]$$

The quadratic relation proposed in model [2] presents a break point[8], which can be obtained by differentiating performance with respect to ownership concentration. Letting this partial derivative equal zero, this breakpoint is $-(\beta_1/2\beta_2)$. Since the estimated values for β_1 and β_2 are respectively -0.8954 and 0.9248, the break point is 48.41%. Hence, the variable OWN1 is replaced in its interaction with earnings by the following variables: OWN1_L, which takes the value of the ownership of the major shareholder if this is less than 48.41%, and 48.41% otherwise; and OWN1_U, which takes the value 0 if the percentage of common shares held by the major shareholder is less than 48.41%, and the percentage of common shares held by the major shareholder minus 48.41% if the percentage is higher than 48.41%.

(7) This value is affected by a few high observations; in fact, the median value is 6.00%. These outliers do not affect the results, since the main results of the paper remain unaltered when they are deleted, though the informativeness of earnings is increased.

(8) The cube of OWN1 is also included to examine the possibility of a cubic relationship between ownership concentration and performance. However, it was not found to be significant.

TABLE 2: SUMMARY STATISTICS OF THE DEPENDENT AND INDEPENDENT VARIABLES

Variables		Mean	Standard Deviation	First Quartile	Median	Third Quartile
$R_{i,t} - E(R_{i,t})$ (%)	Total sample	15.24	122.52	-28.30	-2.15	25.99
	Firms with bank ownership	14.59	113.01	-25.18	0.95	29.23
	Firms without bank ownership	15.98	132.68	-30.64	-4.63	23.27
$NI_{i,t}$ (%)	Total sample	0.98	36.86	0.01	0.06	0.11
	Firms with bank ownership	-0.03	0.74	0.01	0.06	0.10
	Firms without bank ownership	2.15	54.03	0.01	0.06	0.13
$SIZE_{i,t}$	Total sample	18.40	2.07	17.03	18.30	19.74
	Firms with bank ownership	18.83	2.01	17.44	18.68	20.15
	Firms without bank ownership	17.90	2.03	16.54	17.76	19.30
$LEV_{i,t}$ (%)	Total sample	42.50	23.08	25.50	42.23	57.28
	Firms with bank ownership	42.54	24.52	23.22	43.39	57.43
	Firms without bank ownership	42.45	21.33	27.85	41.18	57.10
$MB_{i,t}$	Total sample	1.97	4.57	0.66	1.18	2.01
	Firms with bank ownership	1.97	2.86	0.82	1.30	2.13
	Firms without bank ownership	1.98	5.96	0.48	0.99	1.84

The table presents the summary statistics of the dependent and independent variables for listed firms on the Spanish Stock Exchange over the period 1991-2003. The dependent variable is the return of firm i for period t minus the expected return according to the CAPM; $NI_{i,t}$ is the net earnings in year t divided by the market value of equity at the beginning of year t; $SIZE_{i,t}$ is the natural logarithm of the market value of equity in thousands of euros; $LEV_{i,t}$ is the total liability divided by total assets at the beginning of year t; and $MB_{i,t}$ is the market value of equity divided by the book value of equity at the beginning of year t.

Source: Own elaboration.

Table 3: CORRELATIONS BETWEEN INDEPENDENT VARIABLES AND MULTICOLINEARITY TESTS

	NI	SIZE	MB	LEV	OWN1	BANKOWN
NI	1.0000					
SIZE	-0.0206	1.0000				
MB	-0.0079	0.2535	1.0000			
LEV	-0.0413	-0.0628	0.0506	1.0000		
OWN1	0.0177	0.0550	-0.0129	-0.0055	1.0000	
BANKOWN	-0.0170	0.1168	-0.0134	0.0014	0.0041	1.0000
Tolerance	0.996	0.877	0.888	0.969	0.979	0.986
VIF	1.004	1.141	1.126	1.032	1.021	1.015

The table presents the correlation and multicolinearity tests of the independent variables for listed firms on the Spanish Stock Exchange over the period 1991-2003. $NI_{i,t}$ is the net earnings in year t divided by the market value of equity at the beginning of year t; $SIZE_{i,t}$ is the natural logarithm of the market value of equity in thousands of euros; $MB_{i,t}$ is the market value of equity divided by the book value of equity at the beginning of year t; $LEV_{i,t}$ is the total liability divided by total assets at the beginning of year t; OWN1 is the percentage of common shares held by the major shareholder; and BANKOWN is the percentage of common shares held by banks.

Source: Own elaboration.

3. EMPIRICAL RESULTS

The results for the influence of large shareholdings on the informativeness of earnings are shown in Table 4, and in Table 5, for the joint effect of ownership concentration and bank ownership on earnings informativeness. The previous literature has used a pooled cross-sectional time series regression model to investigate the information content of earnings conditional on several variables. In the present paper, I employ both a panel data estimation and a pooled cross-sectional time series regression model. The panel data estimation allows us to correct for unobserved firm-specific and time-specific effects. Since there are no qualitative differences in the results between a panel data estimation and a pooled cross-sectional time series regression model, only the panel data estimation is reported. The panel data estimation was calculated using random effects, since the Hausman test does not reject the null hypothesis of the lack of correlation between individual effects and observable variables[9]. The results do not vary when the estimation takes into account the assumption that the explanatory variables may not be exogenous. These results were obtained by applying the generalized-method-of-moments (GMM) estimator developed for dynamic models of panel data by

(9) Hausman's test is equal to 24.17 –probability value 0.28– for the basic estimation (Table 4, column 1).

Arellano and Bond (1991). As the results obtained using random effects and the GMM estimator are generally similar, they will be discussed without distinguishing between the two methods of estimation.

3.1. Large shareholders and informativeness of earnings

Table 4 shows the role of ownership concentration with respect to the informativeness of earnings. The coefficient of NI is significantly positive, which suggests that earnings are informative. Size and the market-to-book ratio have a negative influence on returns. These results are consistent with the literature on anomalies of size and growth-value stocks [Fama and French (1992)].

The coefficients of NI*MB and NI*LEV are significantly negative. As for the influence of the market-to-book ratio on earnings-return sensitivity, this is consistent with the argument that the risk associated with growth firms weakens the informativeness of earnings. This effect seems to be greater than that of the growth opportunities associated with high levels of future earnings. The estimated coefficient of NI*LEV is significantly negative in a way that is consistent with the existence of greater incentives to manage accruals in the presence of covenant constraints attached to leverage[10]. A similar result has been reported by Jiambalvo *et al.* (2002), among others.

The sign of the coefficient of NI*SIZE is not uniform in Table 4. The results shown subsequently in Table 5 seem to suggest that larger firm earnings are more informative, as indicated by the significantly positive coefficient of NI*SIZE. The positive relation between size and the informativeness of earnings is consistent with evidence reported by Chaney and Jeter (1992), Warfield *et al.* (1995), Fan and Wong (2002) and Sánchez-Ballesta and García-Meca (2007). However, when we consider the sample without outliers, the coefficient of NI*SIZE is not significant.

Results referring to the influence of ownership concentration on the informativeness of earnings indicate that earnings exhibit less explanatory power for returns as ownership concentration increases. The coefficient of NI*OWN1 shows a negative influence on stock return. This effect persists regardless of the measure of ownership concentration employed. Although only the coefficient for the ownership of the major shareholder is shown, the results are similar when the percentages of common shares held by the three or five major shareholders are considered. This result is evidence in favour of the hypothesis that ownership concentration weakens the informativeness of reported earnings to outside investors. Earnings credibility is weakened because minority shareholders anticipate that the ownership structure gives the controlling owners the ability and incentives to manipulate earnings for outright expropriation or to report uninformative earnings so as to avoid their expropriation activities being detected. This result is similar to those reported by Fan and Wong (2002) for East Asia and Santana-Martín *et al.* (2007) for Spain and is consistent with the expropriation effect.

(10) Similar results are obtained when bank leverage is considered instead of total leverage.

Table 4: INFORMATIVENESS OF EARNINGS AND LARGE SHAREHOLDERS

	(1)	(2)	(3)	(4)	(5)	(6)
Intercept	0.05	0.05	0.05	0.21***	0.23***	0.24***
	(0.42)	(0.42)	(0.47)	(8.74)	(8.86)	(9.44)
$[R_i\text{-}E(R_i)]_{t-1}$				-0.09***	-0.06***	-0.06***
				(-9.07)	(-5.82)	(-4.98)
NI	0.52***	1.02***	1.20***	0.77***	2.20***	2.02***
	(6.23)	(7.23)	(9.34)	(5.66)	(5.45)	(6.64)
SIZE	-0.21***	-0.20***	-0.19***	-0.46***	-0.53***	-0.54***
	(-3.50)	(-3.35)	(-3.22)	(-5.00)	(-6.47)	(-6.31)
LEV	-0.06	-0.05	-0.08	-0.09	-0.70***	-1.07***
	(-0.44)	(-0.39)	(-0.61)	(-0.32)	(-2.80)	(-4.29)
MB	-0.05**	-0.05**	-0.05**	-0.27***	-0.30***	-0.30***
	(-2.15)	(-2.32)	(-2.31)	(-8.18)	(-8.79)	(-9.03)
OWN1	-0.05	-0.06	-0.06	-0.12	-0.16	-0.13
	(-0.46)	(-0.58)	(-0.56)	(-0.85)	(-1.13)	(-0.88)
NI*SIZE	0.33***	-0.02	-0.18*	0.51***	-0.46***	-0.40***
	(6.01)	(-0.24)	(-1.92)	(5.51)	(-3.32)	(-3.14)
NI*LEV	-0.24***	-0.30***	-0.42***	-0.29***	-0.58***	-0.76***
	(-4.56)	(-5.53)	(-7.23)	(-3.57)	(-9.91)	(-12.15)
NI*MB	-0.29***	-0.15**	-0.19***	-0.27***	0.07	-0.18***
	(-5.25)	(-2.33)	(-3.28)	(-3.56)	(0.79)	(-4.23)
NI*OWN1	-0.65***	-2.95***		-1.12***	-7.55***	
	(-4.94)	(-5.45)		(-5.33)	(-5.19)	
NI*SQ (OWN1)		2.31***			6.50***	
		(4.38)			(5.24)	
NI*OWN1_L			-2.33***			-4.06***
			(-8.44)			(-6.12)
NI*OWN1_U			0.91***			1.82***
			(3.48)			(4.97)
Calendar effects	Yes	Yes	Yes	Yes	Yes	Yes
no. observations	1,681	1,681	1,681	1,189	1,189	1,189
no. firms	235	235	235	191	191	191

Table 4: INFORMATIVENESS OF EARNINGS AND LARGE SHAREHOLDERS (continuation)

	(1)	(2)	(3)	(4)	(5)	(6)
R-Sq (%)	16.51	17.47	18.84			
Wald test	328.13***	350.90***	384.85***			
Sargan test				88.45**	93.39**	91.33**
m_1				-3.98***	-4.05***	-4.08***
m_2				-0.82	-0.24	-0.05

The table shows the results of a panel data estimation [columns (1) to (3)] and GMM estimator [columns (4) to (6)]. The dependent variable is the return of firm i for period t minus the expected return according to the CAPM model; NIi,t is the net earnings in year t divided by the market value of equity at the beginning of year t; SIZEi,t is a dummy variable that takes the value of 1 if the natural logarithm of the market value of equity in thousands of euros is higher than the median value and 0 otherwise; LEVi,t is the total liability divided by total assets at the beginning of year t; MBi,t is the market value of equity divided by the book value of equity at the beginning of year t; OWN1 is the percentage of common shares held by the major shareholder; OWN_L and OWN_U are two-step variables (see Appendix A). All the variables are measured per unit. Fixed effects of calendar years are included. t-statistics are shown in brackets. "***", "**" and "*" denote significance at the 1%, 5% and 10% levels, respectively.

Source: Own elaboration.

Previous evidence on ownership structure and performance shows that the relationship between the two variables may be non-linear [Morck *et al.* (1988)]. If the incentive to collect information and monitor management and the interest in obtaining private benefits of control of large shareholdings vary with the level of ownership concentration, we should also expect the relationship between ownership concentration and the informativeness of earnings to change its sign. Within this context, I have tested whether the influence of ownership concentration on the informativeness of earnings may result in a non-linear relationship.

Firstly, in order to test the non-linear relationship between ownership concentration and the earnings-return relation, the interaction between NI and the square of OWN1 was included in the estimation. As can be seen in columns (2) and (5), the results reveal that the linear coefficient takes a negative value, whereas the squared coefficient takes positive values. Thus, for low levels of ownership concentration, the informativeness of earnings decreases as the percentage of common shares held by the major shareholder increases, whereas the effect is the opposite for high levels of ownership concentration. Nonetheless, considering the mean values of NI*OWN1 and NI*SQ(OWN1) and the coefficients obtained, it can be seen that the effect of the quadratic term does not compensate for the negative sign of the linear term[11]. This allows us to state that the negative effect of

(11) Additionally, the coefficient of NI*SQ(OWN1) is not significant when the outliers are deleted, indicating that a non-linear relationship does not exist between ownership and the informativeness of earnings.

ownership concentration on the earnings-return relation predominates for any level of ownership.

Secondly, I have tested whether the influence of ownership concentration on the informativeness of earnings results in a non-linear relationship by means of piecewise linear regressions. In its interaction with earnings, the variable OWN1 is replaced by two variables, OWN1_L and OWN1_U, as explained in Section 3. The results are shown in columns (3) and (6) and fully coincide with those reported above when considering the NI*OWN1 and NI*SQ(OWN1). The existence of a negative effect of ownership concentration on the informativeness of earnings is found for low levels of ownership and of a positive effect if the ownership of the major shareholder is higher than 48.41%, although this positive effect does not compensate for the negative coefficient of the OWN1_L. In general, these results indicate that the expropriation effect is dominant at any level of ownership of the major shareholder.

3.2. Bank ownership and informativeness of earnings

Table 5 shows the influence of bank ownership on the informativeness of earnings. The percentage of bank ownership has a positive influence on the informativeness of earnings, as we can see in columns (1) and (5), while ownership concentration continues to maintain a negative effect on the informativeness of earnings. The positive relation between earnings and returns conditional on bank ownership is likewise demonstrated if bank ownership is measured as a dummy variable that takes the value of 1 if a bank has a percentage of equity in the firm, and zero otherwise (results not reported). These results are consistent with the hypothesis that bank ownership implies fewer opportunities for accruals management or earnings manipulation, by acting like active shareholders monitoring the firms in which they have equity stakes.

The existence of a non-linear relationship between bank ownership and the informativeness of earnings was tested including a new variable in model [1], namely, the square of the percentage of bank ownership in interaction with earnings. In view of the results shown in columns (2) and (6) in Table 5, it may be stated that the influence of bank ownership on the informativeness of earnings is positive for low percentages of bank ownership. However, when bank ownership increases, a negative effect on the informativeness of earnings seems to exist, although the significance of this effect varies according to the estimation method employed.

On the other hand, if we separately consider the role of bank ownership depending on whether the bank is the major shareholder or not, the results do not show a different role on the part of the bank. Bank ownership, in its interaction with earnings, is replaced by two additional variables. BANKOWNMS is the percentage of common shares held by banks when a bank is the major shareholder of the firm, and BANKOWNNOMS is the percentage of bank ownership when a bank is not the major shareholder of the firm. The results show that NI*BANKOWNMS is positive and significant, although it presents a lower coefficient than those obtained when considering the variable BANKOWN. The coefficient of NI*BANKOWNNOMS also takes a positive sign and presents a higher value, although the difference

Table 5: Informativeness of earnings and bank ownership

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Constant	0.04	0.04	0.04	0.04	0.24***	0.25***	0.24***	0.23***
	(0.32)	(0.32)	(0.34)	(0.31)	(9.48)	(9.77)	(9.49)	(9.31)
$[R_i-E(R_i)]_{t-1}$					-0.09***	-0.09***	-0.09***	-0.09***
					(-8.79)	(-8.46)	(-8.77)	(-8.74)
NI	0.51***	0.51***	0.53***	0.51***	0.81***	0.74***	0.79***	0.75***
	(6.14)	(6.13)	(6.29)	(6.01)	(5.72)	(5.50)	(5.57)	(5.62)
SIZE	-0.22***	-0.23***	-0.22***	-0.23***	-0.49***	-0.47***	-0.44***	-0.44***
	(-3.64)	(-3.75)	(-3.64)	(-3.74)	(-5.14)	(-4.91)	(-4.67)	(-4.67)
LEV	-0.03	-0.05	-0.04	-0.05	-0.45	-0.46	-0.37	-0.41
	(-0.21)	(-0.36)	(-0.29)	(-0.36)	(-1.57)	(-1.57)	(-1.30)	(-1.39)
MB	-0.05**	-0.04**	-0.05**	-0.04**	-0.29***	-0.28***	-0.30***	-0.31***
	(-2.14)	(-2.09)	(-2.14)	(-2.11)	(-8.71)	(-8.30)	(-8.90)	(-9.07)
OWN1	-0.04	-0.02	-0.04	-0.02	-0.22	-0.19	-0.21	-0.14
	(-0.35)	(-0.21)	(-0.37)	(-0.21)	(-1.50)	(-1.41)	(-1.51)	(-0.97)
BANKOWN	-0.06	-0.04	-0.06	-0.03	0.21	0.18	0.20	0.17
	(-0.37)	(-0.21)	(-0.38)	(-0.18)	(0.99)	(0.99)	(0.99)	(0.95)
NI*SIZE	0.34***	0.34***	0.36***	0.35***	0.56***	0.53***	0.56***	0.54***
	(6.15)	(6.26)	(6.34)	(6.15)	(5.89)	(5.79)	(5.68)	(5.98)
NI*LEV	-0.32***	-0.37***	-0.35***	-0.37***	-0.50***	-0.55***	-0.51***	-0.56***
	(-5.75)	(-6.14)	(-5.93)	(-6.13)	(-5.39)	(-5.10)	(-4.56)	(-4.55)
NI*MB	-0.31***	-0.32***	-0.32***	-0.32***	-0.33***	-0.36***	-0.33***	-0.36***
	(-5.54)	(-5.72)	(-5.71)	(-5.71)	(-4.48)	(-4.61)	(-4.15)	(-4.32)
NI*OWN1	-0.61***	-0.59***	-0.62***	-0.59***	-1.10***	-0.94***	-1.07***	-0.96***
	(-4.61)	(-4.45)	(-4.71)	(-4.37)	(-4.98)	(-4.46)	(-4.96)	(-4.43)
NI*BANKOWN	2.01***	3.69***			3.27***	5.60**		
	(4.32)	(4.07)			(3.60)	(2.00)		
NI*SQ (BANKOWN)		-4.43**				-6.41		
		(-2.15)				(-1.24)		

Table 5: Informativeness of earnings and bank ownership (continuation)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
NI*BANKOWNMS			1.53***	3.16*			2.59***	12.96***
			(2.74)	(1.73)			(3.83)	(5.53)
NI*SQ(BANKOWNMS)				-3.29				-19.11***
				(-0.92)				(-4.40)
NI*BANKOWNNOMS			2.98***	4.44***			4.16*	6.21
			(3.88)	(3.56)			(1.88)	(1.32)
NI*SQ(BANKOWNNOMS)				-9.94				-10.40
				(-1.47)				(-0.70)
Calendar effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
no. observations	1,681	1,681	1,681	1,681	1,189	1,189	1,189	1,189
no. firms	235	235	235	235	191	191	191	191
R-Sq (%)	17.44	17.67	17.57	17.71				
Wald test	350.09***	355.50***	352.92***	356.02***				
Sargan test					91.65**	89.82**	92.35*	94.70***
m_1					-3.98***	-4.01***	-3.94***	-4.03***
m_2					-0.90	-0.82	-1.03	-0.93

The table shows the results of a panel data estimation [columns (1) to (4)] and GMM estimator [columns (5) to (8)]. The dependent variable is the return of firm i for period t minus the expected return according to the CAPM model; NIi,t is the net earnings in year t divided by the market value of equity at the beginning of year t; SIZEi,t is a dummy variable that takes the value of 1 if the natural logarithm of the market value of equity in thousands of euros is higher than the median value and 0 otherwise; LEVi,t is the total liability divided by total assets at the beginning of year t; MBi,t is the market value of equity divided by the book value of equity at the beginning of year t; OWN1 is the percentage of common shares held by the major shareholder; and OWN_L and OWN_U are two-step variables (see Appendix A). BANKOWN is the percentage of common shares held by banks; BANKOWNMS is the percentage of common shares held by banks when a bank is the major shareholder of the firms;and BANKOWNNOMS is the percentage of common shares held by banks when a bank is not the major shareholder of the firm. All the variables are measured per unit. Fixed effects of calendar years are included. t-statistics are shown in brackets. "***", "**" and "*" denote significance at the 1%, 5% and 10% levels, respectively.

Source: Own elaboration.

between the coefficients of NI*BANKOWNMS and NI*BANKOWNNOMS is not significant. Consequently, bank ownership has a positive influence on the informativeness of earnings regardless of whether the bank is the major shareholder or not.

The non-linear relationship depending on whether the bank is the major shareholder or not is also investigated. The results seem to point to the non-significance of the quadratic terms, showing that non-linear effects do not exist as far as the influence of bank ownership on the informativeness of earnings is concerned.

4. Conclusions

The present paper analyses the influence of large shareholders, and especially of bank ownership, on earnings informativeness with the aim of distinguishing between a monitoring and an expropriation effect. The paper offers evidence on the role of banks as large shareholders. When a bank has an equity stake in a firm, the bank is an active shareholder monitoring the managers and reducing the opportunities for accruals management or earnings manipulation. The monitoring effect of bank ownership exists whether firms are controlled by banks or not.

In consonance with the literature, in which large shareholders represent their own interest and enforce decisions that would give them private benefits of control, the results also show a negative relation between ownership concentration and the informativeness of earnings. This expropriation effect is dominant at any level of ownership of the major shareholders, in line with controlling shareholders having strong opportunistic incentives to expropriate minority shareholders.

Appendix A: SUMMARY OF VARIABLE DEFINITIONS

Variable name	Definition
$R_{i,t} - E(R_{i,t})$	The firm's return minus the expected return according to the CAPM
NI	Net earnings before extraordinary items divided by the market value of equity.
SIZE	A dummy variable that takes the value 1 if the natural logarithm of the market value of equity in thousands of euros is higher than the median value and 0 otherwise.
MB	The market value of equity divided by the book value of equity.
LEV	The total liability divided by total assets.
OWN1	Percentage of common shares held by the major shareholder.
OWN1_L	Percentage of common shares held by the major shareholder if the percentage is less than 48.41% and 48.41% otherwise.
OWN1_U	Zero if the percentage of common shares held by the major shareholder is less than 48.41% and the percentage minus 48.41% if the percentage is higher than 48.41%.
BANKOWN	Percentage of shares held by banks.
BANKOWNMS	Percentage of common shares held by banks when a bank is the major shareholder of the firm.
BANKOWNNOMS	Percentage of common shares held by banks when a bank is not the major shareholder of the firm.

Source: Own elaboration.

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ABSTRACT

El objetivo del trabajo es analizar el efecto de la presencia de grandes accionistas y de propiedad bancaria sobre la capacidad informativa de los beneficios en España. Los resultados obtenidos ponen de manifiesto que existe un efecto expropiación por parte del accionista principal para cualquier nivel de concentración de propiedad. Además, la propiedad bancaria está positivamente relacionada con la capacidad informativa de los beneficios siendo consistente con el papel desempeñado por los bancos como supervisores activos del comportamiento empresarial, no existiendo diferencias atendiendo a que el banco sea o no el principal accionista de la empresa.

Palabras clave: Capacidad informativa de los beneficios, grandes accionistas, propiedad bancaria, efecto supervisión, efecto expropiación.

Clasificación JEL: G21, G32, M40.