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Does Ownership Structure Affect Corporate Value? Evidence from Iran

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Abstract

In this study, the ownership structure is classified into four classes: the institutional ownership, the corporate ownership, the management ownership and the foreign ownership, and different attitudes regarding the above ownership have also been tested, that is, active monitoring hypothesis and interest convergence hypothesis. Since, in the sample research no information was found about foreign ownership, this type of ownership was not examined. But, in the case of other ownership, a separated hypothesis was developed based on different approaches and their influence on the corporate value was examined. For each hypothesis, a multiple linear regression model was defined based on the dependent variables. Companies listed in securities exchange commission of Iran makes up the statistical community of present study and the sample included 120 companies during 2008-2013. Correlation test and cross multiple regression test were used to examine the hypothesis. The results indicated no significant relationship between the concentration of ownership and the corporate value. Also, there is no relationship between the institutional ownership and management ownership and the corporate value. However, there is a significant relationship between the corporate ownership and the corporate value.

Keywords: Ownership Structure, Ownership concentration, Institutional Ownership, Corporate value

Introduction

The basis of the studies of the corporate governance is the agency theory, many cases of conflict of the interests between groups and how the companies deal with such conflicts was suggested by the economists. Generally, these cases are expressed as agency theory. According to Jensen and Mecking (1976), the agency relationship is a relationship between one or more shareholder and owner and one or more agents. So as the agent is responsible for some services (Jensen and Meckling, 1976). In the agency theory, the owner's goal is wealth maximization and to achieve this objective, they monitor the agents work and evaluated his/her performance. Determining the type of the ownership structure is a control tool in corporate. Determining factors of the type of the corporate ownership such as the ownership distribution, the concentration of ownership, the minority and majority shareholders in the texture of the corporate ownership are analyzable. So, generally, it is thought that the ownership structure may lead to changes in the corporates behavior. This is due to the monitoring activities that the various investors are doing in this structure (Velury and Jenkins, 2006). In this case, the question is whether the corporate value and their return are influenced by the different structure of the corporate ownership. In surveys conducted on the surrounding ownership type, the role of different types of ownership including state ownership, institutional ownership, corporate ownership, individual and family ownership, foreign ownership, management ownership and other types of ownership on the value of corporate and their returns was discussed.

The main goal of this study is to evaluate the impact of ownership structure on corporate value in the Tehran Stock Exchange (TSE). Importance of this research is that it shows experimentally managers, investors and other decision makers that being different corporate ownership structure influences on corporate value. Namely, value of corporates will be different when the company's owners are among various groups like government, financial institutions, banks, private companies and other ownership.

In addition, which one of these ownerships has the most effective in order for promoting corporate value? By the way, according to constitutional article 44 in Iran, the state tries to privatize governmental companies. On the other hand, private ownership includes corporate ownership, management ownership and foreign ownership and among them, two sets were evaluated and also their effects on the company value in the present paper in order to expose benefits of privatization namely: corporate ownership and management ownership.

Literature review of previous studies

In most studies on corporate values, the role of ownership structure was poorly exposed and various aspects of the property have not been considered. Four types of ownerships including the Institutional ownership, corporate ownership, managerial ownership and foreign ownership have been evaluated in the present study. According to Bushee (1998), institutional investors are big investors such as banks, insurance companies, investment companies and..., that their presence in companies led to changes in corporate behavior. Also, corporate investors include non-governmental entities and management investors are family companies being major ownership of companies in this study. But foreign ownership has not been found due to lack of foreign companies. In this study, we have studied different perspectives on these structures. One of these hypotheses is the active monitoring hypothesis. When the manager is taking control most parts of the company's shares, he may expose behavior in contrast with to the goal of maximizing corporate value. Another hypothesis is the convergence of interests, when the manager, is owner of low percentage of the company's shares usually precede under the influence of market forces and effective supervision in order to maximize the value of the Institute. Combining these two hypothesis leads to a non-linear relationship between ownership and corporate value ratio shown in Appendix-II chart. Jensen and Mecking (1976) have conducted much research on distribution of ownership and its impact on corporate value; they predicted that the corporate value is function of how the company allocates shares between internal and external individuals of company. Also, they stated in other study that more stock ownership by the board is improved corporate value. Shahira (2003) shows in his study in Egypt that there is no meaningful relationship between ownership type and P / BV and P / E indicators while there is a meaningful one between the type of ownership and ROA and ROE indicators. Jayesh Kumar (2004) considered the effect of type of ownership structure on corporate value and through studying in India and concluded that managers had the greatest impact on corporate performance whereas foreign shareholders were not efficient in corporate performance.

Ariane Chapelle (2004) showed that approximately active companies in Belgium had concentrated ownership structure in Belgium stock market, because the concentration of ownership is one of the ways of controlling on corporations. Bernard Black (2002) has decided that companies having efficient governing system had better performance in his survey under title of "Does Corporate Governance predict Firms Market Value: Evidence from Korea" (Bernard, Black, Jang and Woochan, 2002). Shleifer and Vishy (1986) determined that the present institutional investors had the positive impact on company value because of increasing efficient supervision. Also Morck, Shleifer and Vishny (1998) decided that there would not be no relationship between management ownership and institution's market value of assets in other survey titled "Management Ownership

and Market valuation", whereas this relationship existed according to hypothesis of interest convergence. Barberies, Shleifer and Tsukanova (1996) concluded that any changes in ownership structure led to maximizing company values. This has been founded in other their study considering performance changes in 452 Russian companies. Earle (1998) and Kocenda and Svejnar (2002) came to achieve common goals based on positive impact on private ownership rather than state one in separate studies respectively in countries Russia and Czech Republic conducting on effect of ownership framework on companies performance. Bushee (1998) having studied much on this field stated that institutional investors as a type of corporate ownership structure led to changing companies behavior and he also added that the institutional investors controlled enterprises explicitly through collecting information and through managing corporation performance. In a research that Saikat Sovan Deb (2003) and colleagues conducted in India, they investigated the relationship between ownership structure and value in Indian firms by testing for "Monitoring and Expropriation" hypothesis as well as "Convergence of Interest" and "Entrenchment hypothesis". They provided evidences in support of monitoring hypothesis but they could not find any evidence in support of expropriation hypothesis. They report evidence in support of both "convergence of interest" and "entrenchment hypothesis". Alberto de Miguel (2003) in their study entitled "How does ownership structure Affect firm value" it achieves the results as following: First, ownership concentration and insider ownership levels are determined by several institutional features such as investor protection, development of capital Markets, activity of the market for corporate control, and effectiveness of boards. Second, the relationship between ownership concentration and firm value is not directly affected by these institutional factors. Third, There is, however, a direct influence of corporate governance characteristics on the relationship between insider ownership and firm value. Alberto, Julio and Chabela & Michael Lemmon, Karl Lins (1997) studied effect of ownership structure on corporate value during the East Asian financial crisis in July 1997 . The evidence indicates that corporate ownership structure plays an important role in determining the incentives of insiders to expropriate minority shareholders during times of declining investment opportunities. Their results add to the literature that examines the link between ownership structure and firm performance and provide additional guidance to policy makers engaged in the ongoing debate about the proper role and design of corporate governance features and legal institutions in developing economies.

Objectives of the study and research hypotheses

The current paper is to examine the effect of ownership framework on enterprise value, its ratio and number of present owners on structure of company's capital. Ownership structure is divided into institutional ownership, corporate ownership management ownership, and foreign ownership.

However, since related information was not found in the mentioned sample study, no hypothesis has been developed for this kind of ownership. So, the hypotheses of the research included the followings:

Hypothesis 1. There is a meaningful relationship between the level of institutional owners and corporate value.

Hypothesis 2. There is a meaningful relationship between the degree of concentration of institutional owners and corporate value.

Hypothesis 3. There is a meaningful relationship between the level of corporate owners and corporate value.

Hypothesis 4. There is a meaningful relationship degree of concentration of corporate owners and corporate value.

Hypothesis 5.There is a meaningful relationship between the level of management owners and corporate.

Hypothesis 6. There is a meaningful relationship degree of concentration of management owners and corporate value.

Methodology

Statistical population of the current paper included companies listed in security exchange commission in Iran with the following needed qualifications:

1. Their financial year-end should be on March 29 and they should be active in exchange from 2008 until 2013.

2. Financial information required, especially notes attached to financial statement.

3. Fiscal years of companies should not any changed during the period of study.

According to the above mentioned conditions, 120 companies in the period 2008 to 2013 were selected as samples. In this study data related to 120 samples was extracted from sources including RAHAVARIN, stock sites, TADBIRPARDAZ software and etc. Then, statistical tests were conducted using Excel and SPSS software. This research has applied methods of consolidated data in order to study the effect of ownership concentration and type on value of corporate. The Present study is a descriptive one which is applied in lights of target and goals. There has been introduced a relationship between variables and also a meaningful relationship for variables depended on analyzing regression. For this reason, some models were introduced for each of the hypothesis of the study as follows:

Model 1. This model was designed for hypotheses 1 and 2 (institutional owners).

$Val = \alpha+\beta1INOWN+\beta2INCONC+\beta3PB+\beta4SIZE+\beta5DEBT+\beta6LOSS+\beta7CROWTH+\varepsilon it.$

Model 2. This model was designed for hypotheses 3 and 4 (corporate owners).

$Val=\alpha+\beta1COROWN+\beta2ICORCONC+\beta3PB+\beta4SIZE+\beta5DEBT+\beta6LOSS+\beta7CROWTH+\varepsilon it$

Model 3. This model was designed for hypotheses 5 and 6 (management owners).

$Val=\alpha+\beta1MGROWN+\beta2MGRCONC+\beta3PB+\beta4SIZE+\beta5DEBT+\beta6LOSS+\beta7CROWTH+\varepsilon it.$

Where

Val = Value of Company

INOWN = ratio of institutional ownership

INCONC = degree of institutional ownership concentration

COROWN = ratio of corporate ownership

CORCONC = degree of corporate ownership concentration

MGROWN = ratio of management ownership

MGRCONC = degree of management ownership concentration

PB = growth index (computed by the ratio of market value of equity to its book value)

SIZE = size of firm (normal logarithm of total assets of the company i during the sample period)

DEBT = leverage (calculated via the ratio of long-term debt to total assets.)

Loss = artificial variables (if the company has losses, 1 otherwise 0)

CROWTH = percentage change in total assets of the company i at the end year t to year t-1

εit = unknown component

CONC = concentration of ownership that is changing is simply how to distribute the shares among shareholders is greater than the number of shareholders will be focused acquisitions.

In the present study, to calculate the concentration ratio of ownership of the Herfindahl-Hirschman index is used. This index is an economic indicator and is obtained through the

percentage squared total of shares owned by corporate shareholders and for each type of ownership is calculated as follows:

Degree of institutional ownership concentration $= \sum_{i-1}^{R} INOWN^2$

Degree of corporate ownership concentration $= \sum_{i-1}^{n} COROWN^2$

Degree of management ownership concentration $= \sum_{i-1}^{n} MGROWN^2$

The resulting index is between 0 and 1, if the result is a near to 1, represents concentration and the other hand, if is close to zero, would indicate lack of concentration.

Results

In Table 1, descriptive statistics about the test variables is given. Statistical indicators in this table, the number of observations, mean and standard deviation are shown. In Table 2, the results of hypotheses testing 1 and 2, is given in the form of model 1 designed. According to Table 2, among the control variables, variables PB, SIZE, DEBT, and CROWTH in 95% significance level are significant. On the other hand, F statistics indicated significant overall regression model was fitted to the confidence level is 95%. According to the results of the variable coefficient INOWN (institutional ownership ratio) is obtained negative indicating a negative correlation between the ratio of institutional ownership and corporate value, but because the 95% level of significance is indicated first hypothesis is confirmed. Also according to the results of Table 2 Variable Coefficient INCONC (degree of institutional ownership concentration) obtained a negative, but because the level of 95% is not significant, indicating the second hypothesis is rejected, i.e. between institutional ownership concentration and corporate value significant relationship does not exist.

Table 1. A Summary of Statistics of all the variables

Statistical proxy	Number of Observation	Mean	SD
PB	810	0.30	0.29
SIZE	810	27.41	1.6
DEBT	810	0.75	0.16
CROWTH	810	0.25	0.30
INOWN	810	0.68	0.31
COROWN	810	0.13	0.20
MGROWN	810	0.35	0.29
CONC	810	0.23	0.23

Table 2. Estimated parameters Hypothesis 1, 2 (Model 1)

	Coefficients	P-value	Adj. F
PB	2.35	0.018	12.40
SIZE	0.26	0.047	
DEBT	-3.33	0.03	
LOSS	0.11	0.12	
CROWTH	4.35	0.016	
INOWN	-4.30	0.023	
INCONC	-0.49	0.971	

In Table 3, the results of hypotheses testing 3 and 4, is given in the form of 2 models designed. According to Table 2, among the control variables, variables PB, SIZE, DEBT, and CROWTH in 95% significance level are significant. On the other hand, F statistics indicated significant overall regression model was fitted to the confidence level is 95%. According to the results of Table 3 the variable coefficient of corporate ownership (COROWN) obtained positive that

show a direct correlation between corporate ownership ratio and corporate value and also because the level of significance is 95% represents the third hypothesis is confirmed. According to Table 3 and the coefficient of variable degree of corporate ownership concentration (CORCONC), because in the level of 95% is not significant, so the fourth hypothesis is rejected that reflect, there is no significant relationship between degree of corporate ownership concentration and corporate value.

Table 3. Estimated parameters Hypothesis 3, 4 (Model 2)

	Coefficients	P-value	Adj F
PB	1.51	0.01	7.46
SIZE	0.18	0.035	
DEBT	-2.70	0.03	
LOSS	0.13	0.062	
CROWTH	4.45	0.035	
COROWN	5.97	0.02	
CORCONC	0.35	0.77	

In Table 4, the results of hypotheses testing 5 and 6, is given in the form of 3 models designed. According to Table 4 of the control variables, variables PB, SIZE, DEBT, CROWTH 95% significance level are significant. On the other hand F statistics indicated significant overall regression model was fitted to the confidence level is 95%. According to the results of the variable coefficient MGROWN (management ownership ratio) is obtained negative reflecting the inverse relationship between management ownership ratio and corporate value, but because the 95% level is significant indicating the fifth hypothesis is confirmed. Also according to the results of the variable coefficient MGRCONC (Degree of management ownership concentration) because the 95% level of significance has been the sixth hypothesis is rejected represent so there is no significant relationship between management ownership concentration and corporate value.

Table 4. Estimated parameters Hypothesis 5, 6 (Model 3)

	Coefficients	P-value	Adj F
PB	3.35	0.02	5.97
SIZE	0.21	0.03	
DEBT	-3.75	0.03	
LOSS	0.3	0.02	
CROWTH	3.88	0.013	
MGROWN	-4.9	0.04	
MGRCONC	-0.17	0.97	

Conclusion

Based on the findings, we can conclude that any change in the type of ownership structure leads to changes in behavior of the companies. This result can confirm the result of the survey named Velury and Jenkins having conducted in 2006). But, this type of behavior change is effective on the company value regarding ownership type. The resent paper introduces corporate ownership the best one as a type of this framework. In other words, dominating this ownership on the company causes improving the status of enterprise and finally its value because this type of ownership seeks to follow better performance and increase profits for the companies. But, the other types of ownership, namely institutional ownership and management ownership are inversely correlation to corporate value. In other words, the purpose of this type of ownership is getting less gain and profit, so their presence in the structure of corporate ownership can make their performance weaker. By the

way, since no information on foreign owners in corporate ownership structure, this type of property did not review. In addition to the mentioned cases on ownership concentration, no meaningful relationship found between corporate value and ownership concentration, rejecting the hypothesis of convergence interest.

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