

# Ownership Concentration, Leverage and Firm Value: Causality Tests

Hamizah Hassan\*, Tony Naughton, Alberto Posso

The aim of this study is to comprehensively investigate the causal relationship between: i) ownership concentration and firm value, ii) ownership concentration and leverage, and iii) leverage and firm value, in Australia. Using the largest 100 Australian firms in years 1993 – 2008, we employ two types of estimations: two-way fixed effects and two-step system GMM (the latter corrects for causality). Our findings show that ownership concentration uses prior firm value and leverage as indicators to alter their holding positions. The positive association between firm value and leverage in the next period does not support the pecking order theory. We also find that there is a possibility that ownership concentration might expropriate firms' minority shareholders. Further analyses reveal that: i) an effective interaction between previous ownership concentration and firm value, ii) the joint effects between previous ownership concentration and leverage will lower ownership concentration, which supports the probability of the expropriation, and iii) a positive association between the interaction of previous leverage and firm value with current leverage, which suggests the existence of disciplining effect of leverage.

**Keywords:** Ownership concentration, leverage, firm value, joint effect, Granger causality, largest Australian firms

**JEL Classification:** G32; L20

---

\* Corresponding author: Hamizah Hassan, School of Economics, Finance and Marketing, Building 108, RMIT University, Level 12, 239 Bourke Street, Melbourne, Victoria 3000, Australia. Tel.: +61 3 9925 1679; Fax: +61 3 9925 5986; E-mail: hamizah.hassan@rmit.edu.au