

Review

The impact of law on the protection of minority shareholders, concentration of ownership and information asymmetry

Saadaoui Amir and Boujelbene Younes

Faculty of Economics and Management, University of Sfax, Tunisia

Accepted 27 November, 2020

This paper studies the impact of law on the protection of minorities, the concentration of ownership and information asymmetry on the basis of a comparison between civil law countries and common law countries. This comparison is done by comparing the origin of these two types of law and the rights that protect minority shareholders against expropriation of shareholders and executives. Similarly the comparison happens to the concentration of ownership, based on the LLSV studies, and information asymmetry by studying the problems of this asymmetry as well as solutions. This study was made by comparison of 11 countries and 11 civil law common law countries. These results allow us to say that minority shareholders are protected in the common law countries than in civil law countries, and for the concentration of ownership that is most popular in common law countries than in civil law countries. Against by the asymmetry of information the legal system has no effect on this variable.

Keywords: corporate governance, protection of minority, concentration of ownership, information asymmetry

INTRODUCTION

"Democracy is not the law of the majority, but the protection of the minority". This quote from Albert Camus illustrates the difficulty of democracy to make decisions in the interest of a population while protecting the weak. This applies equally to shareholder democracy. Indeed, minority shareholders are defined as heterogeneous and unorganized shareholders not giving voice to the proposed resolutions by the majority. Minorities seek to make their voices heard. Protecting the interests of minority shareholders is therefore essential in the corporate governance and is a sign of good health of a shareholder democracy. In a business, the place where

we see shareholder democracy is the general assembly of shareholders. Each year, this meeting is an opportunity for all shareholders to intervene and talk to local leaders. Its function is to inform shareholders about the financial situation of the company, make them to vote on a draft resolution proposed by the management team and to ratify the posts. Until only recently, the general meetings were regarded as mere rubber stamp that had an interest that allowing shareholders to challenge the leaders. The rate of adoption of the resolutions has always being close to 100%, but this shows there being unanimous shareholder decisions of leaders? This rate does not hide him, on the contrary, a lack of enthusiasm on the part of shareholders to monitor the management of their leaders?

Small shareholders are always realizing increasingly

*Corresponding author Email: am.saadaoui@yahoo.fr

that their rights are not respected. Failure or delay in communication of information seems to be one of the main criticisms made by minority shareholders. « The firm Proxinvest, which advises and represents investors in general meetings, said that *"shareholders do, too often, the documents necessary for a proper assessment of the resolutions submitted on the day of the meeting générale"* ». Such behavior is also denounced by associations of shareholders impedes the proper functioning of shareholder participation. Work by La Porta, Lopez-De-Silanes, Shleifer and Vishny (1996, 1998, 1999, 2000, 2002), specifically in their article "Agency Problems and Dividend Policies around the World" (2000) have shown the impact of law on the protection of minority shareholders against expropriation of their right to dividends, voting rights, right to information by shareholders and executives. Similarly, these authors suggest that the protection system minority shareholders to play an important role in explaining differences in ownership structure of firms between countries. In other words, in countries with favorable regulations for the protection of minority shareholders, companies with a dispersed ownership seem to be more common than in countries where protection of minority shareholders is low.

Similarly, since the minority shareholders have the right to information, there is a problem of information asymmetry between the minority shareholders on the one hand and shareholders and managers on the other. We can say that the majority shareholders and managers have more information on the company's situation better than this minority shareholder and to facilitate their expropriation of the firm. For this reason, and to increase its wealth, the shareholder must be able to access information without hindrance and have the means to monitor the management of leadership. The purpose of this research is to study the impact of law on the protection of minority ownership structure and information asymmetry, based on a comparison between international civil law countries «civil law and common law countries "common law". This brings us in this research paper master emphasis on these problems by diviing it down into four sections. The first section of this paper will be devoted to a vision for a few theoretical arguments. The second section will be devoted to data description and presentation of assumptions and model. While the third section presents our empirical results. And the fourth section is devoted to conclusion.

Theoretical Issues

The legal origins and the role of dividends in the protection of minority

The rules that protect investors come from several

sources: the commercial code, company law, stock exchange law, family law, competition law, but also there are other sources such as the regulations issued by the stock exchanges and course codes of accounting and financial information (LLSV, 1999 & 2000). These rules are not written from scratch since they come from ancient traditions (Watson 1974). In general, the law stems from two legal traditions: « Common Law » and « Civil Law ». In their study in (1996), La Porta, Lopez, Shleifer, and Vishny, demonstrated that the laws that protect investors and the quality of their application gradually and systematically differ throughout countries. Specifically, the rules vary systematically through the origin of law, whether British, French, German or Scandinavian. British law is customary law which is made by the judge and subsequently filed by the legislature. While French, German and Scandinavian civil rights are, therefore, made by the legislature and parliament, it is a right which is based on codified Roman law. According Barthélemy Mercadal (2001), civil law is a law codes: the solutions which are borrowed from, for example, the Code of Obligations are then introduced into the Civil Code. Deffains and Guigou (2002) stress that the countries of the Roman-Germanic tradition inherited from Roman law are law countries. Civil law is not their main jurisprudential. It encloses the judge in the strict enforcement of the statute or regulation, which can always be circumvented by the fraud. This follows from the illegitimacy of the judge to create law and the idea that the sources of law should form an orderly and coherent system to derive solutions to legal problems. In the analytical framework, LLSV (1999) show that the weak protection offered to minority shareholders by the civil law could be explained by taking into consideration an important historical factor is the political will of the State.

According Deffains and Guigou (2002), the law appears as a right which the method of preparation is essentially jurisprudential. In the Roman-Germanic, the legally qualified judge the facts in order to deduce the solution of the applicable law in the code when the judge of the common law itself facing a situation that will be compared to similar situations, about which decisions have already been made. Similarly Barthélemy Mercadal (2001) argued that common law has developed from the work of courts. Indeed, the solution given by the judge should lead to a resumption of good systematic solution previously taken, hence the famous rule of precedent that characterized this right.

In this analytical framework, Mahoney (2001) stresses that the common law and civil law from different philosophies about the role of the state. This author believes that « the common law is historically linked to the strong protection property rights against state action, while civil law is rather marked by a strong central power and less forced ».

In a world with significant agency problems between

insiders and outsiders, dividends can play a useful role. Paying dividends, insiders make the company's performance to investors and they can not use them to get benefit. In fact, dividends are the best capital gains, since they do not materialize as future dividends. In addition, payment of dividends to expose companies to resort to the capital market in the future to increase its external funding, with investors outsiders an opportunity to exercise at this time, some controls on insiders " (Easterbrook 1984).

Similarly, La Porta, Lopez, Shleifer and Vishny (2000) have demonstrated in their study that the dividend policy has figured prominently in studies by Modigliani and Miller (1958, 1961) and assuming that the market is perfect therefore the investment policy of a company is constant and this implies that the dividend policy has no effect on shareholders' wealth that is to say, a high dividend payment reduces the capital gain and vice versa, while maintaining unchanged the wealth of shareholders. So the dividend policy is a source of conflict between majority shareholders or directors and shareholders. So the dividend payment is preferable that the capital gain. By paying dividends, the company will be forced to resort to the market to raise external funds and therefore it is an opportunity for outside investors or minority shareholders exercise control over the majority shareholders (Easterbrook 1984).

The outcome model: dividends resulting from a legal protection of shareholders

Dividends are the products of a system of protection of shareholders

Under this system, minority shareholders use their legal powers to absorb the excess flows to the shareholders to reinvest. Shareholders can vote for their leader's hostile securities and selling them to control companies that do not distribute dividends. These leaders can sue companies that do not pay dividends and spend all the funds to finance projects that privilege the interests of the majority. They tested whether the preferences of outsiders in countries with different policies for the protection of shareholders converge. The shareholder-owned company that offers good protection and has investment opportunities will accept low dividends. With good protection of minority shareholders in corporate profitability should have a high payout ratio of dividends significantly low contribution to the companies less profitable. If shareholder protection is weak we will not find a relationship between the dividend payment and performance of companies as minority shareholders seek to extract maximum dividends since the protection is weak.

Substitute model: dividends intended as a substitute for legal protection

According to "1996 Gomes' dividends can substitute (take place) of legal protection. In order to raise external funds, the company is required to send signals to convince investors of its policy towards the minority shareholders, thus increasing its external funding the company must establish a reputation in terms of moderation in its policy dividend. This notion of reputation is especially in countries with low legal protection of minority shareholders and to establish that reputation you want, a need to dividend is increase. On the contrary, in countries with high protection of minority shareholders, the companies need to establish mechanisms where reputation is low and it is unnecessary to pay dividends. The payout ratio of dividends should be higher in countries with weak legal protection of shareholders in the country where protection is strong (high). As a result, companies have developed interest in choosing a distribution rate of dividends than the less developed. On the extreme, a society which does not provide funding equity in a country where shareholders are not protected, does not distribute dividends. However, the relationship between the level of development of societies and the ratio of dividend payments is unclear.

The structure of ownership and protection of shareholders in the firm

Recently, research in corporate governance report that the conflict of major agency in the world between the controlling shareholders to outside shareholders. Unlike the Anglo-Saxon context, the majority of companies in the countries of Continental Europe and Asia are dominated by controlling shareholders, often families, who usually have voting rights in excess of the rights to future cash flows. This separation between ownership and control is achieved through the issuance of two classes of shares with differential voting rights, the organization of firms in a pyramid structures and cross shareholdings (La Porta et al. (1999), Claessens et al. (2000), Faccio and Lang (2002), Andersson and Reeb (2003,)). In addition, the pioneering work carried out by La Porta et al. (1998) show that protection of the rights of minority shareholders is lower in Europe and Asia and the United States. In these circumstances, the shareholders have an incentive to extract private benefit of control at the expense of outside shareholders (Bebchuck (1999), Bebchuck et al. (2000), La Porta et al. (2002)). La Porta and al. (1997, 1998, 1999) explain the differences in the structures of ownership across countries by differences in the quality of legal protection

for investors. They oppose the law (*common law*) provides a good legal protection for shareholders and creditors to countries in civil law (*civil law*) where investor rights are poorly protected.

Regarding the ownership structure, we can understand many things. On the one hand, the composition of capital ie its distribution among different classes of shares according to their property and rights related thereto, on the other hand, we can wonder about the reports distribution of capital among different owners. In the context of agency theory, the term structure of ownership, the distribution of funds according to the internal or external.

In their study in 1999 LLSV, which runs from 1993 to 1995 and are based on 27 countries in the world, they showed that in the classic study done in 1932 Berle and Means drew attention to the predominance of large corporation in the United States, in which share ownership is dispersed among small shareholders, and the control is already concentrated in the hands of leaders. For at least two generations, their book has set the image of the modern corporation to submit leaders unaccountable to shareholders. The book prompted a large "managérialist" literature with the aim of such officer, with the important work of Baumol (1959), Marris (1964), Penrose (1959) and Williamson (1964) in addition to Galbraith (1967) People and powerful account. In recent years, many studies have come to the question of empirical validity of this image. Eisenberg (1976), Demsetz (1983), Demsetz and Lehm (1985), Shleifer and Vishny (1986), and Mork, Shleifer and Vishny (1988) show that even in the midst of major American corporations, the small concentration property. Holderness and Sheehan (1988) founded the United States hundreds of commercial company with public majority shareholding (more than 51%).

In economic development, the property is also painfully concentrated (La Porta et al. (1998)). This research suggests that in several countries have large corporations and shareholders that the shareholders are active in corporate governance (Kang and Shivdasani 1995), Yafeh & Yosha (1996)).

Shareholder protection is becoming an essential element, since the expropriation of outside investors, among others, the shareholders are extensive. However, when shareholders aime at financing the company, they then face the risk and in this case, turn on its investments are not evidenced in terms of the expropriation of leaders. Indeed, La Porta, Lopez-DeSilains, Shleifer and Vishny (1999) define corporate governance as "a set of procedures to prevent the expropriation of shareholders (usually minority) by insiders (officers and/orshareholders).

Similarly, expropriation is related to agency problems described by Jensen and Meckling (1976) and is explained by excessive management and other types of behavior such as, the practice of selling assets at a price

above the market price. Indeed, according to these authors, leaders use the profits for their own interests rather than return the money as dividends. However, according to La Porta, Lopez, Shleifer and Vishny (1999), the legal approach to the field of corporate governance emprise the key mechanism which is the protection of minority shareholders. Similarly, in this regard Jensen and Meckling (1976), recognize the legal system as a mechanism of protection of shareholders, which they describe as "the presentation of the firm, shows the important role played by the legal system and law in social organization, the organization of economic activity. La Porta and al. (2000) show that the expropriation of shareholders in the company requires sharing control can prevent the leaders to do what they want the dispersion of control limit expropriation. More Zingales (1995) and La Porta and al. (2000) show that the structures of control within the firm are unstable, shareholders can implement control mechanisms as a means of protection that are not modified or neglected by their leaders. In this case, they are encouraged to initiate and support costs. . Another argument Beetsen and Wolfonzon (2000) that the dispersion of control can protect investors and limit the expropriation. Similarly, in the central analysis of the modern corporation (Berle and Means, 1932, Jensen and Meckling, 1976) have shown that there are conflicts of interest between insiders, such as managers of a hand, outsiders and investors as minority shareholders, on the other side. As stressed La Porta et al. (1996), the extent of legal protection for investor's outsiders differs greatly between countries. Legal protection is the continuous as well as in the quality of their applications. Some countries, including wealthy countries of common law such as the United States and Britain, are an effective protection of minority shareholders expropriation of assets by insiders is rare. Moreover, there is a demonstration that the extent of investor protection is reflected in the degree of concentration of ownership in the firms (La Porta et al, 1996), as well as in the evaluation and the width of the markets capital between the firms (La Porta et al. 1997).

The concentration may be a response or adaptation to the lack of legal protection of minority shareholders. This idea has been advanced and tested by LLS, (1999) and LLSV (1996, 1998), and these authors have found a link between the percentage of company whose capital is dispersed and the protection of minority shareholders. How legal protection for minority shareholders can influence the shareholder structure of firms and hence their control structure? According to LLSV (1999 & 2000), the weak legal protection afforded to minority shareholders attempted expropriation very effective. Thus, as reported in LLSV (1996), the shareholders need to hold a large share of capital to exercise their right of control to avoid such expropriation by the managers. It seems clear that economic reasons and law may encourage shareholders to hold rights to future cash

flows and voting rights substantial. The concentration of share ownership can be an effective source of motivation to run the manager and shareholders to control (Jensen & Meckling (1976), Shleifer & Vishny (1986)). Similarly, the concentration of ownership may become really important when the minority shareholders did not acquire enough of their legal rights which provide for compensation on their investment (LLSV 1996, Shleifer & Vishny 1997). Ultimately, a system of government based on the market is characterized by a dispersed unlike a system based on holders of control blocks which share ownership is concentrated. This is explained by La Porta and Lopez-de-Silanes (1998), so when the protection offered by the legal system is inadequate, the shareholders will buy the securities of companies subject to this system at prices below those of market. Low demand titles by minority shareholders stimulate further concentration of property titles. Regarding the control structure, Guigou and Deffains (2002) shows that the participation of shareholders in control of the company depends on the shareholders. Indeed, Paillard and Amable (2000) argue that the dispersion capital discourages shareholders to bear the costs of active monitoring of management whose results would benefit all. In addition, Guigou and Deffains (2002) suggest that the dispersion of share ownership encourages the development of liquid stock markets and active. The concentration of ownership, however, encouraged major shareholders to exercise direct control over the leaders. This leads to a system of control "inside" of companies, as opposed to the control system "external" that know the United Kingdom and the United States (Franks & Mayer 1997). Moreover, Prowse (1994) shows that if the shares of the company are concentrated in the hands of a few large carriers, each of them will be encouraged to acquire the information necessary to monitor the management of the company.

The problems of information asymmetry

In the classical theory and in a perfect market, information is free and available simultaneously to all partners or all the agents who run the company. Conversely, in the context of recent theories, information is becoming a handicap to the players on the market and to the partners that make up the company because of information that may hold some of the agents to maximize their utility and use them for its own interests at the expense of the other party. Thus, in our case managers can through the information they hold on the strategy and management of the company they represented the center of decision making and power, maximize their usefulness and may also use such information for its own interests at the expense of shareholders. Information also becomes the main source of conflict between the various economic agents and

between the various partners who constitute the firms. Indeed, Jensen and Meckling (1976) have defined the information asymmetry as a mechanism made by a group of market participants have information that does not share other agents involved in transactions on the same property or services. These authors also announce that the asymmetry of information is the fact that part of the contract has inside information that the other party does not have. In our case analysis leaders represented the center of decision making and power in the company since it is those who will develop the company's management and strategy of their work and that the management of various departments of the society, in this case, they are better informed than those of shareholders, therefore they have inside information that does not have shareholders and from such information, they will try to maximize their utility relative to that of shareholders and this will lead to conflicts of interest between the two parties in question. . It should also be noted that differences of objectives and asymmetric information lead to phenomena which are the traditional adverse selection and moral hazard.

An important contribution is added to the literature of management that is focused on the differences in laws and corporate governance across all countries. These differences have an impact on agency conflicts (Johnson & al.2000). La Porta and al. (1997), for example, have highlighted that the size and extension of the equity of countries have an impact on the level of investor protection and law enforcement. They concluded that countries with weak legal protection and poor law enforcement are associated with limited capital. In their second study, La Porta and al. (1998) have shown that legal protection for investors in 49 different countries and the quality of law enforcement. Similarly, few studies have examined the accounting simple relationship between income and stock prices around the world (Alford et al. 1993, Pope & Walker 1999, Ball et al. 2000). This paper goes beyond this line of research and examines the information asymmetry, the central source of agency problems, is different in the financial markets resulting from the difference in legal protection, corporate governance and development of financial markets. Logically speaking, the information asymmetry exists when a group of investors who make transactions on the market is information before the other.

Signal solution to the problem of asymmetric information

The theory of signals is based on the assumption that the managers of a company have higher intake information to providers of corporate funds. That is to say that leader is better predicting future cash flows of the company: they know what state the nature of the business is located. In this perspective, any signal emitted by the leaders, to

believe that the flow will be better than expected or that the risk is less, will allow for value creation for investors. The latter will be always looking for a signal to him to expect a return higher or lower risk. In light of this assumption we can classify the actors in the financial market into two categories depending on the quality and quantity of information they have on the company:

- The "insiders" or directors and shareholders: they have information on the company's situation.
- "Outsiders" or minority shareholders who do not have that information available to insiders on the company.

Among other options for the emission of signals, the leaders use financial variables such as the financing structure, the share of equity held by themselves and the dividend policy. In what follows, we will analyze these different media signals.

Signaling by the level of debt

Ross (1977) showed that the level of indebtedness may be used to solve the problem of asymmetric information. He highlighted that any change in the structure causes a change of perception of the company by investors and is a signal to the market. Thus, the increase in debt increases the risk of equity. The leaders of a company whose debt is increasing market report they know the state of nature, that it is positive and therefore the performance of the company will allow them to pay additional charges and to repay this debt without difficulty. This sign has its own sanction if it is wrong. If the signal is false, ie if the real prospects of the company are not good, this increased debt will lead to great difficulties that are not to result in the return, in a form or another of its leaders.

They are therefore strongly encouraged to send the right signal by adjusting the level of indebtedness of the company given their knowledge of the repayment capacity.

Signaling by the fraction of equity aside by leaders

It is possible to base the risk aversion of managers to balance signaling. The basic idea developed by Leland and Pyle (1977), is that the quality of a firm is indicated by the fraction of equity that developers use. This signal is costly. Indeed, it presents an opportunity cost caused by the under-diversified portfolio of managers. The signal here is the fraction of equity that managers keep for themselves. More this fraction, the higher the value of the project is large. The authors also show that if the value of a firm is an increasing function of the fraction of equity held by the promoters, the firm will have a debt capacity much greater than this fraction is high. The debt level is correlated with the portion of equity held by managers, but the latter value which is the true signal. Similarly, it is

clear that the sale by an officer of his participation is a negative signal. This means that it has internal information which indicates that the value of future cash flows, given the risk is less than the price at which it could negotiate its participation.

Signaling by dividends

We can say that the information content of dividend refers to the hypothesis that dividends convey information about future earnings of the company. This information allows market participants forecast better profits. The dividend policy is thus a vector of privileged information that leaders use to convince their image corresponds to reality. Furthermore, the dividend policy allows the team to show the financial market which it applies, for finance and development, policy and thought it anticipates some results. In the same vein, Grossman and Milgrom (1981) have shown that the holder of the information is required to follow a policy of voluntary publication of information in order to avoid the risk of a misinterpretation on the part of outside investors. The idea of information content of dividends has been made since Modigliani and Miller (1961) where they admitted that investors may interpret a change in dividends as a change in anticipated profits in the minds of leaders. They have also not rejected their proposal of neutrality of dividend policy and considered that the observed changes in the time of the announcement of dividends are not due to the dividends as cash flow, but to they convey information on the expectations of leaders. In other words, these authors have accepted the possibility of an informational effect, but they considered compatible with the hypothesis of neutrality dividends.

Similarly Linder (1956) implicitly claimed the existence of an informational effect of dividend since the leaders do to increase dividends only if they are sure to make a profit to reach the same level of distribution. So any change in distribution of dividends may be interpreted by the market as a sign of changing expectations of leaders. A number of strong reasons in favor of the thesis that the distribution of dividends is a signal of great interest. According to Asquith and Mullins (1986), the most important of these reasons and the fact that "say the cash is far more credible than any other form of communication. In addition, this signal has the advantage of simplicity and visibility. Finally, conveys the information without revealing details of "sensitive" knowledge of which could benefit the competition. Since the information signal is transmitted at first until it is done retrospectively, it can take different values: favorable or unfavorable. A good company can afford the dividend because it will show on the day of posting of the coupon, it may pay the amount promised. By against a bad company can use the same message, but this imitation will turn against it when the come, it will decide to reduce the coupon promised on

the day of its posting, but any wrong signal would deprive the company of valuable resources which could be difficult to get later (Dumontier, 2000).

Overview of hypotheses and model

Assumptions tested

In the analytical framework, LLSV (1999) shows that the weak protection offered to minority shareholders by the civil law could be explained by taking into consideration an important historical factor is the political will of the State. Indeed, France and Germany, legal codes were imposed from Napoleon and Bismarck in the 19th century (the founders of the State). They did not give up power to the judges and the law remained codified without much power of interpretation left to the judge. As an extension of their analysis, LLSV (2000) show that in the civil law countries, particularly civil law countries french are more interventionist than common law countries. According to them, lower the protection of the rights of minority shareholders may be a manifestation of this principle. As for civil law, a policy can better explain the high protection given to shareholders by the law (LLSV, 1999; 2000). Indeed, in England, the courts took their independence from the crown of the 17th century and became longer under the influence of parliament dominated by the owners. Consequently, customary law developed to protect private property the crown. Thus, in Anglo-American law, the procedure is conducted under the direction of the parties with a weak state and a judge "arbitrator," whereas in civil law proceedings are conducted by the State. Certainly, the greater ability of common law to safeguard the interests of minority shareholders come from the ability of independent judges to limit the power of the state and protect the rights of outside investors. It is therefore interesting to empirically verify whether there is a link between the country's legal system and protection of minority, hence the hypothesis:

H1: Minority shareholders are better protected in the common law countries than in civil law countries.

Similarly, LLSV (2000) have demonstrated in their study that the dividend policy has figured prominently in studies by Modigliani and Miller (1958; 1961), which implies that the market is perfect, therefore the policy is therefore the perfect investment policy of a company is constant and this implies that the dividend policy has no effect on shareholders' wealth that is to say, a high dividend payment reduces the capital gain and vice versa while maintaining unchanged the wealth of shareholders. In the empirical study, LLSV show that companies from countries that use the common law, where investors are more protected and distribute more dividends that companies in countries using the right civil. In addition in the case of law firms that have strong growth

distribute dividends little less developed than that. It is therefore interesting to empirically verify whether there is a link between the country's legal system and the ratio of dividend payment, hence the hypothesis:

H2: The ratio of payment of dividends is greater in countries where minority protection is weaker than in countries where protection is high.

Since LLSV (1996), the distinguished Anglo-Saxon (Common Law) giving special attention to case law and the French approach (Civil law) which gives more space to text. They support the idea that the first context is more responsive and more effective in defending the interests of minority shareholders. What helps in Shleifer and Vishny (1997) stressed that when the legal system provides insufficient protection to small shareholders, a solution for corporate finance is the use of concentration of ownership which would, therefore, a substitute for the absence of a legal and institutional performance. It is therefore interesting to empirically verify whether there is a link between the country's legal system and the shareholding structure of firms, hence the hypothesis:

H3: Countries whose legal system is a "common law" are more dominated by companies with diffuse ownership than those with a legal system such as "civil law".

In making an international comparison, LLSV (1999; 2000) found a significant difference in the rights of minority shareholders across countries. Therefore, they suggested that disparities in the ownership structure of firms in the world due mainly to differences in the content of the law. Thus, countries with a positive content of the right tend to have more diffused ownership firms. Therefore, better protection of the rights of minority shareholders can develop from these investors the confidence to accept the status of the minority shareholder. Similarly, Ergungor (2002) suggests that in civil law countries, the judge feels that its main function is the strict enforcement of the law. While in common law countries, the judge appears as a creator of law. Furthermore, LLSV (1998; 1999; 2000) found that law enforcement provides shareholders with strong legal protection and bearing a share ownership more dispersed. Thus, countries with a high score in one of the indicators of compliance with the law firms are likely to diffuse ownership, hence the hypothesis:

H4: The structure of ownership of companies should be more concentrated in countries where the rights of minority shareholders are less protected.

Unlike traditional financial theory, information asymmetry is the fundamental assumption of many of the recent work of financial theory of the firm, this assumption is linked to that of bounded rationality and opportunistic behavior of agents. It is assumed that agents do not have the same level of information, hence the following hypothesis:

H5: The level of information asymmetry is higher in civil law countries than in common law countries.

According to the theory of signals and by the idea of

Table 1 Variable description

Variables	Overview
Corporate Governance (GOV)	This variable is measured by the combination of the index of the efficiency of the legal system that varies from 0 to 10 and the corruption index that varies from 0 to 10.
The "Anti-Director-Right" (ADR)	The "Anti-Director-Right" is an indicator that combines the rules of law that protects minority shareholders, this indicator has by definition a value between 0 and 6 by adding 1 in the following cases: the country allows voting by correspondence of individuals in the general meetings of companies, shareholders are not obliged to transfer their shares to a depository approved by the General Assemblies, the cumulative voting.
The concentration of ownership (CP)	Concentration of ownership is held by the shareholders and directors in the company. If a large part of the company's capital (more than 50%) is owned by a small number of shareholders, it said that the ownership is concentrated.
The asymmetry of information (AI)	The information asymmetry is a mechanism made by a group of market participants have information that does not share other agents involved in transactions on the same goods or services. La mesure de ce variable est basée sur le coefficient de l'ROI. The measurement of this variable is based on the ratio of the ROI.
Type of legal system (SJ)	Variable system (SJ) is estimated by means of a dichotomous variable that takes the value 1 if the legal system is a common law, 0 if it is a "civil law".
Distribution of Dividends (DD)	The payout of dividends is in LLSV (2000) an indicator for the degree of shareholder protection against expropriation of managers.
The size of the company (T)	Variable size is used throughout this study to the natural logarithm of "total assets" which reflects the size of the firm.
The role of law (RL)	This is an indicator for estimating the quality of application of the law. Furthermore, LLSV (1998, 1999, 2000) found that law enforcement provides a strong minority shareholder legal protection and hence a property of more capital investment. This indicator can take values from 0 to 10, the note is perfect.

information content of dividends made by Modigliani and Miller (1961), we can consider that the distribution of dividends is one way to decrease the level of information asymmetry and predominantly in civil law countries because the study of LLSV (2000) showed that the ratio of dividend distribution and higher in civil law countries than in common law countries, hence the following hypothesis:

H6: The distribution of dividends is a solution of the asymmetry of information in civil law countries than in common law countries.

According to their study of La Porta, Lopez-De-Silanes, Shleifer and Vishny (1999), have defined corporate governance as: "A set of procedures to prevent the expropriation of shareholders (usually minority) by insiders (officers and / or majority shareholders exercising control). Hence the following hypothesis:

H7: The protection of minority shareholders has a positive effect on corporate governance.

Data

At this level of work, we present the database, our study sample as well as the tools used in the analysis of these

data. Our sample includes 22 countries: 11 countries and 11 civil law common law countries. These data are extracted from studies by La Porta, Lopez-De-Silanes, Shleifer and Vishny (1998 and 2000) and the 'Wordscope2002.

They exist to explain which variables are corporate governance, the indicator "Anti-Director Right", the concentration of ownership and information asymmetry, and the explanatory variables are the type of legal system, distribution dividends, company size and role of the law.

As we noted the type of right to an impact on the protection of minority shareholders, the concentration of ownership and information asymmetry.

To do this, we selected for this study a regression model to three equations which retains endogenous variables, the protection of minority (MP), concentration of ownership (CP) and asymmetric information (AI) which will explain by the exogenous variables: the legal system (SJ), dividend (DD), firm size (T), the indicator anti-director-right "(ADR) and the role of law (RL). Hence the following model.

Model:

$$Gov = \beta_0 + \beta_1 ADR + \beta_2 CP + \beta_3 AI + \varepsilon$$

$$ADR = \alpha_0 + \alpha_1 SJ_i + \alpha_2 DD_i + \varepsilon$$

Table 2 Results of civil law countries

Dépendent Variable: ADR				
Method: Least Squares				
Variable : ADR	Coefficient	Std. Error	t-Statistic	Prob.
SJ	1.060453	0.703740	1.506883	0.1661
DD	0.301801	0.020202	14.93937	0.0000

Table 3 Results of the common law countries

Dependent Variable: ADR				
Method: Least Squares				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
SJ	5.908896	0.909609	6.496082	0.0001
DD	-0.096083	0.045472	-2.113035	0.0638

Table 4 Results of civil law countries

Dependent Variable: CP				
Method: Least Squares				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
SJ	0.175188	0.188059	0.931558	0.3788
RL	-0.030587	0.023204	-1.318187	0.2239
T	0.052328	0.015696	3.333921	0.0103

Table 5 Results of the common law countries

Dependent Variable: CP				
Method: Least Squares				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
SJ	1.460302	0.432122	3.379376	0.0097
RL	-0.027122	0.015315	-1.770892	0.1000
T	-0.069083	0.036791	-1.877714	0.0972

Table 6 Results on the civil law countries

Dependent Variable: AI				
Method: Least Squares				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
SJ	0.175188	0.188059	0.931558	0.3788
T	-0.030587	0.023204	-1.318187	0.2239
DD	0.052328	0.015696	3.333921	0.0103

Table 7 Results on the common law countries

Dependent Variable: AI				
Method: Least Squares				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
SJ	28.04787	78.61821	0.356760	0.7305
T	-2.288749	5.602844	-0.408498	0.6936
DD	0.290700	0.929619	0.312709	0.7625

α_0 , α_1 and α_2 : the regression coefficients estimated by OLS.

$$CP = \alpha_0 + \alpha_1 SJ_i + \alpha_2 RL_i + \alpha_3 Ti + \varepsilon$$

α_0 , α_1 , α_2 and α_3 : the regression coefficients estimated by OLS.

$$AI = \alpha_0 + \alpha_1 SJ_i + \alpha_2 Ti + \alpha_3 DDi + \varepsilon$$

α_0 , α_1 , α_2 and α_3 : the regression coefficients estimated by OLS.

RESULTS

To check the relevance of the right type of "civil law and common law we subdivide the sample throughout our empirical study in two groups: One group includes civil law countries are: France, Greece, Germany, Finland, Italy, Spain, Sweden, Norway, Japan, South Created and Indonesia. A second group includes the common law

Table 8 Civil law countries

Dependent Variable: G				
Method: Least Squares				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
ADR	3.032103	0.558276	5.431191	0.0006
P	-7.128820	4.668416	-1.527032	0.1653
A	3.249781	0.952400	1.098325	0.3040

Table 9 The common law countries

Dependent Variable: G				
Method: Least Squares				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
ADR	1.738123	0.297690	5.838691	0.0004
P	1.544488	1.490787	1.036022	0.3305
A	0.034323	0.020826	1.648068	0.1380

countries are: Canada, Ireland, New Zealand, Malaysia, Sirilanka, Singapore, Thailand, India, Britain and the United States.

Impact of law on the protection of minority civil law countries and common law

In civil law countries and results found in the table2, we note that the legal system to a positive but not significant protection for minority shareholders that is assessed by the indicator "Anti - Director-Right". As for the distribution of dividend to a positive and significant (0.0000) on the protection of minorities.

For common law countries and results found in the table3, we note that the legal system in a positive and significant (0.0001) on the protection of minority shareholders. While the ratio of dividends to a negative but not significant on the protection of minority shareholders. In the light of interpretations of the results of these two tables we can say that the hypothesis advanced in the first chapter, which states that minority shareholders are better protected in the common law countries than in civil law countries, is confirmed. Just as the assumption regarding the ratio of dividend distribution, which states that the payout of dividends is higher in civil law countries than in common law countries, is confirmed. Because minority shareholders protect their rights in civil law countries by the application of high dividends, while in common law countries minority shareholders choose to reinvest their dividends in new opportunities.

Impact of law on the concentration of ownership in civil law countries and common law countries

According to the results found in the table above we can see in the civil law countries the legal system to a non-significant positive effect on the concentration of

ownership. Similarly the role of law has a negative effect but not significant concentration of ownership, while the size variable has a positive and significant (0.0103) on the concentration of ownership.

For common law countries and results found in the table above, we note that the legal system has a positive and significant (0.0097), whereas the role of law is defined as a indicator of protection of shareholders has a significant negative effect on the concentration of ownership. Similarly, the size variable has a significant negative effect on the concentration of ownership. According to the interpretations of the two tables above we can see that the hypothesis advanced in the first chapter of this part, which said that countries whose legal systems of the type "common law" are more dominated by companies with diffuse ownership than those with a legal system such as "civil law", is to confirm results found.

Similarly to the assumption regarding the role of law in protecting minority interests, which stipulates that the ownership structure of companies should be more concentrated in countries where shareholder rights are least protected, also confirm the results found.

Impact of law on the asymmetry of information for civil law countries and common law countries

According to the results found in the table above, we note that for civil law countries the legal system has a positive and not significant on the information asymmetry, so the size variable has a negative effect is also not significant on this variable. While the dividend has a positive and significant effect on the asymmetry of information.

For common law countries and results found in the table above all the variables have the same effect and the same degree of significance on the information asymmetry than in civil law countries. According to the interpretations of the two tables we see that the assumption about the asymmetry of information is not

confirmed the results found. While the second assumption about the distribution is confirmed the results found.

The effect of minority protection, the concentration of ownership and information asymmetry on corporate governance

According to the results found in the table above, we can see that in civil law countries the protection of minority is represented by the indicator "Anti-Director-Right" has a positive and significant (0.0094) on corporate governance, while the concentration of ownership and a negative effect not significant on the governance of the company. Similarly, the asymmetry of information has a positive but not significant also on corporate governance.

For common law countries and results found in the above table it can also be observed that the protection of minority has a positive and significant (0.0363) on corporate governance, while the concentration property and the asymmetry of information have the same effect and the same degree of significance than that of civil law countries. So the assumption on corporate governance is confirmed.

CONCLUSION

The purpose of this research is to study the impact of law on the protection of minorities, the concentration of ownership and information asymmetry, based on a comparison between international civil law countries and common law countries. Relying on the theoretical study to facilitate our transition to the empirical study, where we presented the assumptions made from the theoretical study. These assumptions are derived from theoretical studies made: on the legal system and from studies by LLSV (1996-1999) we have drawn three hypotheses which state the effect of the legal system on the protection of minority concentration ownership and information asymmetry. Also on the payout of dividends and from the study by LLSV (2000), and the theory of signals we fired two hypotheses that suggest the effect of dividends on the protection of minority and 'information asymmetry. So that from the study by LLSV (1999), we have drawn the hypothesis of the effect of the role of law on the concentration of ownership. In our study we used the sample of 22 countries, 11 civil law countries and 11 common law countries. As in our study chose our model tests the direct effect of each explanatory variable on the variable to explain using simple regression to the studies by LLSV who used several variables to demonstrate the impact of law on the protection of minorities and the concentration of ownership by using multiple regression and panel data. Similarly in our study we focused on the impact of law on the informational asymmetry which is

reflected in the studies by LLSV expressing the direct effect of the legal system on the asymmetry of information while in the study by Ferdinand A Gul et Han Qiu, (2004), it is expressed through the concentration of ownership. Using data collected from the studies by LLSV we found that the results are consistent with the hypotheses proposed except for some variables because of the negative sign of the coefficient. The results demonstrated the significance of the legal system on the protection of minorities and the concentration of ownership, the significance explains the existence of rules that protect the minority against the expropriation of the majority and the management team as well as the significance lies in the common law countries which explains the existence of more laws that protect minorities. These results allow us to say that minority shareholders are protected in the common law countries than in civil law countries, and for the concentration of ownership that is most popular in common law countries than in civil law countries. Just about the payout of dividends results show a strong significance of the relationship between this ratio and the protection of Minority and this significance has been in civil law countries which shows that the lack of rules that protect minority which lead them to request that the dividend for the majority do not use it in new investment opportunities while the negative sign of the coefficient allows us to set aside the hypothesis which states that the payout of dividends is higher in civil law countries than common law countries. Similarly, the significance of this ratio came to the asymmetry of information which explains the importance of dividends in resolving the problem of asymmetric information, these results allow us to say that the distribution Dividend decreases the level of asymmetry of information in civil law countries as the ratio of payment of dividends is higher in civil law countries than in common law countries.

REFERENCES

- Akerlof GA (1970). «The market for lemons: quality and the market mechanism», *Quarterly J. Eco.*, 48: 488-500.
- Alam P and Walton KS (1995). Information asymmetry and valuation effects of debt financing. *The Financial Review* 30(2): 289-311.
- Alford A, Jones J, Leftwich R. and Zmijewski M (1993). The relative informativeness of accounting disclosures in different countries, *J Accounting Res.*, .31: 183-223.
- Arrow Kenneth J (1985). "The Economics of Agency," in John W. Pratt and Richard J. Zeckhauser (Eds.), *Principals and Agents: The Structure of Business*, Boston, MA: *Harvard Business School Press*: 37-51.
- Berle A and Means G (1932). "The Modern Corporation and Private Property", *New York: Macmillan*.
- Consequences, *J. Pol. Eco.*, 93: 1155-77.
- Demsetz H and Lehn K (1986). "The structure of corporate ownership: Causes and
- Easterbrook F and Fischel D (1991). *The Economic Structure of Corporate Law*. Cambridge, MA; *Harvard University Press*.
- Fama EF (1980). "Agency problems and the theory of the firm". *J.Pol. Eco.*, 88(2): 288-307.

- Ferdinand A and Gul Han Qiu, Legal Protection, Corporate Governance and Information Asymmetry in Emerging Financial Market. Department of Accountancy, City University of Hong Kong, 83 Tat Chee Avenue, Kowloon Tong, Hong Kong.
- Grossman SJ and Hart O (1988). "One Share-One Vote and the Market for Corporate Control," *J. Financial Eco.*, 20: 175-202.
- Harris M and Raviv A (1990). "Capital structure and the Informational Role of Debt," *J. Finance* (June), 3 2 1 - 3 5 0
- Harris M and Raviv A (1988). corporate governance: Voting rights and majority rules. *J. Financial Eco.*, 20: 203-235.
- Jacobson B and Aaker D (1993). Myopic management behavior with efficient, but imperfect, financial markets: A comparison of information asymmetries in the US and Japan. *J. Accounting and Eco.* 16: 383-405.
- Jensen M (1989). Eclipse of the modern corporation. *Harvard Business Review* 67: 61-74.
- Jensen Michael C (1983). "Organization Theory and Methodology", *The Accounting Review*, 8(2): 319-339.
- Jensen Michael C and Meckling William H (1976). "Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure," *J. Financial Eco.*, 3(4): 305-360.
- Klapper Leora F and Love Inessa (2004). "Corporate governance, investor protection, and performance in emerging markets," *J. Corporate Finance*, Elsevier, 10(5): 703-728.
- La Porta R., Lopez-de-Silanes F, Shleifer A, Vishny R (2000a). Investor Protection and Corporate Valuation, Mimeo (Harvard University).
- LaPorta Rafael, Florencio Lopez-de-Silanes, Andrei Shleifer and Robert W Vishny q2000a, Agency problems and dividend policies around the world, *J. Finance* 55: 1-33.
- LaPorta Rafael, Florencio Lopez-de-Silanes, Andrei Shleifer and Robert W Vishny (2000b). Investor protection and corporate governance, *J. Financial Eco.* 58: 3-28.
- La Porta, Rafael, Florencio Lopez-de-Silanes, Andrei Shleifer (1999a). corporate ownership around the world, *J. Finance* 54: 471-517.
- LaPorta, Rafael, Florencio Lopez-de-Silanes, Andrei Shleifer and Robert W Vishny (1999b). Investor protection and corporate valuation, *THE J. FINANCE*. 7 (3) JUNE 2002.
- LaPorta, Rafael, Florencio López-de-Silanes, Andrei Shleifer and Robert Vishny (1999). "The Quality of Government," *J. Law, Eco., and Organization*, 15: 222-279.
- La Porta, Rafael, Florencio Lopez-de-Silanes, Andrei Shleifer, and Robert Vishny (1997). Legal determinants of external finance, *J. Finance* 52, 1131-1150.
- La Porta, Rafael, Florencio Lopez-de-Silanes, Andrei Shleifer, and Robert W. Vishny (1998). Law and finance, *J. Pol. Eco.* 106: 1113-1155.
- Meyers SC and Majluf N (1984). « Corporate financing and investment decisions when firms have information that investors do not have », *J. Financial Eco.*, 13: 187-221.
- Modigliani F, Miller MH (1958). "The cost of capital, corporation finance and the theory of investment". *American Economic Review*, 48: 261-297.
- OECD (1999). OECD Principles of Corporate Governance (OECD, Paris).
- Rafael La Porta and Florencio Lopez-de-Silanes (1998). CAPITAL MARKETS AND LEGAL INSTITUTIONS Harvard University May 15,
- Rajan R and Zingales L (1995). What do we know about capital structure? *Some evidence from international data*, *J. Finance*, 50: 1421-1460.
- Rajan R. and Zingales L (1998). financial dependence and growth, *The American Economic Review* 88(3): 559-586
- Shleifer Andrei and Daniel Wolfenzon (2002). "Investor Protection and Equity Markets," *J. Financial Eco.*, 66: 3-27.
- Shleifer Andrei and Robert Vishny (1997). "A survey of corporate governance", *J. Finance* 52: 737-783.