

Full Length Research Paper

The effects of ownership structure or number of block holders on the ratio price-to-book value (P/BV) and price-to-earnings (P/E) of the companies in Tehran Stock Exchanges (TSE)

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In this study, the effects of ownership structure on the stock's value the value of companies' stocks were examined. Conflict of interest between block holders and management, which has been an important issue in recent decades, has been considered by researchers, additional the effects of number of block holders on the ratio price to book value and price to earnings of stocks of the companies was examined. According to researches that are related to corporate governance, ownership structure has been proposed as one of the strategies to solve this problem. This present research looks at the effect of ownership structure on the ratio price to book the value and price to earnings of stocks of companies, from the perspective of block holders. Research samples included 93 companies and the research was done for six-years (2003-2007). The companies used were classified according to the number of block holders in three, two and one groups. Investigations using variance analysis show that with increasing number of block holder, ratio price to book the value of stocks of companies was increased. But the sample of ratio of price to earnings of stocks did not differ with each other. The Ownership concentration in the of block holders is not affected in the coefficient of stock price to earnings, then it can be concluded to increase the number of block holders to increase value, growth and earnings per share (EPS) will not participate.

Key words: Ownership structure, corporate governance, block holder, ratio price to book value of stocks, ratio price to earnings of stocks, Tehran Stock Exchanges (TSE).

INTRODUCTION

Corporate governance is a set of relationships between shareholders, directors and auditors of the company that controls the system in order to ensure the establishment of shareholder rights and implement the right components and to prevent malicious Assembly resolutions are possible.

Corporate governance has been the subject of numerous theoretical and empirical studies especially after the fraudulent financial reporting scandals such as Enron, World.com, Adelphia, and Parmalat. Given the importance

of corporate governance practices, many analysts have been conducted in developed countries evaluating the relationship between corporate governance and financial performance (Osman Gürbüz A, Aybars Aslı, Kutlu o, 2010).

A large literature in finance and economics suggests that corporate ownership and capital structure decisions reflect attempts to mitigate agency problems between various stakeholders. A common idea is that corporate ownership is set to maximize firm value, accounting for potential conflicts of interest between a controlling shareholder and minority investors. This literature assumes that markets are efficient, which means that minority investors anticipate and price the full extent of agency problems and more generally form unbiased estimates of the cash flows they

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will receive (Jensen and Meckling, 1976). Corporate governance controls and balances system to prevent abuse of power; and here the subject of the main block holders is proposed that whenever there are more numbers of block holders in the company ownership structure, conflict of interest between managers and shareholders is low. This research has investigated this issue- whether the number of block holder affects the ratio price to book the value of stocks of companies. Block holder means the owner of a large proportion of ownership shares of a company; a shareholder with an exceptionally large amount or value of stock. While there is no specific definition of the number of shares that constitute a block, almost invariably, block holders are institutional investors.

The infrastructural problems, which corporate governance is shaped around, constitute conflict of interest between shareholders and management, exercise of absolute control by block holder, reducing power control of the affairs of the company and shareholders minority decisions by managers. When the decision is exclusively available to managers, in this case ordinary shareholders take part in annual meetings just to show and confirm the administrator's decision. The main objective of this study is to determine the effects of ownership structure on the stock's value of the companies and effects of number of block holder in the company to improve ratio price to book value and ratio price to earnings of stocks.

Definitions of key words

Ownership structure refers to the types and composition of shareholders in a corporation. Researchers often "measure" ownership structures by using some observable measures of ownership concentration or the extent of inside ownership. Some features or types of ownership structure involving corporate groups include pyramids, cross-shareholdings, rings, and webs. German "concerns" (Konzern) is legally recognized corporate groups with complex structures. Japanese keiretsu and South Korean chaebol (which tend to be family-controlled) are corporate groups which consist of complex interlocking business relationships and shareholdings. Cross-shareholding is an essential feature of keiretsu and chaebol groups). Corporate engagement with shareholders and other stakeholders can differ substantially across different ownership structures.

Corporate governance is the set of processes, customs, policies, laws, and institutions affecting the way a corporation (or company) is directed, administered or controlled. Corporate governance also includes the relationships among the many stakeholders involved and the goals for which the corporation is governed. In contemporary business corporations, the main external stakeholder groups are shareholders, debtholders, trade creditors, suppliers, customers and communities affected by the corporation's activities. Internal stakeholders are the board

of directors, executives, and other employees.

Block holder means the owner of a large proportion of ownership shares of a company, a shareholder with an exceptionally large amount or value of stock. While there is no specific definition of the number of shares that constitute a block, almost invariably, block holders are institutional investors. For a block holder to have natural or legal persons ownership of the minimum percentage required, he must have a minimum of one board member independently. This represents the number of such individuals that could independently be appointed as board members, and it depends on individual ownership percentage. In this study, the natural or legal person with twenty percent or more shares of a company is considered as a block holder. Institutional ownership as the ratio of the number of shares held by institutional investors to the number of shares outstanding (Nofsinger and Sias, 1999).

Ratio price to book value is considered as the scale of logical value used for companies with negative earnings (losses) or even negative cash flow. In obtaining this ratio, the following can be used for this relationship: stock price / (equity / total number of shares) (Rahnamay rod poshti et al., 2008, p. 236). The price-to-book ratio, or P/B ratio, is a financial ratio used to compare a company's book value to its current market price. Book value is an accounting term denoting the portion of the company held by the shareholders; in other words, the company's total tangible assets less its total liabilities. The calculation can be performed in two ways, but the result should be the same each way. In the first way, the company's market capitalization can be divided by the company's total book value from its balance sheet. The second way, using per-share values, is to divide the company's current share price by the book value per share (that is, its book value divided by the number of outstanding shares). A higher P/B ratio implies that investors expect management to create more value from a given set of assets, all else equal (and/or that the market value of the firm's assets is significantly higher than their accounting value). P/B ratios do not, however, directly provide any information on the ability of the firm to generate profits or cash for shareholders.

Ratio Price to earnings of stocks: This ratio indicates growth or decline in profitability of a company is coming. Price to earnings ratio of the companies that have good growth potential is high and in companies that do not have any development project is low. The aim of this precious relationship than an expression of investor pays for shares and future prospects and the company predicted its profits. In this study, the ratio of the share market value per share on net income after the annual meeting date is calculated (Rahnamay et al., 2008, p.221). The P/E ratio (price-to-earnings ratio) of a stock (also called its "P/E", or simply "multiple") is a measure of the price paid for a share relative to the annual net income or profit earned by the firm per share. The P/E ratio can therefore alternatively be calculated by dividing the

company's market capitalization by its total annual earnings. The price-to-earnings ratio is a financial ratio used for valuation: a higher P/E ratio means that investors are paying more for each unit of net income, so the stock is more expensive compared to one with a lower P/E ratio. The P/E ratio also shows current investor demand for a company share.

The Tehran Stock Exchange (TSE) is Iran's largest stock exchange, which first opened in 1967. The TSE is based in Tehran. As of July 2010, 337 companies with a market capitalization of US\$72 billion were listed on TSE. TSE, which is a full member of the World Federation of Exchanges and a founding member of the Federation of Euro-Asian Stock Exchanges, has been one of the world's best performing stock exchanges in the years 2002 through 2010. TSE is an emerging or "frontier" market. The most important advantage that Iran's capital market has in comparison with other regional markets is that there are 40 industries directly involved in it. Industries such as the automotive, telecommunications, agriculture, petrochemical, mining, steel iron, copper, banking and insurance, financial mediation and others trade shares at the stock market, which makes it unique in the Middle East. The second advantage is that most of the state-owned firms are being privatized under the general policies of article 44 in the Iranian constitution. Under the circumstances, people are allowed to buy the shares of newly-privatized firms. Iran is among the few major economies that has maintained positive economic growth despite the 2008 global financial crisis

LITERATURE REVIEW

Osman et al. (2010), in a study titled "Corporate Governance and Financial Performance with a Perspective on Institutional Ownership: Empirical Evidence from Turkey" found a positive influence of corporate governance and institutional ownership on financial performance. Additionally, the impact of institutional investors is found to be more strongly pronounced on firms listed on the corporate governance index.

Moradi (2009), in a study titled "Relationship between institutional investors and firm value", found a positive relationship between institutional investors and firm value, where efficient monitoring hypothesis is approved. However, the results indicate no significant correlation between institutional ownership concentration and firm value.

Antonio et al (2007), in a study titled, "Does ownership structure affect value? A panel data analysis for the Spanish market", examined the impact of ownership structure on firm value. They found that there is no significant relationship between ownership block holders and value, and also found that the amount of control is effective on firm value.

Steen Thomsen et al (2006), in a study titled "block holder ownership: its effects on firm value in market and

control based governance systems", found a negative relationship between Europe's block holder and firm value or income accounting found in the next period. Their findings are evidence of conflict of interest between block holder and minority shareholders. Percentage of majority ownership in the continent of Europe in terms of shareholder value may be part of much larger shares. Finally, they found negative relationship between ownership of block holder and firm value, or accounting standards.

Shahira and Shahid (2003), in a study titled "Does Ownership Structure affect firm Value? Evidence from the Egyptian Stock Market", studied ninety companies active in the exchange which makes the samples up to 2000. The results of analysis of regression show that the percentage distribution of ownership affects certain aspects of accounting performance indicators (that is, equity returns), but there is no effect on the stock market performance indicators (that is, rates of earning price and price to book value). This shows that other factors (economic, political) affect firm performance apart from ownership structures which support the findings of Heracleous (2001).

Agency theory is related to a case in which an individual gives away his responsibility for a decision regarding the distribution of financial and economic resources or service performed during certain treaty to someone else. Relationships between shareholder and manager, directors and managers of various organizations circles are examples of the agency theory. Agency theory is based on various assumptions including assumptions about specific behavior between shareholder and manager. Agency problems are related to the existence of conflict of interest between shareholder and manager; moral hazard and uncertainty in terms of contract between shareholder and manager.

METHODOLOGY

Research method used is inductive-deductive, and historical financial statements are used to collect data. In terms of communication, the relation between variables is correlational and sectional from time point of view. Research population includes firms listed in Tehran Stock Exchange and sample includes 93 firms selected using omission method

The best method for evaluating the effects of the number of block holders on the stocks ratio price to book value and ratio price to earnings of stocks of companies is variance analysis (ANOVA). Using variance analysis, it can be concluded that the ratio of price to book value and ratio price to earnings of stocks of stocks in the various groups differs or not. If there is a significant difference it can be concluded that the agent operating is influential on the stocks ratio price to book value and ratio price to earnings of stocks of companies, but we cannot answer the question of which groups have the highest or the lowest impact on the stocks ratio price to book value and ratio price to earnings of stocks of companies. Therefore to investigate these effects, Scheffe comparative test was used which is the most powerful test for comparing the two. In addition to comparing the two, it classifies different groups according to their mean. In this test, if two or more groups are not statistical different, they are placed in the homogeneous subgroups.

Table 1. Descriptive statistics.

Number of block holder	N	Mean	Std. deviation	Std. error	95% Confidence interval for mean	
					Lower bound	Upper bound
1.00	69	5.2478	5.3630	0.6456	3.9595	6.5361
2.00	21	4.1560	3.7455	0.8173	2.4511	5.8609
3.00	3	12.9791	9.5750	5.5282	-10.8066	36.7648
Total	93	5.2507	5.3407	0.5538	4.1508	6.3506

Table 2. Maximum and minimum.

	Minimum	Maximum
Total	0.89	16.38
	0.86	18.52
	0.95	27.58
	0.86	27.58

Table 3. ANOVA test.

Variable	Sum of squares	df	Mean square	F	Sig.
Between groups	204.353	2	102.177	3.800	0.026
Within groups	2419.749	90	26.886		
Total	2624.102	92			

Table 4. Scheffe test.

Number of block holders(I)	number of block holders (J)	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence interval	
					Lower bound	Upper bound
1.00	2.00	1.0918	1.2923	0.701	-2.1247	4.3083
	3.00	-7.7313*	3.0581	0.046	-15.3430	-0.1197
2.00	1.00	-1.0918	1.2923	0.701	-4.3083	2.1247
	3.00	-8.8232*	3.2004	0.026	-16.7890	-0.8573
3.00	1.00	7.7313*	3.0581	0.046	0.1197	15.3430
	2.00	8.8232*	3.2004	0.026	0.8573	16.7890

* The mean difference is significant at the 0.05 level.

It should be mentioned that kelmogorov smirnov test was used for data normality prior to testing hypothesis.

RESULTS

Summary of research hypothesis test are as follows:

1. Ratio price to book value of stocks of companies in relation to the number of block holders has significant differences. To test the hypothesis one factor analysis of

variance was used. Descriptive statistics, ANOVA and Scheffe test are shown in Tables 1 to 5.

Since significant level of the test (0.026) is smaller than (0.05), it can be concluded that there is significant difference between the mean of the ratio price to book value of stocks of companies in various groups of block holders. So the average ratio price to book value of stock in different groups and block holders are not equal; and significant level in Scheffe test, test equality average, ratio price to book value in groups of block holders of

Table 5. Scheffe ^{a,b}

Number of block holder	N	Subset for alpha=0.05	
		1	2
2	21	4.1560	
1	69	5.2478	
3	3		12.9791
Sig.		0.919	1.000

Means for groups in homogeneous subsets are displayed.

a. Uses harmonic mean sample size = 7.586.

b. The group sizes are unequal. The harmonic mean of the group sizes is used. Type I error levels are not guaranteed.

Table 6. Descriptive statistics.

Number of block holders	N	Mean	Std. deviation	Std. Error	95% Confidence Interval for Mean	
					Lower bound	Upper bound
1.00	69	8.2074	7.0434	0.8479	6.5127	9.8967
2.00	21	7.7616	4.3512	0.9495	5.7810	9.7422
3.00	3	14.0233	2.5482	1.4712	7.6933	20.3534
Total	93	8.2923	6.4858	0.6725	6.9566	9.6281

Table 7. Maximum and Minimum

Number of block holders	Minimum	Maximum
1.00	3.01	60.03
2.00	3.44	21.24
3.00	11.29	16.34
Total	3.01	60.03

Table 8. ANOVA test

Variable	Sum of squares	df	Mean Square	F	Sig.
Between Groups	104.978	2	52.489	1.255	.290
Within Groups	3765.041	90	41.834		
Total	3870.019	92			

three and one (0.05) is smaller. That means the average ratio price to book value of these two groups of block holders with 95 percent are not equal, and differences are significant. Also significant level of test of average ratio price to book value in groups of block holders of three and two is 0.46, which is smaller than (0.05). So the average ratio price to book value of these two groups of block holder with 95% is not equal, and differences are significant. After considering the difference between the coefficient of average price to book value of shares in different groups of block holders and that the companies with three block holders have the highest average, it can be concluded that the concentration of ownership in the hands of several (three) block holders can help improve the ratio price to book value of stocks. Also considering

that the average ratio price to book value of stocks in two groups of two and three block holders are different and that the average ratio price to book value of stocks when concentration of ownership is in the hands of several block holder (three) is greater than when there are two block holders, it can be concluded that the more the number of block holders in the combined ownership of companies, the more the ratio price to book value will be improved.

2. Ratio price to earnings of stocks companies in relation to the number of block holders has significant differences. To test the hypothesis one factor analysis of variance was used. Descriptive statistics, ANOVA and Scheffe test are shown in Tables 6 to 10. since significant level of the test (0.290) is greater than (0.05) it can be concluded

Table 9. Scheffe test

Number of block holder (I)	Number of block holder (J)	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
					Lower bound	Upper bound
1.00	2.00	.4430	1.6119	0.963	-3.5692	4.4553
	3.00	-5.8187	3.8146	0.317	-15.313	3.6760
2.00	1.00	-.4430	1.6119	0.963	-4.4553	3.5692
	3.00	-6.2617	3.9921	0.297	-16.198	3.6748
3.00	1.00	5.8187	3.8146	0.317	-3.6760	15.3133
	2.00	6.2617	3.9921	0.297	-3.6748	16.1982

Table 10. Scheffe ^{a, b}

Number of block holder	N	Subset for alpha=0.05
		1
2.00	21	7.7616
1.00	69	8.2047
3.00	3	14.0233
Sig.		0.175

that there is no significant difference between the mean of the ratio price to earnings of stocks of companies in various groups block holders, so the average of ratio price to earnings of stock in different groups and block holders are equal and significance level in test Scheffe, test equality average, ratio price to earning in groups block holders is greater than (0.05), so the average of ratio price to earnings in different groups block holder are equal. It can be concluded that the ratio price to earnings of stocks of companies in various groups block holders differences are not significant, and differences in the number of block holders on the ratio price to earnings value of companies are not effect.

CONCLUSIONS AND SUGGESTIONS

The results of this research are inconsistent with the results of some researches such as, Antonio et al. (2007); Steen et al. (2006); Shahira and Abdel Shahid (2003) and is consistent with the results of other researchers such as Moradi (2009), and Osman et al. (2010).

Ownership concentration in the institutional sector could improve the coefficient of stock price to book value companies, but concentration of much stock in the hands of completely governmental units reduces the average coefficient of stock price to book value. This could probably be due to reduction of flexibility of company in obtaining worth because of strict laws and regulations. So according to the results, concentration of the major section of ownership in the hands of institutional investors is recommended.

Since concentration of ownership in the hands of several major shareholders can improve the coefficient of stock price to book value, it can be concluded that the more the number of major shareholders in the combined company acquired, the more it can result in distribution of control among block holders and reduction of conflict of interest between them, thereby increasing the value of company stock. But the Ownership concentration in the of block holders is not affect in the coefficient of stock prices to earnings, then it can be concluded to increase the number of block holders to increase value, growth and earnings per share(EPS) will not participate.

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