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Studying Relationship between Ownership Concentration and Corporate Performance in Companies Accepted In Tehran Stock Exchange

Omid Imani Khoshkhoo[1], Seyyed Ehsan Heydari[2], Abbas Rezaloie[3], Asghar Ghadamzan Jalali[4], Akram Poorghorban[5]

[1]Department of Accounting, Payame Noor University, I.R. Iran
[2]Auditor of Supreme Audit Cort, Esfahan, I.R. Iran
[3]Department of Accounting and Management, Roudbar branch, Islamic Azad University, Roudbar, I.R. Iran
[4]Department of Management, Payame Noor University, I.R. Iran
[5]Master of Accounting, Payame Noor University, I.R. Iran

ABSTRACT

Based on agency theory, conflict of interests among owners and managers causes agency costs. Laws of corporate governance intend to reduce these costs. One of the important instruments in this field is ownership concentration and controllability of the managers' performance. This study seeks to identify relationship between ownership concentration and corporate performance in companies accepted in Tehran stock exchange. For this purpose, 81 companies with shares traded actively in stock exchange between 2006 and 2010 were studied and panel data regression method was used to study significance of the relations. Ownership concentration was selected using ownership percent of major shareholders and ownership percent of the institutional shareholders and corporate performance was tested using two criteria of stock return andP/E ratio. Research results showed that there was significant relationship between ownership concentration and two performance criteria such as stock return and P/E ratio in confidence level of 95% that is the more the ownership concentration, the more control on the managers and the more efficient the company will be.
KEYWORDS: ownership concentration, major shareholders, institutional shareholders, P/E ratio, stock return.

INTRODUCTION

Based on theory of Jensen and Meckling (1976) basis of studies of corporate governance is agency theory and agency issues also result from separation of ownership from control. In public joint stock companies, shareholders delegate decision-making to their managers that is control is separated from ownership (Rahman Seresht, 2005). This separation causes to discuss relations between its owner and managers. To what extent do the managers make effort in favor of the owners as financial theory mentions? In public joint stock companies, ownership structure can be dispersed (the presence of many small shareholders) or concentrated (the presence of few major shareholders). When ownership is held by the major shareholders, the control system will be concentrated and when ownership is distributed, the control system will be non- concentrated. Since ownership concentration was found as an important determinant of corporate governance mechanism, it seems that identity of the controlling owners has essential role in ownership and performance (Gursoy & Aydogan, 2003). Goal of this research is to study if ownership concentration promotes corporate performance as one of the corporate governance tools. In fact, this research is important because it experimentally shows managers and investors, financial analysts and other beneficiary groups if difference of ownership structure is effective on corporate performance and consequently provides a suitable framework for evaluating investments and its conformity to expectations and priorities of investors.

REVIEW OF LITERATURE

Today, dispersion of owners in joint stock companies caused not to imagine their relation with the company as traditional ownership. Shareholders of these companies don't enjoy rights but they are entitled to some of the income and benefits of the company based on their share. This shows conflict between owners and managers and result of this conflict is nothing but damage of the shareholders' ownership right. In this regard, it is clear that shareholders of the public joint stock companies have been so dispersed that they lack power and enthusiasm for correcting and limiting the direction which managers of these companies select. As a result, the first evidence of effect of ownership and control on the corporate performance due to separation of ownership from control (Rahman Seresht, 2005). Therefore, it is recommended that corporate performance of which major shareholders hold more shares be better than the company of which major shareholders have fewer shares.

***Corresponding Author:** Omid Imani Khoshkhoo, Department of Accounting, Payame Noor University, I.R. Iran

Relationship between ownership and performance is an important and current issue which is discussed in corporate governance. This case was discussed in theory of Berle & Means (1933) which found reverse relationship between dispersion of shareholders and corporate performance. Other researchers such as Schleifer & Vishny (1986), McConnell & Servaes (1990), Zingales (1994), Barberries et al. (1996), Earle & Estrin (1996), Classens&Djankov (1999), Bjuggren et al.(2002),Jiang (2004),Cai& Zhang (2005), Zhu & Wang (1999) Cornett et al. (2007) and Gutierrez &Pumba(2008) found positive relationship between real corporate performance and ownership concentration and related this relationship to better supervisory effect of the shareholders. In fact, the less the share of shareholder, the less the benefits resulting from supervision on behavior of manager, therefore, share concentration will lead to more supervision on the manager's behavior and reduction of opportunism that is major shareholders of the company use their voting power to actively supervise on operations of the company and decision making(Namazi&Kermani, 2008). Because the managers' acquisition of ownership right and major shareholders' supervision are two ways which potentially can reduce agency problems and increase value of the institute. Main ownership right of the managers aligns their benefits with benefits of other shareholders so that management has an impetus for following value maximizing activities. The presence of major shareholders or shareholder's institutes also can increase supervision or improve it; therefore, it leads to better performance of the institute (Seifret&Gonence, 2004). At the same time, other researchers such as Demsetz&Villalonga (2001), Chen & Cheung(2005) andOmran, Bolbol and Fatheldin (2008) showed that corporate performance is a function of environmental limitations and they believe that there is no significant difference between different ownership structures and there is no significant relationship between ownership and performance. In fact, there is no statistically relationship between change of ownership and change of performance.

The following are some studies conducted in Iran regarding these subjects.

Ahmad V and (2006) studied effect of ownership structure on performance of the companies accepted in Tehran. In this research, effect of ownership structure was studied from two perspectives of the number of major shareholders and their ownership type on corporate performance (P/E coefficient and ROE ratio) during 2000-2004 while component of industry was included in the research model. Results of the research were obtained as follows: 1- with increase of major shareholders, return on equity of the company's shareholders increases, 2-the less the number of major shareholders, the less the coefficient of P/E in companies.

Mahavar Pour (2007) showed that there was significant relationship between ownership concentration and criterion of EPS that is the more the ownership concentration the more control on the managers leading to improvement of the corporate performance.

Namazi & Kermani (2008) studied effect of ownership structure on performance of the companies accepted in the stock exchange between 2004 and 2007 among 66 companies accepted in the stock exchange. Research findings show that there is significant and negative relationship between institutional ownership and corporate performance and positive and significant relationship between corporate ownership and corporate performance. The presence of managerial ownership is significantly and positively effective on performance.

Research hypothesis

In this research, main hypothesis of the research was specified for the purposes of the present research and consequently research sub-hypotheses were determined as follows:

Research main hypothesis: there is significant relationship between ownership concentration and performance of the companies accepted in Tehran stock exchange.

Sub hypothesis 1: there is significant relationship between ownership percent of major shareholders and stock return of the companies.

Sub hypothesis 2: there is significant relationship between ownership percent of institutional shareholders and stock return of the companies.

Subhypothesis3: there is significant relationship between ownership percent of major shareholders and P/E ratioof the companies.

Sub hypothesis 4: there is significant relationship between ownership percent of institutional shareholders and P/E ratioof the companies.

RESEARCH METHOD

This research is of experimental type and based on real information about financial statements of the companies. In this research, Panel Data Analysis method with cross-section –time series information has been used to test hypotheses and estimate the coefficients.

Time period of this research covers years of 2006 to 2010 and statistical population of this research includes all companies accepted in Tehran Stock Exchange with the following conditions:

1- They have been accepted in Tehran Stock Exchange until end of 2006 and their financial year ends to 20 March.
2- They are not among the companies with investment structures and holding companies.
3- No loss has been reported in their annual financial statements during term of research.

4- During the research term, their shares have been actively traded in stock exchange and have no operating pause and their required information is accessible for calculating variables.

Considering the above-mentioned conditions, 81companies were selected as statistical population. Then, information of the variables required for testing hypotheses was prepared as 5 Excel files for five-year period. Information ofP/E ratioand stock return was extracted from Rah AvardNovin Software for five-year period and was studied. Information of ownership composition of the companies in 2006 to 2010 was extracted from this software. In order to analyze results, the above information was entered in SPSS and EViews software.

Research variables

In the present research, shares held by the institutional shareholders and major shareholders were regarded as independent variables and stock return and P/E ratiowere regarded as dependent variables.

Dependent Variables

P/E ratio: obtained by dividing price by earnings of each share. This ratio is one of the common tools for analyzing condition of the companies, industries and market and also predicting share price or high or low value of share price.

Stock return:means rate of return on investment in purchase of shares and that part of the profit which is distributed among the shareholders.

$$R_i = (1 + \alpha)P_{t-1} - P_1 + DPS_t - \frac{C}{P_t}$$

Independent variables

Major investor: in this research, three top shareholders of the company who hold the highest published shares of the company are called major shareholders and total share percent held by these shareholders has been regarded as one of the independent variables.

Institutional investor: according to paragraph 27 of article 1 of Security Market law, institutional investors include the banks, insurance companies, holding companies, investment companies, retirement and investment funds , public and governmental organizations and institutions , governmental companies , any natural person or legal entity with more than 5% of the corporate shares, members of the board of directors and publishing managers . These companies hold major shares of other companies. In order to determine shares held by the institutional shareholders, first the shares held by the institutional shareholders are determined in each company in order to determine shares held by the institutional shareholders and Herfindahl-Hirschman index is used to test concentration of institutional investment. This index is an economic index which is used for testing market monopoly. In this regard, market share percent of each supplier is squared and then it is summed. The result which is between 0 and 1will indicate concentration if closer to 1 and indicate non-concentration if closer to 0. In this research, we used this relation to test concentration of institutional investors. (HasasYeganeh et al. 2008) $\sum_{i=1}^{n} y2$

RESEARCH FINDINGS

Descriptive statistics relating to parameters of research population is given in table 1.

Table 1: Descriptive Statistics

variable	Mean	Std. Deviation	Skewness	Kurtosis
ownership percent of major shareholders	64.668	16.1374	-.226	-.038
ownership percent of the institutional shareholders	2396.	15339.	1.370	2.624
stock return	28.4626	72.80302	2.898	12.746
P/E ratio	8.3930	5.57420	2.036	5.031

Before testing the hypotheses, normality of the data was studied using Kolmogrov-Smirnov test. The best relationship (if available) between independent variable and dependent variable has been estimated using Pooled Least Squares (PLS) technique by analyzing Panel Data Analysis . The reason for use of this method is nature of the data because generally data have been collected as cross-section –time series.

Test results of the first hypothesis can be found in table 2.

Table 2: results of the first hypothesis

Variable	Coefficient	t-Statistic	Prob(t-statistic)
Constant value	4.619	2.848	0.000
ownership percent of major shareholders	0.002	1.074	0.004
R^2	0.124	**Durbin-Watson Statistic**	1.762
F-statistic	7.330	**Prob(F-statistic)**	0.005

Significance level (probability value) of F is equal to 0.005 and because these values are below α=0.05, therefore, null hypothesis is not rejected in confidence level of 95%. It means that there is significant relationship between ownership percent of major shareholders and stock return.

Durbin-Watson test is one of the diagnostic tests for establishing presuppositions and values of this test which are close to 2 indicate lack of autocorrelation. Its value in this test is equal to 1.762 which shows lack of autocorrelation. Considering that significance level of the static t for constant (C) and percent of major shareholders is 0.000 and 0.004 respectively which is larger than α=0.05, therefore, their coefficients are significant for the model.

Test results of the second hypothesis can be found in table 3.

Table 3: results of the second hypothesis

Variable	Coefficient	t-Statistic	Prob(t-statistic)
Constant value	4.628	6.053	0.000
ownership percent of the institutional shareholders	0.542	2.799	0.005
R^2	0.135	**Durbin-Watson Statistic**	1.760
F-statistic	7.911	**Prob(F-statistic)**	0.005

Significance level (probability value) of F is equal to 0.005 and because these values are below α=0.05, therefore, null hypothesis is not rejected in confidence level of 95%. It means that there is significant relationship between ownership percent of institutional shareholders and stock return.

Durbin-Watson statistic valuein this test is equal to 1.760 and its closeness to 2 indicates lack of autocorrelation. Considering that significance level of the static t for constants (C) and percent of institutional shareholders is 0.000 and 0.005 respectively which is larger than α=0.05 , therefore, their coefficients are significant for the model.

Test results of the third hypothesis can be found in table 4.

Table 4: results of the third hypothesis

Variable	Coefficient	t-Statistic	Prob(t-statistic)
Constant value	2.084	11.600	0.000
ownership percent of major shareholders	0.142	7.429	0.000
R^2	0.362	**Durbin-Watson Statistic**	2.113
F-statistic	46.8263	**Prob(F-statistic)**	0.0000

Significance level (probability value) of F is equal to 0.000and because these values are below α=0.05, therefore, null hypothesis is not rejected in confidence level of 95%. It means that there is significant relationship between ownership percent of major shareholders and P/E ratio.

Durbin-Watson statistic value in this test is equal to 2.113 and its closeness to 2 indicates lack of autocorrelation. Considering that significance level of the static t for constants (C) and percent ofinstitutional shareholders is0.000 whichis larger than α=0.05, therefore, their coefficients are significant for the model.

Test results of the fourth hypothesis can be found in table 5.

Table 5: results of the fourth hypothesis

Variable	Coefficient	t-Statistic	Prob(t-statistic)
Constant value	2.084	18.695	0.000
ownership percent of the institutional shareholders	0.207	7.559	0.000
R^2	0.574	**Durbin-Watson Statistic**	2.087
F-statistic	0.9261	**Prob(F-statistic)**	0.008

Significance level (probability value) of F is equal to 0.008 and because these values are below α=0.05, therefore, null hypothesis is not rejected in confidence level of 95%. It means that there is significant relationship between ownership percent of institutional shareholders and P/E ratio.

Durbin-Watson statistic value in this test is equal to 2.087 and its closeness to 2 indicates lack of autocorrelation. Considering that significance level of the static t for constants (C) and percent of institutional shareholders is 0.000 which is larger than $\alpha=0.05$, therefore, their coefficients are significant for the model.

Conclusion

Issue of shares ownership in companies and its effect on corporate performance is one of the subjects which can be studied in the field of corporate governance and has been considered for researchers in recent decades. Considering separation of ownership from management, ownership structure is regarded as one of the motivating tools for reducing expenses of the company and increasing value and corporate performance. In the present research, relationship between ownership concentration and performance of the companies accepted in Tehran stock exchange has been studied. Main goal is to recognize the factors which are effective on performance of the companies to present suitable strategies for improving performance. Based on findings of this research, there is positive and significant relationship between ownershipconcentrations of the company based on ownership percent of major and institutional shareholders and stock return and P/E ratioas the most important criteria for evaluating corporate performance. Therefore, it can be concluded that ownership concentration is effective on corporate performance and improves it. Dispersion of shares causes the shareholders to have less control on managers. Therefore, since ownership concentration decreases agency costs, it is more possible for the shareholders to supervise actively on performance of managers. In Iranian share market which has very concentrated ownership structure and there are no serious laws for supporting rights of shareholders. Ownership other than concentrated ownership has negative effect on efficiency.

Recommendations for Future Research

Here, there are some recommendations for the future researches:

1- Studying effect of ownership concentration on corporate performance considering type of industry
2- Studying effect of managerial shares ownership and family shares ownership on corporate performance
3- Studying other aspects of ownership concentration such as studying effect of ownership concentration on factors such as profit management , profit quality and risk using external and internal criteria of performance

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