

## Review

# A survey of empirical studies on management ownership

Mahdi Salehi<sup>1\*</sup> and Bahram Baezgar<sup>2</sup>

<sup>1</sup>Islamic Aazad University, Takestan Branch, Iran.

<sup>2</sup>Islamic Aazad University, Bousheher Branch, Iran.

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The current study reviews relationship between management ownership and firm performance with regard to empirical evidences. Although in the financial literature, management ownership is suggested for reduction of agency problem, there are contradictory view points on this suggestion. Some empirical studies show that increasing equities of managements can be responsible for better alignment of the monetary incentives between the managers and other equity owners. In contrast, other studies support the entrenchment argument hypothesis. The hypothesis states that increasing of management's equity can contribute to reduce financial performance and may it creates control problem, when level of management ownership is high. In disputation between the incentive alignment and entrenchment argument, combined argument and Stultz's integrated theory arise. These arguments which are integrated by other arguments show that corporate performance is a non-monotonous function of management ownership. In spite of these arguments, some scholars believe that management ownership has a passive role in corporate governance, because of being a function of financial performance. However, others state that there is absolutely no relationship between management ownership and financial performance. In circumstances, perhaps a new combination of ownership alternative mechanisms can do work competently.

**Key words:** Management ownership, agency problem, financial performance.

## INTRODUCTION

The relationship between ownership structure and firm performance has been an important subject and an ongoing debate in corporate finance literature since the work of Berle and Means (1932). They debated about conflict interests between controllers and managers. They assert, that in view of growing diffusion of ownership, ability of shareholders to control managements will be less. Therefore, they suggest that correlation between ownership concentration and firm performance should be a negative one.

Corporate governance studies have addressed that problems are generated by the separation of ownership and control. Scholars have tried to find a device to solve agency problem. They prescribe a variety of possible solutions to align managerial interests with shareholders'

interests, including such devices as high corporate leverage, more effective monitoring by the board of directors, which is of special interest in this paper- managerial ownership. Agency theory suggests that the structure of corporate ownership can affect firm performance by alleviating agency conflicts between management and shareholders (Putterman, 1993). By the same token, Jensen and Meckling (1976) argue that increased levels of managerial share ownership in a firm helps align the interests of owners and managers and therefore, mitigating agency problems. However, Demsetz (1983) and Fama and Jensen (1983a) amongst others, argue that managers get entrenched when there is high managerial share ownership, thereby exacerbating the agency problem.

Although studies to reduce conflict between incentives of shareholders and managers have presented a number of possible solutions, it is worth noting that there are open questions concerning the relationship between managers and corporate performance. It is not clear whether firm

\*Corresponding author. E-mail: [mahdi\\_salehi54@yahoo.com](mailto:mahdi_salehi54@yahoo.com).

performance depends on fraction of shares owned by managers and denominated shares of company to managers can create a motivation for better performance. This paper reviews a considerable number of hypotheses and prominent researches about relationship between managerial ownership and financial performance for finding near accurate answer to the above questions.

## AGENCY PROBLEM

The agency theory was formalized in the 1970s; it originated from economics and developed in to the domain of finance as a means to examine the relationship between owners and managers. The problems created by the separation of ownership and control are not new issues. Smith (1776) first raised questions about the separation of equity from control and whether corporations could be managed optimally for shareholders. Smith (669 to 700) writes about the case when control is separated from ownership in joint stock companies: "The directors of such companies, however, being the managers rather of people's money than of their own, it cannot be well expected, that they should watch over it with the same anxious vigilance with which the partners in private copartnership frequently watch over their own. Like the stewards of a rich man, they are apt to consider attention to small matters as not for their master's honour, and very easily give themselves a dispensation from having"

Exactly two hundred years after Adam Smith, a theoretical foundation for the agency problem was provided by Jensen and Meckling (1976). They defined the agency relation as a contract between one or more persons as principal that engages another person as agent to perform some services. Under this agreement, some decisions making authority are delegated to the agent. They state that the firm is a legal body that serves merely as a nexus of contracts for agreements between managers, shareholders, suppliers, costumers and other parties. Each number of the contract acts out of self-interest. In fact, shareholders, debt holders and managers parties have different interests and perspectives regarding values of the firm. Shareholders will tend to maximize their shares, forcing managers to act their interest despite of the debt holders' interests. Debt holders on the other side will protect their fund already placed in firm with covenant and strict monitoring policy. Indeed, they suggest that because of the fact that shareholders are not involved in the daily company activities, corporate governance mechanisms are important in monitoring managers, thereby aligning their interests with those of shareholders. The reverse of the afore viewpoint, Shleifer and Vishny (1997) state that professional managers are hired by shareholders to run the firm's business with the aim of maximizing corporate profit and shareholder's wealth, but in the act, the managers do not follow the shareholder's interests and pay less attention to promote

efficient allocation of resources. In other words, the separation between ownership and control in the modern corporate organization give rise to agency problems. The first problem arises when there is conflict between goals of the principal and agent. In this condition, it is difficult for owners to confirm what goals managers pursue. The second problem is risk sharing that arises when the principal and agent have different attitudes toward risk (Fama, 1980b; Eisenhardt, 1989). Agency theory is concerned with resolving these problems.

However, when a firm is not completely owned by management, agency cost is raised between management and other parties. To align the interests of managers and shareholders, principals incur incentive costs related to the design of monitoring systems that control self-serving activities of managers. Agents incur bonding costs to ensure that their actions will be compatible with the best interests of the principals. Finally, there is the residual loss, which is the reduction in wealth that occurs when the agent does not act in the best interests of the principals. However, the principal or the agent is not able to ensure that the agent will make optimum decisions from the principal's viewpoint at zero cost (Jensen and Meckling, 1976).

As Figure 1 shows, there are some incentive mechanisms that may affect financial performance and reduction of agency problem. Since the major emphasis on this paper is especially on managerial ownership, different mechanisms which can have influence upon financial performance are described briefly, then the study reviews some hypotheses and empirical studies over relationship between ownership managerial and firm performance.

## Decision systems

One of the most important factors directly related to financial performance is decision system. According to Fama and Jensen (1983a, b), decision systems are defined as the system by which corporate decisions are distributed between the general assemble, the board of directors and the management. In addition, it can prevent the raise of issues in the corporate charter of relevance, for the distribution of control.

## Performance monitoring systems

Performance monitoring systems are able to provide possibility of the firm's constituencies to gather and analyze information about the firm. Cash flow approach that fundamental value analysts use to estimate corporate value and corporate disclosure rules, are good illustrations of this system. Jensen and Meckling (1976), and Copeland et al. (1996) are classic references on the system.

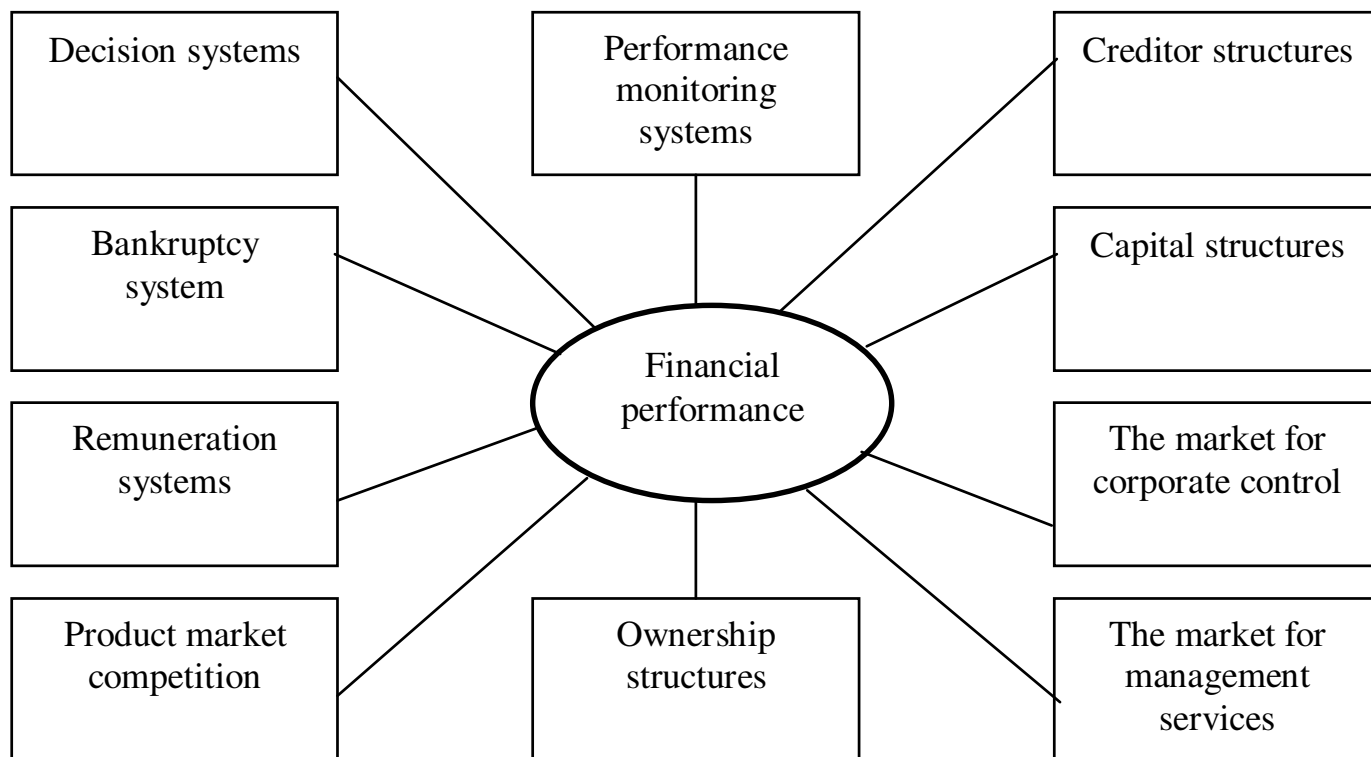


Figure 1. Effective incentive mechanisms on financial performance.

### Remuneration systems

Hart and Holmstrom (1987) suggest remuneration systems as incentive based compensation systems. They believe that the mechanism of remuneration can regulate the pecuniary compensation of managers for their 'sale' of management services.

### Bankruptcy systems

According to Smith and Warner (1979), bankruptcy systems are defined by the bankruptcy procedures. To transfer control of a company from stockholders to creditors when a firm goes bankrupt, can be illustrated by bankruptcy system.

### Creditor structures

The creditor structure describes how distribution of debt firm takes the identity of the creditors into consideration. In financial literature, Berle (1926), and Stiglitz (1985) are known as two references on creditor structures.

### Capital structures

The capital structure refers to the combination of funds, in

the form of debt and equity. In other words, it is the firm's policy with regard to leverage and dividend payments.

### The market for corporate control

The market for corporate control, defined as shares of firms, are traded, and in large enough blocks, this means control over corporations is traded. That puts some pressure on managers to perform; otherwise, their corporation can be taken over. Two classic references on the market for corporate control are Manne (1965) and Marris (1964).

### The market for management services

The market for management services refers to the market for managerial labor. A classic reference on the market for management services is Fama (1980b).

### Product market competition

There are two product market competitions that are relevant in corporate governance; first is competition in the firm's product markets and second is competition in the product markets of the firm's owners. A classic

reference on product market competition is Hart (1983).

## MANAGERIAL OWNERSHIP

Managerial ownership became important in the 1980s, although the debate on relationship between managerial ownership and firm performance dates back to Berle and Means' thesis (1932). Managerial ownership is defined by Zhou (2001) as "the aggregate number of shares held by the CEO, including restricted shares but excluding stock options, expressed as the percentage of the firm's total shares outstanding". Similarly, this definition to explain managerial ownership has been suggested by Agrawal and Knoeber (1996); Chung and Pruitt (1996). Moreover, Barnhart and Rosenstein (1998) define managerial ownership with a slightly wider scope. They defined managerial ownership as "the percentage of shares owned by officers and directors as a group, including shares for which officers have shared voting power, plus shares available for purchase and options or warrants exercisable within sixty days of the proxy date".

With respect to the conflict interests between managers and shareholders, the agency theory (Jensen and Meckling, 1976; Fama, 1980b; Leftwich et al., 1981) suggests that share ownership by managers helps to alleviate the conflicts of interest that exist between managers and shareholders. Jensen and Meckling (1976) contend that as managerial share ownership increases, a firm's performance increases because managers are less inclined to expropriate wealth. Thus, this notion suggests that the greater the ownership stake by managers, greater the costs for not pursuing the wealth maximization goal (Weir et al., 2002). However, Morck et al. (1988) argue that high share ownership by managers could result in entrenchment because they become difficult to control. This suggests that at certain levels of ownership, managers may have incentives to act for their own interests at the expense of wealth maximization (Short and Keasey, 1999). These views suggest that the relationship between management ownership and firm performance is non-linear.

Managerial ownership is an endogenous variable which is influenced by differences in industry and business environment as much as by characteristics of a firm and its managers (Himmelberg et al., 1999); therefore, some studies consider importance of board of directors' characteristics, such as board size and board composition. For instance, Fama and Jensen (1983a) suggest that the board has an important function of alleviating agency costs that arise from the separation of ownership and decision control in corporations. Short et al. (1999) believe that the board of directors is the central corporate governance control mechanism responsible for monitoring the activities of managers. In the same way, several researchers have suggested that the board size is an important aspect of effective corporate governance

(Pearce and Zahra, 1992; Jensen, 1993; Yermack, 1996).

According to studies, a larger board is more likely to have a greater range of expertise to monitor the actions of management effectively (Beasley, 1996; Forbes and Milliken, 1999; Karamanou and Vafeas, 2005) which is required, not only for enhancing the monitoring activities of managers (Monks and Minow, 2001), but also in securing critical resources (Pearce and Zahra, 1992; Goodstein et al., 1994; Haniffa and Hudaib, 2006). However, others argue that a small board is more effective (Lipton and Lorsch, 1992; Jensen, 1993; Yermack, 1996). According to them, large boards may be less cohesive and slow in making decisions (Lipton and Lorsch, 1992), less candid in discussions of managerial performance (Lipton and Lorsch, 1992; Vafeas, 1999) and more difficult to coordinate (Forbes and Milliken, 1999). Jensen (1993) argues that large boards are less likely to function effectively and are easier for the CEO to control.

Yermack (1986), by means of Tobin's Q as a measure of firm performance, finds an inverse relationship. He suggests that small boards of directors are more effective. This is consistent with Yermack (1996) and Haniffa and Hudaib (2006) who also used the Tobin's Q and reported similar results. However, when they employ return on assets, an accounting measure of performance, they find a positive association. They argue that while the market may perceive large boards as ineffective, they are beneficial to the company as they provide the diversity of knowledge that is necessary for directing the operations of the company.

Regarding the relationship between board size and firm performance, Holthausen and Larcker (1993) consider board size among other variables which are more likely to influence firm performance, but they fail to detect consistent evidence of a relationship between board size and firm performance. Empirically, the evidence on the importance of board size on firm performance is mixed.

The next character that can be considerable is board composition. Fama (1980b) and Jensen (1983) emphasize on the degree of board independence. They debate that non-executive directors (NEDs) can have a viable role as an internal control mechanism. Also, they believe that collusion between NEDs and executive directors is implausible to expropriate shareholder wealth. Due to labour market who indicate price of NEDs according their performance, they try to maintain and develop their reputations as experts.

Although financial literature argues over advantages of NEDs, there are conflict viewpoints with proportion on non-executive directors on the board. According to Rosenstein and Wyatt (1990), the addition of NEDs to the board leads to improved shareholder's wealth. Weisbach (1998) show that boards with higher proportion of NEDs is more likely to remove poor performing CEOs. Moreover, there is an expected that, the companies with a higher proportion of NEDs are able to participate in major

restructuring events such as mergers, takeovers and tender offers.

In contrast, the higher proportion of NEDs on the board has been criticized by some researchers (Baysinger and Butler, 1985; Patton and Baker, 1987; Demb and Neubauer, 1992; Goodstein et al., 1994; Agrawal and Knoeber, 1996). They argue that a higher proportion of NEDs may have detrimental effect on firm performance. For instance, Agrawal and Knoeber (1996) document a negative association between proportion of NEDs and firm performance. Moreover, results of other studies reveal that it is hard to find a relationship between the proportion of NEDs and performance (Hermalin and Weisbach, 1991; Bhagat and Black, 2000; Weir et al., 2002; Haniffa and Hudaib, 2006).

### **Some hypotheses and evidences**

Economic questions relate to well-functioning enterprises dating back to centuries ago. From Smith (1776) to Marshall (1890), Marx (1894) and Schumpeter (1926), the relationship between firm performance and ownership structure has been discussed extensively with a lot of attentions. In the last century, the study titled "the modern corporation and private property" by Berle and Means (1932) served as a reference for discussions on the vast subject of "corporate governance" which forms the framework of this paper: the relationship between performance and ownership structure; especially management ownership. However, because of different results regarding management ownership, the authors classified previous researches into four categories as presented thus.

#### ***Financial performance is a function of management ownership***

This category covers two sub-categories; each of them supports different hypotheses:

1) Incentive alignment argument: This hypothesis asserts that corporate performance is an increasing function of managerial ownership. According to Jensen and Meckling (1976), increasing equity of management can be responsible for better alignment of the monetary incentives between the manager and other equity owners.

Regarding to relation between ownership control (OC), management control (MC) and firm performance, the findings of the study by Leach and Leahy (1991) show that the OC firms are significantly more profitable than MC firms by using return on equity, return on sales, growth of sales and growth of net assets as measures of performance. At the level of ownership control, less than 5, 10 and 20% are never significant. More ownership concentration causes significantly less performance in terms of historic market value to ordinary share capital and return on sales. Also, McConnell and Servaes (1990)

indicate that there is significant relationship between profitability and ownership by managers and directors.

This idea that OC firms are significantly more profitable than MC firms is supported by Larner (1970) and Steer and Cable (1978). In this area, Monsen et al. (1968) believe that not only OC firms are more profitable than MC firms but they also claim that there is significant and strong positive relationship. The result of the study carried out by Stano (1976) showed that the strong owner control (SOC) firms are significantly more profitable than MC firms. McEachern (1975) stated that the OM and external control (EC) firms are significantly more profitable than MC firms.

In contrast, according to a survey by Thonet and Poensgen (1979), it has been shown that OC firms are significantly less profitable than MC firms in terms of return on equity and market value to book value. Also difference between MC and OC with regard to return on stocks, growth, and variance on equity and beta risk is not significant. Similarly, Ware (1975) show that OC firms are significantly less profitable than MC firms with regard to return on equity. OC firms have significantly higher net sales to number of employees and retained earnings to net income. With respect to subject of abnormal returns and managerial ownership, a survey conducted by Gupta and Rosenthal (1991) show that the abnormal returns of a leveraged recapitalization increases marginally (10% level) with changes in managerial ownership and increases significantly with the level of distributable cash flow. Han and Suk (1998) show that between abnormal returns at the announcement of stock splits and the level of insider ownership, there is a positive relationship. Also, Cotter and Zenner (1994) find that successful tender offer can have a connection with managerial ownership and it is associated with significant abnormal returns.

On the other hand, results of research by Song and Walkling (1993) reveal that the cumulative abnormal return (CAR) has positive significant relationship with managerial ownership. Other results show that probability of acquisition attempts is significantly decreasing with managerial ownership at the target firm. Finally, managerial ownership is significantly lower in contested acquisitions, compared to uncontested acquisitions. According to Stulz et al. (1990), target CAR increases significantly with target managerial ownership in success-ful, multiple bids. Furthermore, bidder CAR increases significantly with bidder management's ownership of the bidder company (Lewellen et al., 1985).

Finally, Mehran (1995) show that firm performance increases significantly with CEO Ownership. Moreover, the findings reveal that there is no significant effect of ownership by all officers and directors or ownership by outside directors.

2) Entrenchment argument: According to this hypothesis, corporate performance is a decreasing function of managerial ownership. Morck et al. (1988) believe that increasing management's equity can contribute to reduce financial performance. Under the circumstances,

managers may become too powerful; hence, they do not have to consider other stockholder's interests. Moreover, they argue that at high levels of ownership, managements could cause control problems. As a result, when managers perform poorly, shareholders are not able to dispense them.

Denis and Denis (1994) examine 72 US firms with over 50% insider ownership by managers and directors. The findings reveal there is no difference in performance between majority controlled firms and other firms.

Agrawal and Mandelker (1990) studied 356 US listed firms which announced adoption of anti-takeover charter amendments between 1979 and 1985. They employed insider ownership by managers and directors as one of the ownership variables to test the hypothesis. Results reveal that CAR decreases significantly with the adoption of anti-takeover amendments. However, there is no evidence of a difference in CAR in different levels of insider ownership. Moreover, this finding is confirmed by using OLS regression. It also shows the higher decrease in CAR, the more entrenching the amendments. Likewise, Jarrell and Poulsen (1987) support the above findings that CAR decreases significantly with the adoption of anti-takeover amendments. Indeed, both the above studies assert that managers are able to entrench themselves using anti-takeover provisions instead of stock ownership. In addition, the study by Jarrell and Poulsen (1988) show that CAR decreases significantly with insider ownership.

Malatesta and Walkling (1988) examine the effect of the "poison pill securities" on shareholder's wealth. Findings show that the adoption of the "poison pill securities" has a negatively significant effect on the shareholder's wealth and "poison pills" are more subject to takeover attempts than firms in the same industries without this right. In short, they believe that managers are able to entrench themselves using "poison pill securities" instead of stock ownership. Johnson et al. (1985) conducted a study to find the effects resulting in the death of an executive of publicly listed US firms. They tested a sample including 53 non-anticipated deaths of senior executives between 1971 and 1982. The findings revealed that there was no general effect resulted from executive death. However, there was a significant positive return if the executive was the founder.

Boyle et al. (1998) find that insider ownership at 10% level is negatively related to the number of anti-takeover provisions. The finding confirms entrenchment arguments. Finally, DeAngelo and Rise (1983) and Dann and DeAngelo (1983) find evidences in support of entrenchment arguments.

### ***Relationship between management ownership and financial performance is non-monotonous***

With reference to the hypothesis which covers two

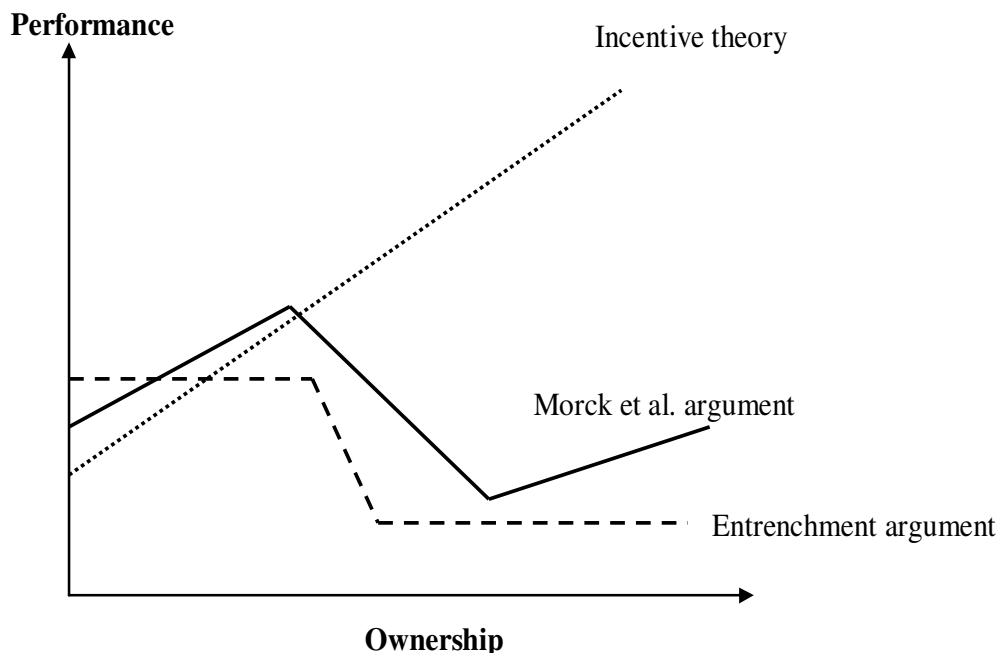
arguments; Stultz's integrated theory (1988) and Morck et al. combined argument (1988), corporate performance is a non-monotonous function of management ownership. In fact, these models are not independent patterns to predicate relationship between firm performance and management ownership. Due to this, they are integrated by other arguments, such as takeover premium, entrenchment and incentive alignment.

**Stultz's integrated theory:** Stultz (1988) present a model for predicting relationship between managerial ownership and financial performance which is integrated by the takeover premium argument and entrenchment argument. According to this model, the relation is roof-shaped. Stultz believes that more equity ownership can have positive effect on firm performance, because managers are more competent of opposing a takeover threat from the market for corporate control.

**Morck et al. combined argument:** Morck et al. (1988) present a hypothesis based on the dominant effect of entrenchment arguments on the incentive alignment arguments. They argue that the performance effect of the incentive alignment argument dominates the performance effect of the entrenchment argument at low levels of managerial ownership and for higher levels, around 5% managerial ownership, the picture is reversed and for still higher 30% ownership, the picture is reversed back once again. In other words, the dominant effect is only for medium concentrated levels of management ownership. As shown in Figure 2, the empirical findings can not provide a clean "bell-shaped relation" between performance and ownership. For this reason, entrenchment effect will dominate the incentive effect only for medium concentrated levels of management ownership. In the same way, Short and Keasey (1999) conducted a research that covers 225 UK firms at the London Stock Exchange between 1988 and 1992. They employ Tobin's Q and return on equity as performance variables. The findings show that although squared director ownership is significantly negative, director ownership and its cubic are significantly positive. The comparison between the findings of the above two studies reveal that entrenchment level in UK companies is higher than that of US.

Keasey et al. (1994) show that relation between firm performance and management ownership is significantly positive and roof-shaped. Their findings support non-monotonous relationship between performance and ownership with emphasis on entrenchment and incentive alignment arguments. Moreover, Hubbard and Palia (1995) found the evidence to confirm this assertion. In a study conducted by MaConnell and Servaes (1990), the results showed that relation between management ownership and profitability is significantly positive and roof-shaped with performance.

In addition, linear regression showed that profitability increased significantly for insider ownership between 0



**Figure 2.** Relationship between firm performance and management ownership regarding some arguments.

and 5% range. In 1995, they conducted another study based on previous study. The only difference between the two studies is that Tobin's Q now is significantly increasing with block holder ownership. According to Hermalin and Weisback (1991), Tobin's Q and return on assets as Performance measure increased significantly with CEO ownership in the 0 to 1% range and depressed significantly in the 1 to 5% range. The findings rejected the hypothesis that there was no simultaneity at the 5% level. Chen et al. (1993) take three samples to examine relation between firm performance and management ownership. The findings show that firm performance increases for management ownership in the range of 0 to 7% and decreases in the range 7 to 12%. In spite of decreasing the 1976 sample in the 12 to 100% range, performance increased for the 1980 and 1984 samples. Also, Curcio (1994) shows that firm performance has a negative relationship with board ownership in the 25 to 100% range.

Holderness et al. (1999) by means of two selected sample assert that relation between profitability and management ownership is significant in the 0 to 5% range and this relation is significantly negative in the 5 to 25% range in the 1935 sample. But for the 1995 sample, performance is significantly increasing for management ownership only in the 0 to 5% range.

### ***Management ownership is a function of financial performance***

The following arguments support this concept that

management ownership levels are related to financial performance and root of well financial performance depends on the ability of managers and their insights. When value of firm increases; managers are willing to obtain equity compensation as reward. Therefore, it is safe to say that management ownership is a function of financial performance. The main related hypotheses to this concept are as follows:

- i. Reward argument: As per this concept, because of good prior financial performance, firms reward their managers by giving them equity ownership; consequently, better financial performance lead to more management ownership (Kole, 1996).
- ii. Insider-reward argument: According to Cho (1998), "other things being equal, managers may prefer equity compensation when they expect their firm to perform well and, consequently, the value of the firm to increase. As a result, higher levels of insider ownership are expected at firms with high corporate values."
- iii. Insider-investment argument: Insider-investment argument states that owner-managers may increase their equity when they expect firm value to increase. On the other hand, they decline their ownership when financial performance begins to deteriorate (Loderer and Martin, 1997).

With respect to the insider-investment argument, results of a survey conducted by Rozeff and Zaman (1998) show that the proportion of officers and directors buying shares significantly decreases with prior stock returns. Indeed,

the proportion has significant positive relation with the ratio of cash flow to stock price as well as book value to stock price. Yermack (1997) studies effect of stock option award in 500 of the largest US firms between 1992 and 1994. Yermack claims that CAR increases significantly after the award of CEO stock options and it is lower for grants at predictable times. Moreover, CAR is four times higher than average if the CEO is represented in the remuneration committee and often after good news announcements, there are more awards. Rozeff and Zaman (1988) studied 698 trading events by insider and 622 trading events by outsiders. The findings show that for both kinds of ownership, the standard CAR, with or without transaction costs, is significant and positive. Also, insiders have significant and positive relation with size and e/p adjusted CAR with or without transaction costs.

Seyhun (1986) tested 59148 trading events by 769 public firms between 1975 and 1981. They consider insider sales and purchases by officers, directors and holder above 10% shares. They found that after insider purchases, CAR increases significantly and decrease after insiders sales. Indeed, CAR decreases significantly before insider purchases and it increases significantly before insider sales. Moreover, employing of GLS regressions reveals that CAR increases significantly for insiders who are both officers and directors and insider. The findings of Loire and Niederhoffer (1968), Pratt and De Vera (1970), Jaffe (1974) and Givoly and Palmon (1985), showed that insiders make abnormal returns when trading in their firm's stock.

With reference to the incentive argument versus the insider-investment argument, the findings of Loderer and Martin (1997) show that insider ownership decreases significantly with performance and Tobin's Q as performance measure declines insignificantly with the insider. Based on reproducing the model of Morck et al. (1988), Kole (1996) finds that profitability is only significantly increasing for board ownership in the 0 to 5% range. Also, regarding running a series of lagged OLS regressions, the result reveals that ownership is endogenous.

### ***No relationship between management ownership and financial performance; Natural selection argument***

With regard to Darwin's theory (1958), natural selection is a process that occurs over successive generations. Two requirements are essential for the occurrence of this theory: first, having a heritable variation for some trait, then existence of differential survival and reproduction associated with the possession of that trait. Some researchers believe that the theory may help to determine ownership structure (Demsetz, 1983; Demsetz and Lehn, 1985; Kole and Lehn, 1997). Hence, financial performance can be a basic player to determine ownership structure. In that sense, corporations with inefficient ownership structures will fail to survive in the long run.

Himmelberg et al. (1999) found endogenous evidence of managerial ownership caused by unobserved heterogeneity as opposed to reverse causality. In spite of their findings of evidence of a roof-shaped, after controlling for firm characteristics and firm fixed effects, they found that there was no relationship between managerial ownership and performance. Thomsen and Pedersen (1999) selected a sample including non-financial firms in 12 EU countries between 1990 and 1993. They used return on equity to measure performance. Results revealed that performance has negative relation with ownership concentration but was not significant. Also, ownership concentration is not regressed against performance. Denis and Denis (1994) studied 72 US firms with the above 50% insider ownership by managers and directors. The findings reveal that there is no difference between majorities controlled firms and other firms in performance. The likelihood of majority control increases significantly with family or founder involvement. Indeed, 80% of majority controlled firms have substantial family or founder involvement. Majority controlled firms have significantly less outside directors and block holders. Finally, Demsetz and Lehn (1985) show that performance by accounting return is insignificantly decreasing with ownership by 5 or 20 largest shareholders or the Herfindal index. Ownership by 5 or 20 largest shareholders increase significantly by standard error of market return.

## **CONCLUSION**

Managerial ownership has been a controversial argument since the 1980s. Basically, debate on this subject has its roots in agency problem. Although conflicting interests between managers and ownership have been a motivation for scholars that try to devise a mechanism to reduce agency problem, empirical results are so different and contradictory. Regarding incentive alignment hypothesis, some empirical studies try to document that giving equity ownership to managers is a suitable remuneration to align interest between shareholders and managers. Therefore, in such conditions, firm performance will improve. On the reverse side, the number of empirical research confirms entrenchment arguments that increasing of management's equity leads to less consideration to shareholders interest and finally it can create management control problems. In the circumstances, Morck et al. (1988) provide a moderate way between these mechanisms. They suggest that firm performance can improve at low management ownership level as well as at the high level. But at medium concentrated levels, entrenchment mechanism becomes active. In spite of these findings, there is an argument that state levels of management ownership are determined by financial performance. Managers prefer equity compensations while firm value is increasing and they decline their equity when financial performance begins to deteriorate. Despite arguments for and against positive and negative relationships between



firm performance and ownership management, some empirical findings, such as Himmelberg et al. (1999) show that there is no relationship between managerial ownership and performance. The aforementioned arguments on managerial ownership reveal that researchers still have not been able to show clear and constant evidences for the effect of managerial ownership on corporate performance and retain the same view point on this matter. Undoubtedly, only managerial ownership cannot lead to harder work by managers and boost performance because it may not give adequate inducement to managers. In fact, there can be other causes for managers' effort to maximize shareholder's value such as the competition in the labor markets. Also, ownership management is just a part of different mechanisms to reduce agency cost. To solve this problem, perhaps a new combination of alternative mechanisms can do work competently. In conclusion, there is still a deep gap between theories and fact on relationship between ownership management and performance. Regarding new global market's situation, aspects of the problem may change; therefore, future studies should focus on this matter before it becomes too serious a global problem. Since the conflict of interests between agents and principals result from complex human behaviors, maybe, further advances in physiology science to understand better human behaviors mechanism can help us to detect practical approaches for reduction of the agency problem.

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