

Does Ownership Structure Influence Performance?

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ABSTRACT

Through this study, an attempt was made to find how ownership structure impacts performance of companies. It was expected to have positive impact of ownership structure on the performance of company, since promoters of many companies engage in consolidating their stake in companies. To probe this phenomenon, NIFTY 50 was chosen for the study period of six years i.e. from FY 2011-12 to 2016-17. Firm performance, the dependent variable, was measured through price-book ratio (P/B ratio). The independent variables include shareholding of promoters, foreign institutional investors (FIIs), domestic institutional investors (DIIs) and non-institutions. The size, measure through log of total assets (Log TA) and leverage, were taken into study as controlling variables. The OLS regression analysis exhibited statistically significant and positive impact of promoters', foreign institutional investors', non-institutional investors on performance of companies, whereas domestic institutional investors observed to have significantly negative impact on performance.

Keywords: Ownership structure, firm performance, agency theory.

INTRODUCTION:

The separation of management from ownership is a deep-rooted concept in the corporate world. This area has been continuing to draw the attention of academic and research fraternity across the globe. Many a company are not being managed by owners, but by the representatives of shareholders. This separation had often led to conflicts of interest between inside stakeholders and outside stakeholders and therefore lessens the incentives to maximise corporate efficiency, Berle and Means (1932). The subject of relationship between ownership structure and performance of firms has been continuing to draw attention and admiration from academic fraternity over the years. This was named as Agency Theory by Jensen and Meckling (1976), according to which, managers actions veer towards their financial interests and could very well vary and incommensurate with shareholders' wealth maximisation. Classens, Lang, Djankov, and Fang (2000), labelled exercising control power to maximise self-benefits as "expropriation of wealth". The above literature indicates that ownership structure could well be a vital factor in defining the performance of companies.

Ownership structure of companies can broadly be categorised in two categories, concentrated and dispersed. When the ownership of a company is held in a few hands, it is said to be concentrated type of ownership structure and otherwise it can be termed as dispersed type of ownership structure. The ownership structure in India is of concentrated type and is chiefly concentrated in the hands of promoters, unlike in USA or UK where the ownership is more of a dispersed type.

The Indian corporation has grown manifold and has come a long way over the years starting from the artificial creation of corporate identity, to the development of corporate board with defined responsibilities and accountability. Many Indian companies whose establishments date back to the British era in the country, have now grown in to giant corporations. The Indian corporate has witnessed dramatic changes in the corporate ownership over the years. The present study probes the relationship between ownership structure and performance of companies. NSE 100 has been chosen to study this relationship. The study period spans across

financial years 2012-2017, a total of 6 years and 250 sample observations.

LITERATURE REVIEW:

The extant literature on the subject of the relationship between ownership structure and performance suggested both favourable and unfavourable evidences. However, there has no conclusive evidence been arrived so far on the relationship. A good amount of research has been conducted on the subject albeit most of the studies focussed on the western capital markets, especially United States of America and European countries. A very little research has taken place on the subject on the Indian context, making this study a desirable one.

Sharon L Oswald and John S Jahera Jr (1991) exposed that insider ownership impacted the performance of firms positively and concluded that there exists strong association between ownership structure and performance of firms and a corporate strategy of appointing personnel with vested interests to augur well to the long-term performance of firms.

Carmen Galve Gorriz and Vicente Salas Fumas (1996) revealed the productive efficiency of family-controlled firms greater than that of diversified and family-controlled firms and frequently failed to translate productive efficiency into higher profitability because of sizes they functioned with.

Steen Thomsen and Torben Pedersen (2000) in their study on European companies exposed a positive and bell-shaped influence of ownership structure on the performance of corporations. The performance improved with the level of ownership concentration and reached maximum at 83% and beyond which performance headed towards south. Their study further discovered a strong and positive influence of ownership concentration on performance in the case when the largest institutional shareholder happened to be an institutional investor and it resulted in negative premium if the largest shareholder was found to be family, any another firm or government.

Carlos P Maquieira et al (2011) witnessed significant and positive statistical association between ownership structure and performance of companies. Their study revealed that less diversified firms shared positive relationship with ownership diversification and more diversified firms found to have negative affiliation between performance and ownership concentration.

Marinke Scholten (2014), found a quadratic relationship between total ownership concentration and performances of firms and total ownership concentration lead to the betterment of ROA to a certain extent and beyond which the ROA of companies had decreased.

OBJECTIVE OF THE STUDY:

The main objective of this study is to probe the influence of ownership structure on the performance of companies.

Hypothesis:

H₀: Ownership structure does not influence the performance of companies.

H_a: Promoters shareholding does influence the performance of companies.

Data:

NIFTY 50 has been chosen for the study, since it is the broad index that represents the performance of entire National Stock Exchange. It represents 12 industries with the aggregate of 62.90% of the total market capitalisation based on the free float method of market capitalisation of NSE as on 31st March, 2017. The period of the study spans across 6 years, i.e. from 2011-12- 2016-17 and total of 300 sample observations. Since NIFTY is dynamic, the companies part of the NIFTY 50 index as on 31st March, 2017 have been considered for the study and data for the same set of companies has been collected and analysed. The Companies which were part of the NIFTY 50 index at different points in time of the study period, but were not part of the index as on 31st March, 2017 were omitted.

The study is comprehensively based on the secondary data and the nature of the data is panel data. The study required data pertaining to shareholding patterns and financial data of the sample companies. The data has been collected from CMIE prowest and the annual reports of the respective companies submitted to NSE. No presence of multi-collinearity and auto-correlation was observed in the panel data, therefore the data found to be a good fit for OLS multiple regression.

RESEARCH METHODOLOGY:

Multiple regression has been deployed to probe the phenomena of influence of ownership structure on performance of companies. Firm performance, the dependent variable, out of many measures of firm's

performance, price-book ratio (P/B ratio) was considered. The shareholding structure is the independent variable which has been segregated into promoter’s shareholding, foreign institutional investors (FIIs), domestic institutional investors (DIIs) and non-institutions. The size, measure through log of total assets (Log TA) and leverage, were taken into study as controlling variables.

Table I: Variables of the Study

Symbol	Variable	Considered
PBR	Price/book Ratio	Dependent Variable
Prom	Promoter ownership	Independent Variable
FIIs	Foreign Institutional Ownership	Independent Variable
DIIs	Domestic Institutional Ownership	Independent Variable
NIIs	Non-institutional Investors	Independent Variable
DER	Debt Equity Ratio	Control Variable
Log TA	Size	Control Variable

Econometric Model:

$$PBR_{it} = \beta_0 + \beta_1 Prom_{it} + \beta_2 FII_{it} + \beta_3 DII_{it} + \beta_4 NII_{it} + \beta_5 DER_{it} + \beta_6 LogTA_{it} + \epsilon_{it}$$

DATA ANALYSIS:

Descriptive Statistics:

Table II: Descriptive statistics

Year	Statistic	P/B Ratio	Promoters	FIIs	DIIs	Non-Institutions	DER	Size
2012	Mean	4.43	48.42	19.72	13.26	18.6	0.59	5.51
	Median	3.33	52.65	17.48	12.55	15.54	0.19	5.48
	SD	3.57	22.71	12.91	7.98	11.18	1.3	0.64
2013	Mean	4.31	47.62	22.49	12.32	17.56	0.56	5.57
	Median	3.45	52.35	20.16	10.8	14.18	0.13	5.54
	SD	3.49	22.34	13.61	7.98	11.06	1.15	0.64
2014	Mean	5.43	46.63	23.97	11.6	17.6	0.56	5.65
	Median	3.56	51.95	21.32	9.75	15.82	0.09	5.64
	SD	6.39	21.81	13.99	8.23	10.8	1.21	0.62
2015	Mean	6.75	46.12	24.73	12.07	17.08	0.55	5.7
	Median	4.64	51.95	20.07	10.25	13.89	0.03	5.71
	SD	8.17	21.73	14.47	8.24	11.08	1.26	0.61
2016	Mean	5.05	45.45	25.4	12.84	16.31	0.51	5.77
	Median	3.78	51.96	20.81	10.85	13.42	0.05	5.75
	SD	5.3	20.88	14.77	8.2	9.67	1.23	0.61
2017	Mean	5.25	45.48	25.41	13.04	16.07	0.52	5.82
	Median	4.06	51.49	21.58	11.61	13.68	0.08	5.78
	SD	5.09	21.01	14.81	8.5	9.27	1.26	0.6

Source: Author’s calculation based on the CMIE prowws data

Descriptive statistics of the sample companies are detailed in above table II. It can be seen that promoters’ holding hovered above 45%. It was 48.42% in FY 2011-12 and slightly decreased to 45.48% but stood well above 45 throughout the study period. Foreign institutional investors (FIIs) continue to increase their average stake from 19.72 in FY 2011-12 to 25.41 in FY 2016-17 and strengthened their position at the expense of non-institutional investors whose average holding decreased from 18.6% to 16.07% during the same period.

Pearson Correlation Analysis:

Table III: Pearson Correlation

Variable	P/B Ratio	Promoters	FIIIs	DIIs	Non-Institutions	DER	Size
P/B Ratio	1.000						
Promoters	.129	1.000					
FIIIs	-.002	-.605	1.000				
DIIs	-.284	-.568	.004	1.000			
Non-Institutions	-.047	-.612	.077	.394	1.000		
DER	-.128	-.105	.244	-.039	-.081	1.000	
Size	-.465	-.190	.070	.273	.092	.165	1.000

Source: Author’s calculation based on the CMIE prowws data

The above table III demonstrates the Pearson correlation analysis. The correlation between promoters and price-book ratio is positive whereas the relationship between price-book ratio and any other variable seems to be sharing negatively. No two variables found to be sharing high correlation either on positive side or negative side, therefore no multi-collinearity was observed in the panel data.

DISCUSSION & ANALYSIS:

Table IV: OLS Regression Analysis – Panel Data

Variables	Coefficients	t-value	p-value	VIF
Intercept	-13.854	-3.537*	0.000	-
Promoters	0.211	5.070*	0.000	8.345
FIIIs	0.209	4.479*	0.000	4.487
DIIs	-0.230	-3.040*	0.003	1.089
Non-institutions	0.250	4.036*	0.000	4.345
DER	-0.339	-1.399	0.163	1.107
Size	-3.653	-7.666*	0.000	1.114
R	0.501			
R ²	0.251			
Adjusted R ²	0.238			
F-value	7.332			
Durbin-Watson	1.892			

Source: Author’s calculation based on the CMIE prowws data

Note: * significant at 5% level

With promoters holding a controlling stake found to be impacting performance of companies significantly positive. This finding is in contradiction with that of Shleifer and Vishny (1987) wherein ownership concentration led to dismal performance. On the other hand, this finding is in consistent with the research findings of Steen Thomsen and Torben Pederssen (2000), Alberto De Mihuel et al (2004), Zuriawati Zakaria et al (2014) and contrasting with findings of Fitriya Fauzi & Stuart Locke (2012).

The FIIIs observed to share positive and significant relationship with performance, which demonstrates that foreign institutional investors do monitor affairs of business concerns and keep tracking the performance and behaviour of the companies they are invested. This finding is in line with the findings of Kamarun Nisham Taufil-Mohd (2013), Zuriawati Zakaria et al (2014). Domestic institutional investors shared negative and significant relationship with performance of companies which is in contradiction to the findings of Kamarun Nisham Taufil-Mohd (2013).

This study further revealed a negative relationship between leverage and performance of companies, which found to be consistent with the findings of Rajeswararao Chaganti & Fariborz Damanpour (1991), Abosede Adebiji & Kajola Sunday (2011).

CONCLUSION:

This piece of research was undertaken due to insufficient research in the Indian context and inconclusive evidence across the globe on this subject and accordingly, the study's main goal was to investigate the impact of ownership structure on the performance of companies. To test this phenomenon using ordinary least squares (OLS) multiple regression, NIFTY was taken as sample with the sample period of 6 years i.e. from FY 2012-2017. Firms' performance, dependent variable, was measured through price-book ratio (P/B ratio) and the ownership structure was independent variable segregating into four variables. The regression is controlled for size and leverage, measured through log of total assets and debt-equity ratio respectively.

It was found that promoters, foreign institutional investors, non-institutional investors impacted performance of companies positively and significantly. On the other hand, domestic institutional investors found to be showing a negative and significant impact on the performance of firms. Therefore, going by the findings of this study, it can safely be concluded that ownership structure does impact the performance of companies and accordingly null hypothesis stating that ownership structure does not impact the performance of companies is rejected and the alternate hypothesis is failed to be rejected.

LIMITATIONS AND SCOPE FOR FURTHER RESEARCH:

This study suffers from a few limitations which obviate from generalising the findings of this study. Firstly, the study considered only NIFTY 50, the most consistent stocks listed on NSE. Secondly, the sample, if the bigger sample was considered, perhaps the findings of study might tilt the other way. Thirdly, there could be a few other variables which could be having good impact on performance of companies, like sales growth, industry concentration, research and development expenses, etc., were ignored. These limitations stress the freedom of generalising the results of this study. There exists scope in this subject for further research which can use more sophisticated method by incorporating and studying the variables that have not been covered in this topic as mentioned above.

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