International Journal of Enhanced Research in Management & Computer Applications
ISSN: 2319-7471, Vol. 5 Issue 5, May-2016, Impact Factor: 1.544

Ownership Pattern and Corporate Governance in Relation to Performance of Selected Firms

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INTRODUCTION

Review of Literature, an important part of any research study aka foundation of the study, helps to understand the topic from different demotions, and perspective of the researchers on a particular area of study. Here in the study, research papers with regard to ownership pattern and corporate governance in relation to performance of various selected firms has been reviewed and concluded, which are explained as under:

- Elisabete F. Simoes Vieira (2014) conducted a study with an aim to investigate whether the ownership of public firms is related to firm performance by considering both measures accounting as well as market based measures of performance. He made comparison between 58 Portuguese (a small European economy) non-financial family and non-family firms listed on Euro next Lisbon during the period of 1999 to 2010 . He classify the sample in to two research sub samples, the Family Firms and Non- Family Firms. Family Firm sub sample comprises of 35 firms corresponding to 377 observations and the Non-Family Firm sub sample comprises 23 firms corresponding to 206 observations. Findings of the study suggest that as regards to the market based measure of performance Family Firms out performs Non-Family Firms but this was not the case with accounting based performance measures which indicates that family presence is positively related to the market performance. Finding of his study indicates that Family Firms were more indebted , as compared to their Non- Family Firm counterparts .The result of his study shows that Family Firms were mostly dependent on lenders for their financing requirements than Non-Family Firms.

- Sujit Sur, Elena Lvina and Michel Magnan (2013) conducted a study to answer the research question whether the ownership structure of the firm relate with the composition of its board of directors with a final sample of 1,487 U.S firms . Board composition was taken as dependent variable. Three categories of directors were used for the purpose of the study namely insider directors, Affiliated directors and independent directors. Ownership structure of the firms was represented by individual owned, corporate owned and institutional owned companies. They also included some CEO specific variables such as duality of leadership, CEO tenure and the squared value of CEO tenure to analyze the CEO's impact on board composition. Return on shareholders fund, ROA and profit margin were taken as performance related variables. Finding regarding the impact of CEO specific variables on board composition indicates that dual leadership structure relates with higher number of independent directors. CEO tenure has no significant relationship either with number of insiders or affiliated directors but it has a significant negative relationship with the number of independent directors. Findings of the study clearly indicating the impact of ownership structure not only influence board composition but also the selection of CEO and performance of firm.

- Ana Paula Matias Gama and Cecilia Rodrigues (2013): conducted a study with an objective to provide an integrated analysis of governance performance relations using a multi-industry data set of 208 non-financial firms listed on the Milan Stock Exchange. Four main group of variables constitutes the study: *family and ownership, board characteristics, measurement of firm performance and* control variables . Performance of firms was measured by *Tobin's Q* and *ROA*, Tobin's Q is a market based measure of performance whereas ROA is an accounting based measure of performance. In addition to these variables six control variables were also introduced these are *Firm Size , Debt , Growth on Net Sales , Investment Intensity ,Firm Age and Firm Risk* . Regression analysis was used to analyze the relationship between corporate governance factors and firm performance and to address for the endogeneity problem Generalized Findings of their study shows that family ownership has positive association with firm performance by considering both measure of performance .Findings of the study also indicates that active family involvement improves the firms profitability. Results of the study suggest that there exists a non-monotonic relationship between ownership and firm performance which means at higher control levels, the potential for family opportunism increases and valuation starts to decline .Multiple block holders positively affect the firm performance but the results also confirms the alignment of incentive between a coalition of large shareholders and the firm value .

- En -Te Chen , Stephen Gray and John Nowland (2013) conducted a study to analyze whether the family representative are used in the same manner as family member and whether family representative are associated with net benefit or cost to shareholder with a sample of 536 family firms listed on the Taiwan stock exchange . Variables of the study includes All family involvement which includes both number of family members and family representatives .Family Directors, Family chairperson and family CEO are used as dummy variables, these variables are further split into no. of categories family member chair person, family representative chairperson, family member CEO ,family representative CEO. Other variables includes in the study were Ownership which indicates the cash flow rights of controlling owner , control wedge was the ratio of control to cash flow rights ,firm size was measured in term of total assets ,Age , Debt , R&D , Market –to – Book , fixed Assets , Growth, Return on Assets Prior two year average return on assets ,Board Size ,Board independence ,Chairperson CEO duality , Second largest shareholder , First generation family firm , second generation family firm ,Acquired Family firms are the other variables included in the study. Findings of their study indicate that focusing only on family member involvement understate the actual influence of controlling families by 46%. They also found that controlling families use family members and family representatives differently .Findings of their study clearly indicates that family members are more involved in old and founded firms whereas family representatives are more involved in second generation and acquired firms of controlling families.

- Naveen Kumar and J.P. Singh (2013) conducted a study to investigate the effect of two corporate governance mechanisms namely *board size and promoter ownership* on firm with a sample of 176 non-banking listed companies on BSE for the financial year 2008-09 .For assessing the performance of companies Tobin's Q was taken as performance measure whereas *Board Size* and *Promoter Ownership* were taken as independent variables. In order to control for the problem of endogenity certain control variables such as *Firm Age, Firm Size, Leverage* and *Sales Growth* are also included in the study . Linear Regression was employed as a statistical tool in the study. Findings of their study suggest the negative association between board size and firm value. They have also found significant difference between board size of small and large companies and the relationship between board size and firm value is less negative for large companies than smaller companies.

- Fivos V. Bekiris (2013) conducted a study with an objective to examine the interrelationships between ownership structure and board characteristics by using a cross sectional time –series sample of 1409 Greek listed companies. They also investigate the possible relationship between the corporate governance mechanism and firm value. Five endogenous corporate governance variables were used in the study; these are *managerial ownership, external block holder ownership, board composition, and leadership structure and board size. Tobin's Q* was used as a measure of corporate value. Findings of their study suggest that highly concentrated ownership structure exists in Greek economy having small board size with low presence of independent directors .They have found that all five corporate governance mechanisms included in the study were interrelated, there exists a important interrelationship among ownership structure and boards characteristics in Greek listed firms. Findings of there also suggest that CEO duality has a strong relationship with board independence, when the CEO is also the chairman of the board, there exists fewer outside directors on the board and decreased block holder ownership. There results strongly suggest that size of Board is negatively correlated with managerial ownership and Board independence. Their findings also indicating that firms having higher external block holding tends to employ more independent directors.

- Abdelmohsen M. Desoky , Gehan A. Mousa (2013) : examined the association between ownership structure and firm performance in Egyptian context by studying the two aspects of ownership structure : ownership concentration and ownership identity .Ownership concentration was measured by the fraction of shares owned by the three largest shareholding interest , in order to measure the owner identity seven groups of owners : government , private companies , banks , individual investors with 5% and more ownership stake & 5% and less ownership stake ,employee ownership and funds ownership has been identified . ROA and ROE as a measure of performance were the dependent variable for the purpose of the study .Ten independent variable categorized in to two groups , first group consists of three variables : Fraction of share owned by first largest shareholder , second largest shareholders and third largest shareholder , these three variables measures the concentration of ownership . Seven ownership variables related to the owners identity , namely government ownership , private corporation ownership , bank ownership , individual ownership 5% or more , individual ownership less than 5% ,funds ownership and employee ownership . Finding concerning the owners identity government ownership , private company ownership , individual ownership 5% or more , employee ownership , bank ownership did not have statistically significant relationship with firm performance . Individual ownership less than 5% and funds ownership were positively & statistically associated with firm performance in two OLS models .Overall finding of the study indicate that owners identity has no significant impact on firm performance when measured by ROE . But it has significant impact on firm performance when measured by ROA .

- Alimehmeti and Paletta (2012): investigated the implications of ownership concentration over firm value by conducting an empirical analysis over 203 listed Italian firm during the period of 2006 to 2009 by collecting the secondary data from Amadeus database . OLS regression has been performed to test the hypotheses. Firm performance was the dependent variable , measured by accounting based performance measure *ROA* .*Ownership concentration* and *square of ownership* concentration were the independent variable of the study .Along with these variables they control for the effect of *Firm Size* and *Debt ratio* .Findings of their study shows a positive relationship between ownership concentration and firm value except in 2008 ,when the results show a non – linear relationship suggesting that the financial crisis has enhanced the expropriation effects .

- Alfaraih, Alanezi and Almujamed (2012): explore the effect of institutional and government ownership on the performance of 134 non-financial listed companies on Kuwait stock exchange in 2010. *Institutional and government ownership* are the ownership variable , *ROA* and *Tobin's Q* were taken as performance .*Board Size* , *role duality , audit quality , dividend payouts , firm size , firm leverage* and *industry categories* were taken as control variable. Two multivariate regression method was used to test the hypothesis. Institutional investor have positive and government ownership has a negative relationship with firm performance. Findings regarding control variable suggest that dividend payouts positive and board size, role duality , audit quality has insignificant relationship with firm performance.

- Hyang Mi Choi, Wonsik Sul and Sang Kee Min (2012) analyzed the impact of block ownership by foreign investors and their representatives on corporate boards associated with the performance of companies by taking the sample of firms listed on Korean Stock Exchange's Index KOSPI 200 during the period from 2004 to 2007. The interaction effect between *board independence* and *foreign board membership* was also investigated by the study .Panel regression analyses, correlation, descriptive statistics we reapplied to analyze the data. Findings of their study indicates that foreign block ownership and foreign board membership was positively related to firm value. It indicates the importance of foreign block holders as independent outside monitors of controlling shareholders in Corporate Governance which contributes in value enhancement of firm value but not necessarily in the same proportion but the relationship takes an inverted U Shape . Findings of their study also indicates that foreign outside directors enhance the firm value when there is limited foreign ownership but these enhanced benefits were mitigated when foreign outside directors represents the private interest of foreign investors.

- Sabur mullah , Omar Al Farooque and Wares karim (2012) : investigated the effect of ownership structure and corporate governance on firm performance to determine the role of Corporate Governance in the performance behavior of all listed companies in Botswana stock market (an emerging market in Africa) for the period of 2000-2007 . Performance of firm was measured by accounting based measure *ROA* and *ROE* , market based measure :*market Capitalization* and hybrid type measure *Tobin's Q.* Findings of the study further reveals that all major ownership concentration groups namely Sponsor , institutional , government and foreign are destructive to the firm's financial performance indicating the high agency problems in Botswana stock market . But the public shareholding has significant positive impact on firm performance indicating the importance on minority shareholding in improving firm performance. Impact of board characteristics on firm performance shows very interesting results board size is positively but insignificantly related with firm performance in addition when the audit committee chaired by sponsor it improves the firm performance but the performance decrease when the executive committee chaired by sponsor.

- Pervan, pervan and Todoric(2012):conducted a study to analyze the relationship between ownership concentration and firm's performance in an emerging economy Carotia by taking all the listed companies of Zagreb stock exchange during the period 2003-2010. *ROA* is taken as performance variable .In order to analyze the influence of different type of ownership firms are further categorized as majority *private owned and majority state owned , majority domestic owned and majority foreign owned. Firms Size, Age, Activity, liquidity* were taken as controlled variable. Generalized method of movement estimation, pair wise correlation, descriptive statics methods were employed to test the hypotheses. Finding of their suggest that CR4 negatively related to firm performance indicating dispersed firms performance better than concentrated firms.

- Foroughi and Fooladi (2011) :conduct a study with an objective "If there is any relationship between corporate ownership structure and firm performance in listed firms in Iran" with 45 companies listed on Tehran stock exchange based on stratified random sampling during period of 2002-2004.*Percentage share held by major shareholder* is taken as ownership variable and *stock return* is taken as performance variable . *Firm's size, financial leverage, systematic risk and industry* were taken as control variable. Panel least squared with cross sectional weights was used to test the hypothesis. Finding of their study suggest that there exist a negative significant relationship between ownership concentration and firms performance. Size of the firm has positive significant and financial leverage has a negatively significant relationship with firm performance but ownership and firm performance varies with industry in Iran.

- Emma Garcia – Meca and Juan Pedro Sanchez –Ballesta (2011): conducted a study with the objective to analyze the effect of various dimensions of Spanish ownership structure on firm value. They analyzed the effect of Various dimensions of ownership structure which represent conflicting interest such as *fraction of share owned by the significant shareholder, fraction of share owned by management and bank ownership on firm value* with a sample of Spanish non-financial listed companies listed on Madrid stock exchange during the period of 1999 -2002. Panel and Piecewise regression were used as statistical tool. In order to check for the robustness of results two stages least square random effect method was also employed. *Tobin's Q* was used as a proxy of firm value , three ownership related variables namely *ownership concentration* , *insider ownership* and *bank ownership* were taken as independent variables Some control variables that may have effect on firm value such as *Firm Size* , *Debt Ratio* , *Intangibles* ,*The Year* were also included in the study .They have found that there exists a high degree of ownership concentration in Spain in comparison to other countries .Findings of their study indicates that ownership concentration influence the firm value favorably but neither found any significant relationship between firm value and insider ownership nor firm value and bank ownership which indicate that Spanish firms mitigate their agency problem by ownership concentration which means all three governance mechanisms were substitutes in their roles .

- Rebeca Garcia-Ramos and Myriam Garcia-Olalla (2011) conducted a study with the objective to determine whether there exists any significant differences in relationship between Board of directors and firm performance that depend on the generational stage of the family business and more specifically in the context of founder involvement in the business .They also examined the consistency of observed relationship with general good governance recommendations for the listed companies. There final sample comprises 77 family businesses which were further divided in to two sub-groups Founder lead family business and non-founder lead family business. Findings of their study suggest that agency problems are different for founder lead family business and non-founder lead family businesses so the corporate solutions should be different .There findings contradicts the wide spread belief that smaller and more independent board as well as non-dual structure always lead better performance . They have found a positive effect of board size on firm performance in non-founder lead family business however this effect was negative in case of founder lead family businesses . Their findings suggest the positive effect of board independence on firm performance in case of founder lead family businesses however this effect was negative when the firm was led by descendants.

- Alireza Fazlzadeh , Ali Tahbaz Hendi and Kazem Mahboubi (2011) : explored the role of ownership structure as an important mechanism of Corporate Governance on firm performance with a sample of 137 firms listed on Tehran stock exchange with in the period , 2001 to 2006 .*Ownership concentration , institutional ownership and institutional ownership concentration* were taken as ownership structure variables .Two variables *Net income to total asset ratio and ordinary income to total asset ratio* were taken as a proxy of firm performance. They had concluded from the study that concentrated ownership doesn't have any significant impact on firm performance but concentration by institutional investors has significant negative impact on firm's performance .Findings in the context of institutional ownership shows that due to their ability and resources to properly monitor the management decisions, has significant positive effect on firm performance. so on the basis of these two contrary findings in context of institutional ownership it can be concluded that institutional ownership improves the firm performance but concentrated institutional ownership negatively affect the firm performance.

- Nicholas Boone (2011) : investigated the influence of block holders ownership on firm value based on the identity of investors with a sample of 612 firm year observations representing all listed companies of New Zealand market using data for six year period from 2002 to 2007 .There study define the block holders ownership as the percentage of shares held by largest shareholders of the firm. Findings of their study reveal that concentrated ownership has positive but decreasing association with firm performance .Findings in the context of identity of block holders reveals that financial institutions and foreigners as a largest block holders improves the performance of firm as compared to the firms where largest block holders are individual ,directors and corporates .

- Nazli Anum Mohd Ghazali (2010) :assessed the influence of ownership structure and corporate governance on the performance of Malaysian companies by using the data of 87 non – financial listed companies in the composite index were included in the analysis. Three variables namely director ownership, foreign ownership and government ownership represents the ownership structure of firms. Findings of his indicates that none of the corporate governance variable were statistically significant in explaining corporate performance .Findings of his study also indicates that foreign ownership and government as a substantial shareholder were statistically significant and positively associated with the performance of companies .

- Noor Afza Amran and Ayoib Che Ahmad (2009) Conducted a study to investigate the relationship between family controlled businesses and firm value among Malaysian listed companies over the period of 2000 to 2003 and they also tried to examined the attributes governance mechanisms in family controlled businesses. Population size for the study was 906 businesses listed on Bursa Malaysia as on 31st march 2004 out of these 896 businesses was selected as sample for the purpose of the study. Certain control variables also included and they are kept constant in order to minimize their effects on the outcomes these are *firm size , firm age , sales growth , leverage , asset tangibility and CEO Tenure.* Findings of their study suggest that expected board size and leadership structure affect the firm value for all companies ,further small board size and separate leadership structure was better than large board size and duality leadership structure respectively .Findings of the study reveals that family controlled businesses and non-family controlled businesses were different in terms of their corporate governance practices so the regulators have to pay special additional attention to the unique setting of family businesses .

CONCLUSION

Family controlled businesses and non-family businesses:

Existing literature provide strong evidences that governance and agency problems are different in family controlled businesses and non-family businesses (Rebeca Garcia-Ramos and Myriam Garcia-Olalla ,2011) found positive effect of board size on firm performance in non-founder lead family business however this effect was negative in case of founder lead family businesses .Whereas (Noor Afza Amran and Ayoib Che Ahmad, 2009) found family controlled businesses and non-family controlled businesses were different in terms of their corporate governance practices. (Ana Paula Matias Gama and Cecilia Rodrigues ,2013)also found the similar results that active family involvement improves the firms profitability but there exists a non-monotonic relationship between ownership and firm performance which means at high control levels the potential for family opportunism increases and valuation starts to decline. After reviewing the existing literature on the ownership structure of family firms and non-family firms, corporate governance and firm performance it can be concluded that active family involvement improve the performance of companies but at very higher levels due to expropriation of minority shareholders wealth and family opportunism, performance of company's declines. We also found the evidences that family and non-family firms are different in terms of their Corporate Governance practices.

Concentration of ownership:

Different studies in different countries leads conflicting results some studies found positive association between ownership concentration and firm performance due to ability of concentrated shareholders to effectively monitor the actions of board of directors, but some studies found negative association between ownership concentration and firm performance but to expropriation effect of minority shareholders. Whereas some studies found bell shaped relationship of ownership concentration on performance of companies. Some studies also report no association between ownership concentration and firm performance. Here we are providing the theoretical underpinnings of ownership structure. Emma Garcia – Meca and Juan Pedro Sanchez – Ballesta ,2011) ,found ownership concentration influence the firm value favorably but beyond a particular level firm value negatively affected by ownership concentration due to expropriation effects of minority shareholders which point out that controlling shareholders can misuse their dominant positions at the cost of minority shareholders, (Francesco Perrini , Ginevra Rossi and Barbara Rovetta , 2008) also reports the similar results that ownership concentration positively associated with the firm performance indicting large block holders were better monitors than dispersed shareholders. But increasing managerial shareholding negatively affect the firm valuations confirming the management entrenchment behavior in which low level of managerial ownership was beneficial but when the managerial shareholding reach the certain point it become detrimental to firm performance confirming the managers entrenched behavior after certain level.

Managerial ownership:

Jelinek and Stuerke,2009, Finding of their study suggest that as the ownership level increase the ability of managerial ownership to reduce agency cost decrease. Their finding also indicate that in some industries managerial equity ownership proves less successful after certain level even proves worse on another higher levels. Findings of their study exhibit a nonlinear relation between managerial ownership and firm performance , (Shuching Chou, Chinshun Wu and Anlin Chen, 2007) also confirm their findings and found similar results that at higher level of managerial ownership there exists a negative mutual effect between ownership and firm performance but at lower level of managerial shareholding inside management behave like a general investor and they tend to increase shareholding when the firm is performing well , in middle groups of shareholding between 13 to 50 % managerial ownership positively affect the firm performance but at higher levels of concentrated managerial ownership there exists a negative mutual effect between ownership and firm.

Impact of ownership structure and corporate governance on the performance of companies:

Findings of number of studies found significant impact of ownership structure on board composition and firm performance (Sujit Sur, Elena Lvina and Michel Magnan, 2013)Existing literature provide strong evidences that identity of different block holders differently impact the composition of board of directors and firm value. Nadeem Ahmed Sheikh , Zongjun Wang and Shoaib Khan, 2013) in their study on Pakistani Firms found that ownership structure statistically significant and positively related to the performance of firms whereas Board size was positively related to the performance of firms, Outside Directors and managerial shareholding has negatively and statistically significant relationship with firm performance. CEO Duality is positively related to firm performance (Benjamin I. Ehikioya ,2009) also confirms their findings and conclude that ownership concentration and Board size exhibited positive relationship with firm performance but the director shareholding didn't indicate any significant relationship with firm performance. (Jaana Lappalainen and Mervi Niskanen, 2012) . Findings of their study indicate the significant impact of ownership structure and board structure on the performance of small and medium sized enterprises however the impact of ownership structure is more as it effects both the growth and profitability of SMEs.

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