The Effect of Ownership Structure on Corporate Performance of Listed Companies in Tehran Stock Exchange: An Empirical Evidence of Iran

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Abstract

This research has investigated the effect of ownership structure on performance of listed companies in Tehran Stock Exchange. The research hypotheses are based on the type of relationship between ownership structure and corporate performance. To test each hypothesis, four models defined based on dependent variables. The sample is consisted of 68 companies during the years 1384 (April 2006) to 1388 (March 20, 2010). Statistical method used in this research was panel data. Findings indicate that there is significant and negative relationship between "the amount of ownership of biggest shareholder" and firm performance. There is a positive and significant relation between "the amount of ownership of five greater shareholders" and firm performance. The relationship between "the amount of ownership of institutional shareholders" and "the amount of ownership of managerial shareholders" and "the amount of ownership of individual shareholders" is significant and negative.

Keywords: Ownership Structure, Firm Performance, Institutional Shareholder, Managerial Shareholder, Individual Shareholder

1. Introduction

According to business law and corporate law of many countries, shareholders are corporate owners. And ideally, directors as representative of shareholders must allocate business in some way resources to increase their wealth. But along with businesses branches and economic growth, shareholder's control will be reduced practically, because the owners of the corporate stocks are more scattered and just a small number of real shareholders will find it possible to participate in selecting board members and managing director. However, the motivationof most shareholders for investment in companies is profit, not control. (kadivar, 2006). A system which is called corporate governance that rules the organization,is formed from interaction of ownership structure with the controlling power of the firm. Making change in the components and elements of jurisdiction system in organization may lead to change the way oftheir strategic movement. The principles of corporate governance may include the issues such as the measure of management, the level of control in companies and the manner of interaction between the great and little shareholders.

The movement from individual ownership to collective ownership caused to raising new problems in the field of financial resources management, so that Berle and Means (1932) considered it as agency problem (Morey et al, 2008). This, may cause conflicts of interest and agency problem. That resulting from shareholder's attempt for controlling directors. These efforts include the efforts and agreements will be closed between the director or directors and shareholders. The agency theory considered the clarification of how agency problems may raise between the employer (shareholder) and agent (manager) due to information asymmetry. Meanwhile, the effective corporate governance structures helped to prevent from creation of interests conflict between the directors and shareholders by making information conformity and balance. On other words, these structures motivate the management to take the necessary measures for increasing the validity of the firm. Therefore, the more yield of the firm requires the improvement of corporate governance mechanisms, since it may cause to decrease agency costs, higher evaluation of shares, therefore the better performance during long term. Brown and Caylor (2004) reasonable investors will ask,Is it good corporate governance leads to improve the performance of capital markets? In other words, how corporate governance mechanisms will help to create balance between rights and responsibilities of effective actors of corporate and management.

A variable of corporate governance is shareholders structure, the relation between the shareholders structure (ownership structure) and the performance of the firm is an important and continued subject in the field of financial management of the companies and the texts of financial management.(ezazi et al,2011)For analyzing this relation, up to now different aspects of ownership structure are considered, for example being managerial or non-managerial shareholders, shareholder concentration or dispersion, being whole or retail, being internal shareholders, internal (domestic) or being foreign shareholders, being institutional or individual shareholders.

2. Research Background

In an overall look, the corporate governance is including legal, institutional and cultural arrangements that set the direction of movement and corporate performance. The elements that arepresent in this scene including, shareholders and their ownership structure, board of directors and their components, corporate management that leads by the managing director or chief executive and other stakeholderswhich may have impact on the corporate moving. (namazi&kermani,2008)The most basic element of corporate governance is to ensure about applying correct shareholders governance on corporate direction. However, the existence of Specific scenarios causes that applying shareholders governance, will be faced with obstacles especially for small shareholders. Thus one of the major issues in corporate governance isawareness of ownership structure and rating it at standard scales.

2.1 Summary of conducted research in this field is presented below:

Thomsen and Pederson (2000) in a researchtitled "Ownership Structure And Economic Performance In The Largest European Companies" found that there is a significant positive relationship between concentrated ownership and economic performance, Although, this relation was non-linear and concentration of ownership over a certain level has reverse and negative effects on performance. They also concluded that, unlike the concentrated ownership, when there is distributed ownership, the other shareholders cannot participate in the corporate policy, and this weakness is related to corporate governance mechanism can lead to reduction of optimal performance. It should be noted that the economic criteria related to this research was Tobin's Q[1]. (Thomsen and Pederson, 2000).

Demsetz and Villanonga (2001) in aresearch titled "Ownership Structure and Firm Performance," examinesthe relationship between ownership structure of shareholders and firm performance in a sample including 233 companies. Demsetz and Villanonga with the hypothesis that the ownership is considered as multidimensional and as an endogenous variable, found no meaningful statistical relation between the ownership structure and performance of the firm. As it is said by these researchers, the results of this research conform to this point of view that, while the unfocused ownership may lead to aggravate the agency problem but it has benefits which may solve too much problems.(Demsetz and Villanonga,2001)

Mueller and Spitz (2006),analyze the relationship between managerial ownership and performance of German SMEs[2] with motivational hypothesis testing, in their research. They use a sample of 356 firms in services sector that are associated with business in their research, for the years 1997 to 2000. The findings show that performance of companies with managerial ownership percentage, above 40 percent, is being improved.(Mueller and spitz,2006)

Brown and caylor (2004) in a research entitled "Corporate governance and corporate performance" analyzed the relationship between corporate governance and corporate performance.The criteria for performance in their research,was Tobin's Q. They placed 51 effecting factors in corporate governance in 8 categories including accounting, the board of directors, legislating, teaching directors, directors' remuneration, shareholders, developing operations, and tendency for partnership. The results indicate that a proper corporate governance has more influence on the yield of the firm in respect of the director's remuneration. Nevertheless, other aspects also have direct influence on the yield of the firm. The number of companies that is used in this researchwas 2327 firm. Their research showed that the weakest executive aspect of corporate governance was in the existence of a specific policy for replacement ofthe auditor, while, the most relevant aspect that more than ninety-eight percent of companies have it, was a reward Committee. (Brown and caylor, 2004)Cornett et al (2007) in a research titled " the impact of institutional ownership on corporate operating performance" analyzed the relationship between institutional shareholders as one of the mechanisms of corporate governance and operational yield of large companies. They found a significant and positive relationship between the ratio of operating cash flow to sales as a measure of performance and the number and percentage of institutional shareholders as corporate governance mechanism.(Cornett et al,2007)

[1].Tobin's q is estimated as (book value of total assets minus book value of equity plus market value of equity)/book value of total assets.

[2].Small and Medium Enterprise

2.2 Domestic research

Namazi and Kermani (2008) analyzed the "impact of ownership structure on corporate performance of listed companies in TSE". The main hypothesis of this research emphasizedthe existence of a significant relationship between ownership structure and performance. Research's sample included 66 companies during 1382 and 1386. Statistical method used to test hypotheses in this research was "panel data". In this research, the ownership structure is divided into two institutional and private ownership categories that the private ownership also is divided into three categories including corporate, management and external shareholders. The findings of the research indicate that there isa negative and meaningful relation between institutional ownership andfirm performanceand apositive and meaningful relation between the corporate ownership and firm performance. Managementownership has a negative meaningful influence on the performance and in the case of private ownership, no information indicating theownership of external investors was observed in sample statistical companies. In the private ownership it is also better that the main part of ownership is hold by corporateinvestors. In general, there is a meaningful relation between the ownership structure and performance of thecompanies.(Namazi&Kermani, 2008)

Ezazi et al (2011) in aresearch titled "The effect of ownership structure on share price volatility of listed firm in TSE" examine the relation between them. The results of this research indicate that the price of shares of the companies whose more percentage of shares are held by their greatest shareholders may have more volatility and the share price volatility of the companies that the more percentage of their shares is hold by individual shareholders is lower. It should be noted that the measure of ownership of five greater shareholders and institutional shareholders and members of the board of directors might not show any solution for investors interested in share price volatility.

Ahmadpour and Krdtbar (2008) in a research entitled " Investigating the relationship between non- duty members of board of directors andinstitutional investors with the behavior of corporate earnings management" analyzed the role of monitoring tools of corporate governance in behavior of corporate earnings management. Findings showed that non- duty managers and major institutional investorshave a weak role in reduction of abnormalcy of unusual contractual items.(daryai, 2009)

Karami (2008) in theresearch entitled "Relationship between institutional owners and informational content of profit" collected evidences in connection with the supervisory role of institutional investors from the perspective that whether institutional ownership has effect on the informational content of reported profit? In this research, the different attitudes (i.e. the active monitoring hypothesis and theself-interest hypothesis) was examined about institutional investors. To test the relationship between informational content of corporate profit and institutional ownership two models of multiple linear regression used. Based on the results of this research, the number of institutional ownership does not increase informational content of profit and may also degrade it, while the level of institutional ownership structure does not reduce the informational content of profit, butit is also possible to increase it. (Karami, 2008)

Sadeghi Sharif and Bahadori (2009) in a research titled "Investigating the effects of ownership structure on Dividend Pay-out Ratio of listed companies in TSE" investigate the effect of shareholders structure on corporate DPR in TSE. The results show that the amount of the ownership of the greatest shareholder and also the amount of ownership of five greatest shareholders has a positive influence on the Dividend Pay-out Ratio of the firm, i.e. the companies whose more ownership of them is held by a shareholder or by its five greater shareholders, have a more DPR, proportional to the companies whose ownership is more unfocused and focusing in ownership leads to increase the firm's DPR. The influence of being institutional of shareholders on firm's DPR was confirmed, i.e. if the institutional shareholders ownership in a firm be greater, the DPR increase during time. On the other hand, if the individual shareholders ownership in a firm be greater, the DPR decrease. (Sadeghi Sharif and Bahadori, 2009)

The results of researches were expressed in above show that there is a significant relationship between ownership structure and performance of companies.

3. Research Methodology

This research is intended to analyze this question: What is the role of ownership structure of accepted firms in TSE on the firm performance? So,this research in respect of purpose is an applied basis research, since in this research the relations of variables in the market of securities has been analyzed, and it is for clarification of relations and presentation of proposals towards promotion of the efficiency of the market.Meanwhile its approach is inductive, i.e. reaching the generalities from analyzing details.

3.1 Research hypotheses

in this research, same as our previous research– The effect of ownership structure on share price volatility of listed companies in TSE –(ezazi et al,2011), we dividedthe ownership structure variable, according to the dimensions of concentration, being institutional, being individual, being internal, into five indexes: the amount of ownership of the greatest shareholder (indicates focusing ownership structure), the amount of ownership of five greater shareholders (indicates focusing ownership structure), the amount of ownership of institutional shareholders (indicates being institutional of ownership structure), the amount of ownership of individual shareholders (indicates being real of ownership structure), the amount of ownership of the members of the board of directors (indicates being internal of ownership structure)

According to this, the hypothesis of this research is as follows:

First hypotheses: The amount of ownership of the greatest shareholder is related to the firm performance.
Second hypotheses: The amount of ownership of five greater shareholders is related to the firm performance.
Third hypotheses: The amount of ownership of the institutional shareholders is related to the firm performance.
Forth hypotheses: The amount of ownership of the individual shareholders is related to the firm performance.
Fifth hypotheses: The amount of ownership of the board of directors is related to the firm performance.

3.2 Territory of the research

The territory of the research is companies accepted in Tehran Stock Exchange Organization of Islamic Republic of Iran. The time domain of this research is from the beginning of 1384 (April 2005) until the end of 1388 (March 20, 2010). According to the following conditions, the sample was selected. In fact, the method of sampling in this research is screening type and following conditions was considered for screening the society and sampling:

• 1. The end of fiscal year of the companies is March20^{th}.the companies which have changed their fiscal year were omitted from sampling. This screening was done due to non-similarity of the fiscal year of all companies.
• 2. This firm has continued activities during research and its stock is being traded and the book value of equity in any year of the scope of review is not negative.
• 3. Removing investing and holding companies.The cause of ignoring investing and holding companies is that the value of these companies is related to the value of shares existed in their basket and the performance of these companies is more affected by the market conditions and status of the shares existed in their basket than by managers and shareholders.

Due to imposed limitations, 68 companies were selected that the information and data of these companies were collected via Tehran Stock Exchange Organization and its publications.

3.3 Data Analysis

According to the type of data and available statistical analysis methods,In this research, we used "panel data" method. Because in order to investigate the relationship between ownership structure and corporate performance, dependent and independent variables investigated from two different aspects. On one hand, these variables are testing among the different companies and on the other hand, in the period of2005 to 2009. In this research, in order to recognize the relation between independent and dependent variables, the regression is used and an equation is formed through it the influence of the independent variable on the dependent variable is evaluated. So that for each hypothesis an equation is formed and the influence of each separate independent variable on the dependent variable is determined.

$$\mathrm{Performance}_{it} = f\ (\mathrm{Biggest}_{it},\ \mathrm{5Big}_{it}, \mathrm{Institutional}_{it}, \mathrm{individual}_{it}, \mathrm{Managerial}_{it},\ \mathrm{LnSale}_{it},\ \mathrm{Debt.Int}_{it}, \mathrm{Cap.Int}_{it}\ ) + \alpha_i + \delta_i + \varepsilon_{it}$$

Above relationship can be rewritten as follows:

$$\mathrm{Performance}_{it} = \alpha + \beta\ (\mathrm{Ownership\ structure})_{it} + \gamma X_{it} + \alpha_i + \delta_i + \varepsilon_{it}$$

After forming the regression equations,we investigate auto-correlation, R-squared (R^2) and meaningfulness of model and its coefficient. For investigation the auto- correlation among the error terms, we use DW test. R-squared is a measure for determination the strength of relation between dependent and independent variables. In fact, the value ofR-squared coefficient indicates that what percentage of dependent's variability explained by the independent variable?We used test F for meaningfulness test and t-test is used for testing equations coefficients. After selecting the appropriate model, we should make sure about being stable of time series and being non-false of regression. The stability of research's variables means that, mean and variance of variables over time and covariance of variables between different years, have been fixed.

As a result, using of these variables in model, don't caused false regression. Based on tests of stability, since the amount of likelihood was less than 5%, the whole of controls and dependents variables in the research's period were stable during research period.

4. Findings

To evaluate each hypothesis, four separate models were defined and estimated based on for each dependent variable, i.e., Tobin's Q, ROE, ROA and return to book value ratio (MBVR) that used for performance evaluation. Then, according to the results of four models, each hypothesis was evaluated as a separate species and ultimately the overall result was expressed for each hypothesis.

Table (1)

Independent variable	Dependent variable	F		T		Kind Of Relation	R^2	DW
		Prob f	Result	Prob t	Result			
Biggest	ROA	0.000	Accepted	0.02	Accepted	Negative	0.67	1.923
Biggest	ROE	0.000	Accepted	0.04	Accepted	Negative	0.83	1.918
Biggest	Tobin's Q	0.000	Accepted	0.03	Accepted	Negative	0.76	1.912
Biggest	MBVR	0.000	Accepted	0,00	Accepted	Negative	0.87	1.819

Table (2)

Independent variable	Dependent variable	F		T		Kind Of Relation	R^2	DW
		Prob f	Result	Prob t	Result			
5Big	ROA	0.000	Accepted	0.00	Accepted	Positive	0.73	1.906
5Big	ROE	0.000	Accepted	0.00	Accepted	Positive	0.75	1.912
5Big	Tobin's Q	0.000	Accepted	0.01	Accepted	Positive	0.80	1.917
5Big	MBVR	0.000	Accepted	0,03	Accepted	Positive	0.81	1.918

Table (3)

Independent variable	Dependent variable	F		T		Kind Of Relation	R^2	DW
		Prob f	Result	Prob t	Result			
Institutional	ROA	0.000	Accepted	0.00	Accepted	Negative	0.70	1.911
Institutional	ROE	0.000	Accepted	0.03	Accepted	Negative	0.77	1.916
Institutional	Tobin's Q	0.000	Accepted	0.00	Accepted	Negative	0.81	1.919
Institutional	MBVR	0.000	Accepted	0,01	Accepted	Negative	0.82	1.918

Table (4)

Independent variable	Dependent variable	F		T		Kind Of Relation	R^2	DW
		Prob f	Result	Prob t	Result			
Individual	ROA	0.000	Accepted	0.000	Accepted	Negative	0.73	1.902
Individual	ROE	0.000	Accepted	0.000	Accepted	Negative	0.75	1.915
Individual	Tobin's Q	0.000	Accepted	0.013	Accepted	Negative	0.80	1.912
Individual	MBVR	0.000	Accepted	0,032	Accepted	Negative	0.81	1.895

Table (5)

Independent variable	Dependent variable	F		T		Kind Of Relation	R^2	DW
		Prob f	Result	Probt	Result			
Managerial	ROA	0.000	Accepted	0.000	Accepted	Negative	0.76	1.902
Managerial	ROE	0.000	Accepted	0.007	Accepted	Negative	0.75	1.907
Managerial	Tobin's Q	0.000	Accepted	0.010	Accepted	Negative	0.79	1.923
Managerial	MBVR	0.000	Accepted	0,022	Accepted	Negative	0.82	1.918

As you can see at table (1), according to being high R^2 and being significant and negative coefficient of independent variable - the amount of ownership of greatest shareholder- in all four models, can be said that, whatever the rate of shareholder ownership be increased, the firm's performance will be weakened, significantly. Morck et al (1988) asserted that the big shareholders have their advantages that sometimes are not consistence with other shareholders' advantages.(Thomsen and Pederson,2000). Perhaps, we can describe the cause of negative relation between the amount of ownership of greatest shareholder and firm's performance by this claim.

According to Table (2) and being high R^2 and being significant and positive coefficient of the independent variable - the amount of ownership of five greater shareholders - in all four models, we can say that, whatever the amount of ownership of five greater shareholders be increased, the firm's performance will be better, significantly. In this case, we can say that, when the major part of ownership of the firm is owned by several major shareholders, the ratio of incomes that investors receive in their investment are more than the state that ownership of firm is belong to a major shareholder. Indeed, whatever the number of major shareholders in the firm's ownership is more makes sharing control among the majors shareholders, conflict of interest between them, decreases and returns of shareholders also will increase. Whenthe shares of firm belongs to a few major shareholders, whereas the interests of companies are belongs to them, to this reason, the most of their efforts is for increasing profitability. This trend is probably due to supervision and control of major shareholders and their synergy in influence on firm's financial decision.

About third hypothesis, As you can see in Table (3), according to being high R^2 and being significant and negative coefficient of the independent variable - the amount of ownership of institutional shareholders - in all four models, can be said that, whatever the amount of ownership of institutional shareholders be increased, the firm's performance will be weakened, significantly. The reason of this is because that, the institutional ownership does not have sufficient incentives for effort to improvement of performance and profitability. Because in most cases, the aim of institutional investors is not gaining earns and high profit, but, supporting community against foreign aggression, establishing order and security in society and providing public services and infrastructural facilities. Even, it's possible that, the government helps some of these companies by subsidies. So, it seems that, for profitability and better performance in the companies, the thoughts and perspectives of their owners should be considered. About fourth hypothesis, as you see in table (4), according to being high R^2 and being significant and negative coefficient of the independent variable - the amount of ownership of individual shareholders - in all four models, we can say that, whatever the percentage of ownership of individual shareholders be increased, the firm's performance will be weakened, significantly.In our opinion, this is due tothe nature of individual shareholders in the research's sample. Because, most individual shareholders in the investigated sample are among the small shareholders that have a small control and supervision on firm's activities.

As you can see in Table (5), according to being high R^2 and being significant and negative coefficient of the independent variable - the amount of ownership of managerial shareholders - in all four models, we can say that, whatever the percentage of ownership of managerial shareholders be increased, the firm's performance will be weakened. Of course, this result has contradiction with the results of other researches such as Bhagat (1983), Mcconaughyet al (2001), Anderson and david (2003), and Mueller and Spitz (2006). The reason of this contradiction is, all firms in the sample that have managerial ownership are, family firms. It means that, the major ownership of these companies belongs to a family or a family group, which according to attunement of ownership group with each other,they preventproviding accurate and real results to people outside the organization and probably launch smoothing of information.

Research suggestion for stakeholders

One of the major issues in corporate governance is awareness of ownership structure and calibration it upon standardize scales, so the usage of that can make some necessary strategies in corporation governance. So implementing appropriate strategies in order to establishing efficient corporate governance system requires differentresearches in the field of impact of corporate governance principles on the most important variables affecting firm's performance. And for establishing efficient system, all research in this field should be seen as a set within systemic thinking. Our research, complete another piece of this puzzle. Based on findings of this research, we suggest investors that in while buying and selling decisions, consider ownership structureas an important variable. Investors can select for investment,the companies that most percentage of ownership of their shares belongs to five greater shareholders as more suitable options. And attend to the negative impact of the ownership of biggest shareholderand institutional shareholders and managerial shareholder on firm's performance and take appropriate decisions.

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