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OWNERSHIP STRUCTURE OF FAMILY BUSINESS GROUPS OF PAKISTAN

Abstract:

This study analysis the family business groups ownership structure in the framework of corporate legal system, regulatory institutions and codes of corporate governance of Pakistan. The study uses unique handpicked data comprising a sample of 326 non-financial firms listed on Pakistan Stock Exchange for a period of 2009-13. The results reveal that Pakistani corporations have high degree of concentration of ownership. The controlling shareholders own about 87 % of firms with 10 % or more shareholding and 60 % of firms with 20 % or more shareholding. Most of the businesses are controlled by families. In 63 % of business group firms, families own 20 % or more top shareholdings. The novel contribution of the study is to develop the ownership structure of family businesses and measure the cash flow leverage, cash flow and voting rights of ultimate owners in family business groups. The study finds the considerable difference in voting and cash flow rights in family business group firms. This has strong implications for regulators, minority shareholders and dispersed investors.

Keywords:

ownership structure, business group, corporate governance, cash-flow rights, minority shareholders, voting rights, family business

JEL Classification: G32, G34, G38

1. Introduction

Historically, Pakistani corporations followed the footsteps of English corporations in Sub-continent (i.e undivided India comprising of Bangladesh, India and Pakistan). Initially, the corporations in sub-continent were controlled by the British India's Companies Act, 1844. Subsequently, the Companies Act (Joint Stock), 1855 was enforced under which corporations were registered first time. In 1882, the Indian Companies Act was enacted. It was replaced with the Indian Companies Consolidation Act, 1913 and subsequently amended in 1936. Upon independence of Pakistan on 14 August 1947, the Indian Companies Consolidation Act, 1913 was implemented as company law in Pakistan after some amendments. In 1949, it was further amended and renamed as the Companies Act, 1913. The establishment and governance of Pakistani companies remained under that Act till promulgation of the Companies Ordinance, 1984. Corporate law in Pakistan is still being influenced by English company law as many sections of the Companies Ordinance, 1984 are same as in Companies Act, 1913.

After independence, Pakistani corporations as well as corporate culture had faced inimitable challenges and opportunities to develop. The private and family oriented businesses had developed and flourished. By 1970s, considerable economic and industrial power was under the control of only 22 families (Rahman, 1998). Some specific families enjoyed the benefits of state's fiscal and financing policies which include subsidized loans, tax incentives, and relaxation on imports of capital goods. By 1970, 44 monopoly houses (i.e. business groups firms under particular families) had emerged who controlled about half of the assets (gross fixed) of the manufacturing sector of Pakistan (Amjad, 1982). Since, these business groups were mainly controlled by family members; therefore, separation of ownership and control was nonexistent. In January 1972 and 1974, key industrial and banking companies were nationalized by democratic federal government under Nationalization and Economic Reforms Order The nationalization of business units resulted in loss of more than half of assets of about 42 % (i.e.11 out of the 26) top monopoly houses. By 1977, the private industrial ownership had decreased massively; whereas, the large-scale manufacturing investment share of state had increased from 13% to 78% (Amjad, 1982).

After about a decade, the government took initiatives to privatize the many state-owned industrial and banking sectors companies. Since 1990s, many firms have been privatized and process of privatization is still continuing under the Privatization Commission. This historical background and specific cultural, social, political and economic conditions have resulted in concentration of family ownership in Pakistan (Cheema, Bari and Siddique, 2003). Literature suggests that the concentration of ownership provides substantial voting rights to ultimate controlling shareholders despite having little cash flow rights. Resultantly, they have adequate motivation to expropriate or transfer resources within business groups firms i.e. from the firms having less cash-flow rights to firms having more cash-flow rights of owners. This transfer of resources within business groups affects minority shareholders (La Porta, Lopez-deSilanes, and Shleifer, 1999; Claessens, Stijn, Djankov, and Lang, 2000; Bertrand, Mehta and Mullainathan, 2002). Despite a substantial research on corporate governance, legal system and ownership structure of companies around the globe; little published literature is available on actual construction of ownership structures, measurement of voting (control) rights, cash-flow rights and cash flow leverage [i.e. ratio of voting rights (hereafter VR) to cash-flow rights (hereafter CFR)] especially in Pakistan. Therefore, this study endeavors to research in this particular area.

In this context, this study analysis the ownership structure of family business groups corporations of Pakistan in the framework of corporate legal system, regulatory institutions and code of corporate governance. This study has following contributions: first, to construct the pyramidal ownership structure of business groups and second, to measure and analyze the cash flow leverage, cash flow rights and control of owners in business group firms. The study uses a unique handpicked dataset for a panel of 326 non-financial firms listed on Pakistan Stock Exchange (PSX) for a period of 2009-13. The analysis of ownership structures shows that Pakistani corporations have high degree of concentration of ownership. The controlling families own 20 % or more top shareholdings in 62.72 % group firms. The considerable difference in VR and CFR exist in family business group firms. It provides incentives to controlling shareholders (major owners) to transfer (expropriate) resources from firms having less CFR to firms having more CFR which has strong implications for regulators, minority shareholders and investors.

The study is organized as: The following section 2 describes the literature review. The section 3 of the study explains the data and methodology. The subsequent section 4 discusses the regulatory and governance institutions; presents the comparative analysis of codes of corporate governance; constructs the ownership structure of various family business groups; analyses the CFR, control rights and cash flow leverages of owners in family business group firms. Section 5 encompasses conclusion, recommendations, policy implications and future research.

2. Literature Review

Literature suggests that expropriation of resources through ownership structures of businesses may affect at both micro and macro-economic levels (Johnson, Boone, Breach, & Friedman, 2000; Mitton, 2002).Similarly, corporations with highly concentrated ownership experienced the substantial loss of value during the crisis in Korea (Baek, Kang, and Park, 2004). Lensink and Molen (2010) state that business group affiliation is mostly advantageous to firms having financial constraints. Khanna and Yafeh (2007) conclude that business groups function similar to parasites who expropriate resources. In small business groups of France, Hamelin (2011) observes a considerable correlation between the firm performance and separation of ownership from control.

Initially, La Porta, Lopez-de-Silanes, Shleifer and Vishny; 1998, 2000) explained significance of the legal system for better corporate governance especially protecting the investor. Johnson et al. (2000) discuss different legal cases of Italy, France and Belgium, where companies were sued for alleged expropriation of minority shareholders. However, those firms were acquitted because some provisions of their legal system benefited the controlling owners at the cost of diverse minority shareholders. These researchers find that although the laws of most countries forbid expropriation; the legal protection to minority shareholders is comparatively less in civil law countries than common law countries. Consequently, chances of expropriation of resources of minority shareholders in civil law countries are comparatively higher. A study by Cheung, Rau and Stouraitis (2006) reveals that there is greater probability of expropriation by those sample firms of Hong Kong which have limited protection from lawsuit. By examining data of 33 countries, La Porta et al. (2000) find lower (higher) dividend payouts by firms in less (higher) legally protected minority shareholders.

By using data of eight South East Asian firms, Claessens, Djankov, Fan, and Lang (2002) explore that Tobin's Q are inversely related to the divergence between CFR and VR of majority owners or controlling shareholders. On the other hand, they are directly related to the CFR of owners. Therefore, they conclude that firms held via dual class shares, pyramids or cross shareholdings have shown a discount. Joh (2003) identify an inverse relation between firm profitability and the separation of CFR and VR of the majority owners. The researcher also discovers that a firm's relation to chaebols (business groups) decreases its profitability.

In recent years, the corporate governance has gained interest of researchers in Pakistan. The study of (Ashraf and Ghani, 2004) show that investors view business groups as a mechanism of expropriation of resources. Cheema, (2003) concludes that foreign direct investment in Pakistan can be attracted through better and compatible corporate governance system. The study of Khalid and Hanif (2005) describe the state of corporate governance in banking sector of Pakistan. Rais and Saeed (2005) find that the Code of Corporate Governance (2002) has enhanced the financial reporting and overall business environment. Besides, the inclusion of the non-executive board members has improved the protection of minority shareholders. By using the panel data from for 2003 to 2006, Javid and Iqbal (2007) measure the factors of corporate governance and conclude that better corporate governance raise the value of firm. By using a sample of 60 non-financial firms for a period of 2003-2008, Javid and Iqbal (2010) find that ownership concentration has negative relation with standard of corporate governance practices. They also conclude that Pakistani firms have more ownership concentration due to weak legal environment.

3. Data and Methodology

This study uses the corporate governance and ownership data comprising of 326 firms (non-financial) listed on PSX for a period of 2009 to 2013. The PSX comprises of 569 listed companies as on 30 June 2013. These listed companies consist of 128 financial companies and 441 non-financial companies. The sample excludes all financial companies as the accounts of these companies are not comparable with that of non-financial companies. Resultantly, all remaining 441 non-financial companies were considered as initial sample of study. However, due to non-availability of required data of several firms, the sample finally consists of a panel of 326 non-financial PSX listed companies (excluding the banks, modarabas, insurance, mutual funds and media). However, the sample includes all non-financial companies comprising of PSX-100 Index. Thus, sample size is true representative of companies listed on all Pakistani stock exchanges. The data for this study was manually taken from the annual reports of listed companies as well as from Securities and Exchange Commission of Pakistan (SECP), State Bank of Pakistan (SBP), and PSX. Due non availability on relevant websites and accessible resources, annual accounts (in hard copies) of several firms were purchased from PSX for extraction of required data. The related party equities and ownership data (e.g. percentages of family, directors and executives) is basis of construction of ownership structures of business group firms as well as measurement of VR and CFR of owners.

4. Analysis of Corporate Governance and Ownership Structures of Family Business Groups in Pakistan

4.1 Regulatory and Governance Institutions

With reference to legal, regulatory and governance framework; Pakistani corporate sector is divided into financial (banking) and non-financial sectors. Their primary regulators are as under:

4.1.1 State Bank of Pakistan (SBP)

The SBP is the principal regulator and supervisor of banking sector (i.e. commercial banks, microfinance banks, and development finance institutions etc.). The SBP was constituted under the SBP Order, 1948 and its charter is mentioned in the SBP Act, 1956. The Prudential Regulations of the SBP also directs all Development Finance Institutions and commercial banks to truly follow the Code of Corporate Governance.

4.1.2 Securities and Exchange Commission of Pakistan (SECP)

Initially, the federal government of Pakistan established the Corporate Law Authority (attached with the Ministry of Finance) to regulate the capital markets and corporate sector. Subsequently, it was succeeded by the Securities SECP. This institution is the primary regulator and controller of capital markets, insurance, non-financial, and all listed &non-listed non-banking financial companies. The SECP was established on 1st January, 1999.Under the SECP Act, 1997, the federal government appoints a Securities and Exchange Policy Board which is the governing body of the SECP. The Policy Board consists of nine members including four members from the private sector. The rest five ex-officio members are federal secretaries for finance (the chairman of the board), commerce, law, a deputy governor of the SBP and the chairman SECP. The policy board has been delegated various powers and responsibilities which include advising the national government on SECP related matters, approving regulations made by the SECP and stipulating penalties and fees to companies. Under the oversight of the Policy Board, the Chairman SECP is the executive head to direct, control and regulates the operations of the SECP.

4.1.3 Stock Exchange

Besides SECP, PSX also regulates the listed companies. Hundreds of companies are listed on PSX. On 11 January 2016, all of the three stock exchanges in Pakistan i.e. Karachi Stock exchange (KSE) incorporated on 10 March 1949; Lahore Stock Exchange (LSE) incorporated on 5 October 1970 and Islamabad Stock Exchange (ISE) incorporated on 25 October 1989 have been integrated into KSE. The new single stock exchange of the country is renamed as Pakistan Stock Exchange (PSX). Although, the PSX is independent public limited company; however, the SECP has certain authorities over it e.g. SECP examines the securities trading rules, supervises their operations and constitutes their board of directors under various rules and regulations.

4.2 Codes of Corporate Governance 2002 and 2012

Initially, the draft Code of Corporate Governance (hereafter the Code) was issued by the SECP on March 28, 2002. Under the powers of Companies Ordinance (1984); the SECP directed stock exchanges to incorporate the Code into the relevant listing regulations of all stock exchanges for compliance by listed companies. The Code is a set of “best practices”, compiled to guide, direct and control the listed companies through a framework. The Code was formulated based upon the various corporate governance models and experiences (i.e. the reports by Cadbury Committee, 1992 (UK), the King's (South Africa), the Hampel Committee, 1998 (U.K.) and the OECD Principles of Corporate Governance, 1999) of the common law countries having traditions similar to Pakistan’s. However, there remained many weaknesses and limitations in the Code. Moreover, the market initially showed reluctance to follow the Code in true letter and spirit. A number of companies were delisted post implementation of the Code. The researchers and relevant surveys highlighted several limitations of the Code and suggested to improve it in accordance with dynamic corporate standards. Consequently, the SECP revised the Code in April 2012 after consultation with relevant stakeholders.

4.2.1 The Analysis of the Codes of Corporate Governance 2002 and 2012

Besides executive and non-executive directors in the firms' board of directors; the Code encourages inclusion of independent directors and representative of minority shareholders in the board. The Code also desires that the board be equipped with the requisite technical skills, appropriate training, relevant experience and professional competence to ensure that the board as a team has diversity and core competencies to oversee the company's operations. Although, it provides awareness to investors as well as compels companies to comply with the Code; however, the Code has "*no statutory force or penalty provisions"* in case of non-compliance by the companies. The comparison of the CCG 2002 and 2012 is presented in the Table 1 below:

Table 1: Comparison of the Codes of Corporate Governance 2002 and 2012

S.No	Description	CCG 2002	CCG 2012
1	Independent Director	*Encouraged* to have at least *1* independent director	*One* independent director is *mandatory*. However, *1/3rd* of total board members *preferred*
2	Criteria for independence of directors	Insufficient and scanty	Significantly explained
3	No. of directorships by a board member at a time	Not more than *10*	Maximum *7* (except director of a listed subsidiary of a holding company)
4	Executive Directors	Including CEO, not more than 3/4th of elected directors	Not more than 1/3rd of elected directors including CEO
5	Board training	Directors have to be trained by PICG	Directors have to be trained through any local or foreign institution meeting the criteria of SECP
6	Board evaluation	No provision	Mechanism to place by April 2014 to carry out annual evaluation of the board performance
7	Board chairman & CEO	Can be same person but preferably he/she be a	The CEO and Chairman can't be same

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		non-executive director	person unless allowed by any other law.
8	Internal Audit Head	None	Specific qualification has been introduced. Head of Internal Audit shall be removed with the recommendation of Chairman Audit Committee
9	Board Committees	Audit Committee chairman shall preferably be non-executive director	Audit committee Chairman must be an independent director. Moreover, Chairman of the audit and board can't be same. Secretary of Audit committee can't be CFO. Human Resource & Remuneration Committees also introduced in CCG 2012.

The Code of Corporate Governance (CCG) 2012 requires the following from listed companies:

- It is preferred that listed companies have independent directors as 1/3rd of total board members. However, they shall have one independent director, at least.

- They shall not have more than one third of executive directors including the CEO. For example, in a board of seven; one independent director is mandatory, maximum two executive directors are allowed and rest four members are to be non-executive.

- The companies shall disclose the names and status of all the directors in the annual report.

- Except as director of the listed subsidiaries of a listed holding company; the companies shall not nominate or elect any person as a director of more than seven listed companies in a same time duration.

- They shall fill up the casual vacancies on the board by the suitable directors within 90 days but as early as possible.

- They shall not have the same person as a Chairman and the CEO except where authorized by any other law. However, they can elect the Chairman among the non-executive directors.

- They shall not appoint any person as the CFO if he/she has less than five years of relevant corporate or financial experience in a listed company or bank.

- They shall not appoint any person as the Head of Internal Audit if he/she has less than five years of relevant audit experience besides other prerequisites.

- They shall ensure that directors, executives or their spouses disclose the transactions of buying or selling of shares in that company.

4.3 Development and Analysis of Ownership Structure of Pakistani Family Business Groups

Pakistan has various types of companies including public listed, public unlisted, private, SMCs and foreign companies etc. Most of the companies are private but these are registered with SECP. The public listed companies in Pakistan are 595 as of June 2013. The PSX has 569 listed companies with total market capitalization of 5,154,738 Million Rupees as on 30 June 2013. There is no considerable change in number of listed companies over a sample period. The majority of the listed companies have larger capitalization and size. The ownership and sectoral breakdown of sample companies shows that most of the companies are related to family business groups. Out of 326 sample firms, 177 firms belong to 48 various family business groups, 113 firms are stand-alone (non-group), 12 firms are controlled by state and 24 have foreign majority shareholdings. Although all sectors of companies are part of the sample; however, the major sectors of the companies are Textile Composite and Spinning, Sugar & Allied Industries, Chemicals, Cement, Power Generation & Distributions and Automobile Assembler etc. A business group consists of 2 to 11 companies. On average, 5 companies are included in a business group. The market capitalization of sample firms encompasses about 97 % of the total capitalization of non-financial firms listed on PSX.

The analysis of top shareholders having equal to greater than 10 %, 20 %, 50 % and 70 % shareholding is presented in Table 2 and it shows that the controlling shareholders own 10 % or more top shareholdings in 86.81 % (283) sample firms and 20 % or more top shareholdings in 60.43 % (197) sample firms. Whereas, out of 177 group firms; families have 10 % or more top shareholdings in 88.70 % (157) group firms and 20 % or more top shareholdings in 62.72 % (111) group firms. 61 in number of firms with 50 % or more top shareholdings are held by controlling owner. Among these 50 % or more top shareholdings firms, group firms comprises of 42.62 %.

Table 2: Number and Percentages of Top Shareholdings in sample firms

Description	Total Firms	Number of Firms with top shareholdings				Percentage of firms with
		= or >10 %	= or >20 %	= or >50 %	= or >70 %	= or > 50 % top shareholdings
Groups	177	157	111	26	9	42.62

Standalone	113	94	55	13	4	21.31
Foreign	24	20	19	16	8	26.23
State	12	12	12	6	2	09.84
Total	326	283	197	61	23	100.00

Although “one-share one-vote” principle for ownership structure is common around the world; however, the relevant SECP’s laws allows listed companies to issue shares with different dividend rights as well as common shares without votes, and common shares with multiple votes known as dual class shares. At present, Pakistan has only two companies offering dual class shares. However, most of the Pakistani companies’ ownership structure is like a pyramid in which an ultimate controlling owner (generally a family) owns different companies through a chain of pyramidal ownership structure. This ownership structure is confirmed through construction of ownership structures of major business groups of Pakistan. This ownership construction is based on percentages of the firms’ directors, executives’ equity and shares of related or associated parties. The ownership values are manually extracted from relevant financial statements of the companies. These figures are further authenticated and supplemented from the information available on websites of these companies as well as information regarding 100 % ownership of private companies of the group available with SECP. Among these business groups, the three prominent business groups are Dawood group, Dewan Group and Nishat (Mian M Mansha) group. The ownership structures, ultimate owners, VR, CFR and cash flow leverages of one of the largest business group (i.e. Dawood business group) are presented in following sub-section.

4.3.1 Ownership structure of a Dawood family business group

The ownership structure of a Dawood family business group is displayed in Figure 1. The analysis of Dawood business group shows that the largest shareholder of the Dawood Lawrencepur Ltd is the Dawood family which controls the 71.25 % of its shares. The Dawood Lawrencepur being the largest shareholder owns 16.19 % shares of Dawood Hercules Corporation Ltd. Further, the Dawood Hercules Corporation Ltd is the largest shareholder of Engro Corporation (formerly Engro Chemicals), which owns 28.89 % shares of Engro Corporation and finally Engro Corporation 100 % controls the Engro Fertilizer Ltd. The Engro Corporation also controls the 87.10 % and 56.20 % of Engro Foods and Engro Polymer respectively.

The analysis of Engro Corporation illustrate that the ultimate controlling owner of the Engro Corporation is the Dawood family through a chain of pyramid as shown in

Figure 1. The control or voting rights of the Dawood family in Engro Corporation are 37.90 %. This value is the sum of percentages shares of director/ family equity (1.18 %), Patck Pvt Ltd (5.083 %), Central Insurance Company (CIC) (2.741 %), Sach International Pvt Ltd (0.001 %) and Dawood Hercules Corporation Ltd (28.89 %). The all mentioned private companies and CIC are fully controlled by the Dawood family. Thus,

$$Voting\ Rights\ (VR) in\ Engro\ Corporation = 1.18 + 5.083 + 2.741 + 0.001 + 28.89 = 37.90\% \quad (1)$$

Whereas, the Cash Flow Rights (CFR) of Dawood family in Engro Corporation is just 16.42 %. By following Orbay and Yurtoglu (2006) as bench mark for VR and CFR; the computation of CFR has arrived through multiplying and summing over all related control chains of pyramid as shown in Figure 1.

$$CFR\ in\ Engro\ Corporation\ = [(1.18 + 5.083 + 2.741 + 0.001) +\ 28.89 * \{(0.1001 + 0.03946 + 0.00165 + 0.000015) + 0.1619 * (0.0939 + 0.05444 + 0.01161 + 0.4906 + 0.00006 + 0.00262 + 0.059296)\}] = 16.42\% \quad (2)$$

$$Ratio\ of\ VR\ to\ CFR = 2.31 \quad (3)$$

The VR and CFR of family in Dawood Hercules Corporation Ltd and Dawood Lawrencepur Ltd are as under:

$$VR\ in\ Dawood\ Hercules\ = 10.01 + 0.0015 + 0.165 + 3.946 + 16.19 = 30.31\% \quad (4)$$

$$CFR\ in\ Dawood\ Hercules = 10.01 + 0.0015 + 0.165 + 3.946 + \{16.19\ * (\ 0.0939 + 0.05444 + 0.01161 + 0.4906 + 0.00006 + 0.00262 + 0.059296 = 25.66\% \quad (5)$$

$$Ratio\ of\ VR\ to\ CFR = 1.18 \quad \text{and,} \quad (6)$$

$$VR\ in\ Dawood\ Lawrensepur = 9.39\ +\ 5.444\ +\ 1.161\ +\ 49.06\ +\ 0.006\ +\ 0.262\ + 5.9296\ =\ 71.25\ \% \quad (7)$$

$$CFR\ in\ Dawood\ Lawrencepur =\ 9.39\ +\ 5.444\ +\ 1.161\ +\ 49.06\ +\ 0.006\ +\ 0.262\ + 5.9296\ =\ 71.25\% \quad (8)$$

$$Ratio\ of\ VR\ to\ CFR =\ \ 1 \quad (9)$$

The analysis of the ratios of VR and CFR show that cash flow leverage (i.e. the ratio of VR to CFR) is greater in Engro Corporation (i.e. 2.31) as compared to that of Dawood Hercules (i.e. 1.18) and Dawood Lawrencepur (i.e. 1). As the literature suggests, the significant separation of CFR and VR in Engro Corporation provides incentive to controlling shareholder (i.e. family) to divert or transfer resources from low CFR firm i.e. Engro Corporation to high CFR firms e.g. Dawood Hercules Corporation or Dawood Lawrencepur Limited. Such transfer of resources from low cash flow rights firms to high cash flow rights firms is known as tunneling and ultimately it affects the share of minority shareholders in low cash flow rights firms (Johnson et al., 2000, La Porta et al., 1999, 2000).

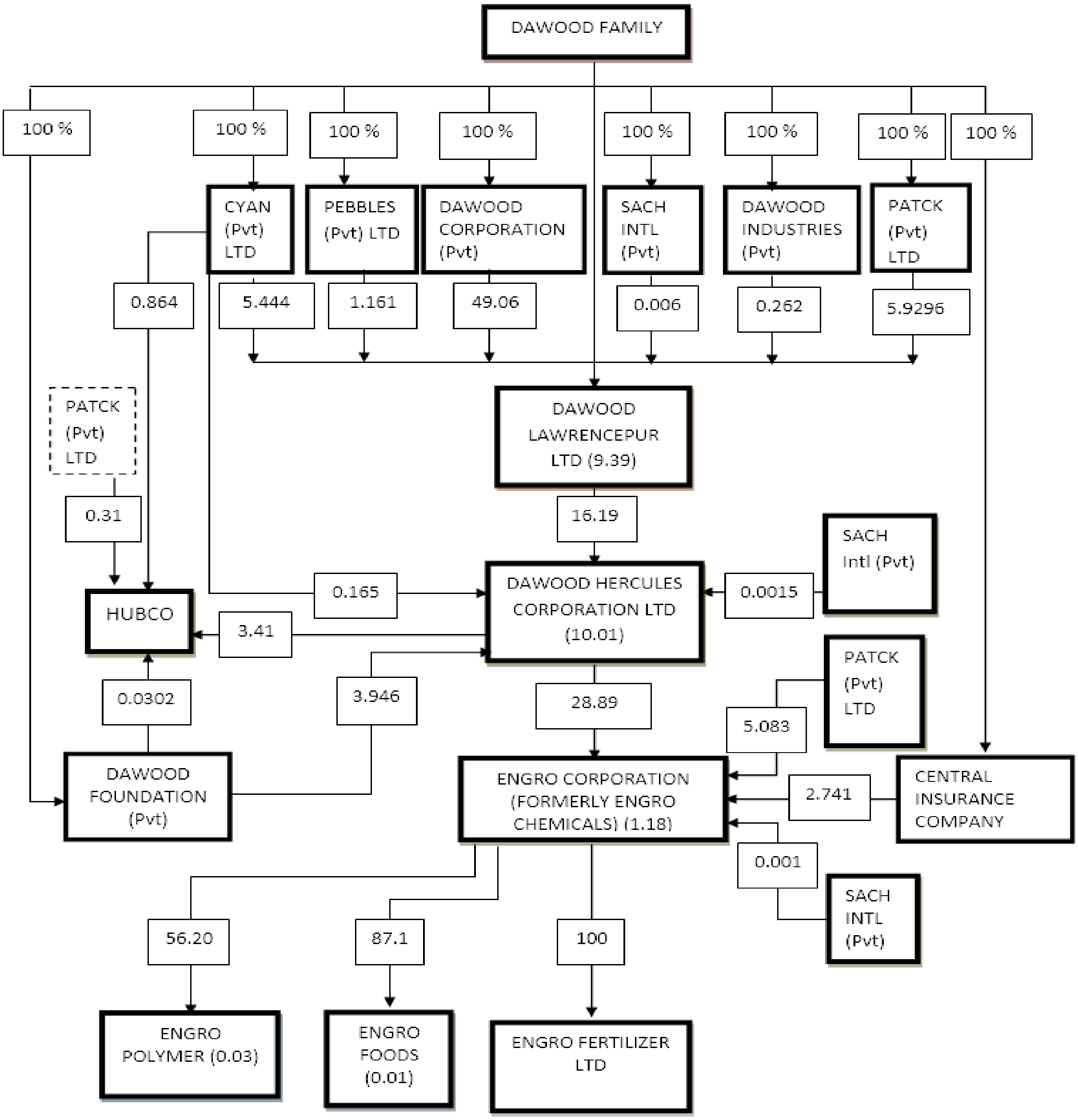

Figure 1: Ownership Structure of Dawood Business Group

Numerical values are in percentages of shareholding as on 30 June 13

4.4 Conclusion

This study has analyzed the ownership structure of business groups of Pakistan in the framework of corporate legal environment, regulatory institutions and Codes of Corporate Governance. The comparative analysis of Codes of Corporate Governance (CCG) 2002 and 2012 shows the marked improvement in CCG 2012. The new code has emphasized on specific number of mandatory and preferred independent directors. The quantity of executive directors has been reduced to 1/3rd and number of directorships by a board member at a time has been limited to maximum 7. Under CCG 2012, the CEO and Chairman of board can't be one person. Moreover, the clauses/ mechanism related to training and evaluation of board, qualification of Head of Internal Audit, independence of Board Committees, internal audit and remuneration of directors have also been made more objective and transparent. Despite such improvements in CCG, the legal protection of minority shareholders through stringent enforcement of laws is still required by regulators.

The ownership structures of family business groups firms of Pakistan display considerable concentration of ownership. Out of 326 non-financial sample firms, 177 firms (54.50 %) belong to various family business groups, 113 firms (34.67 %) are stand-alone (non-group), 12 firms (3.68 %) are controlled by state and 24 firms (7.37 %) have foreign majority shareholdings. The sample firms have market capitalization of about more than 97 %. Out of 326 sample firms, 283 firms (86.81 %) have 10 % or more and 197 firms (60.43 %) have 20 % or more top shareholdings held by the controlling owner. In majority of the group firms (62.72 %), family have 20 % or more top shareholdings and in 88.70 % of group firms; families own 10 % or more top shareholdings. In whole sample, 61 in number of firms with 50 % or more top shareholdings are held by controlling owner. Among these firms, 42.62 % firms have shareholdings of family.

After constructing the pyramid structures of group firms, calculation of voting (control) and cash flow rights; the prominent difference of voting and cash flow rights has been observed in family business groups firms which provides incentives to controlling shareholders to transfer resources within group firms at the cost of minority shareholders. This has strong implications for investors as well as researchers and policy makers. In order to prevent the transfer of resources which affect minority shareholders; the policy makers need to focus on protection of minority shareholders by introducing punitive or statutory powers in the code of corporate governance and relevant laws. The future research may be related to finding the existence and sources of tunneling (i.e. transfer of resources from low to high cash flow rights firms) and its impact on minority shareholders of Pakistani family business group firms.

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