Ownership structure and performance of firms: Empirical evidence from an emerging market

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The study examines the relationship between ownership structure and performance of the listed companies in an emerging South Asian market. Performance of the firms has been quantified by using market based measures as well as accounting based measures. Marris Ratio and Tobin’s Q represents the market based measures of companies’ performance whereas Return on Equity and Return on Investment captures the financial reporting perspective. Percentage of shares held by the Board of Directors has been used as the proxy for ownership structure. Sample has been divided into three groups by using Cluster analysis. Chi square test for homogeneity provides that groups are significantly different. It is evident that companies with concentrated ownership at Board show weak performance whereas the companies with independent Board perform better. Descriptive statistics also confirms the result. The study reveals ownership structure is negatively related with the performance of firms. Therefore we can safely say that a more independent and effective board of Directors accelerates a firm’s performance.

Key words: Ownership structure, firm’s performance, corporate governance.

INTRODUCTION

Firms are defined by a network of relationships representing contractual arrangements for financing, capital structure, managerial ownership and compensation. While it has been observed from the earliest of business history that these relationships have conflicts but virtually every party has professed to the overall objective, namely good performance of the business. The most prominent and crucial issue in discussion has been the ownership structure which became more sensitive when the concept of companies became popular. The intention behind every business is earning profit. Individuals invest in the businesses for earning profit. Businesses around the world need to be able to attract funding from investors in order to expand and grow. Before investors decide to invest their funds in a particular business, they try to be as certain as they can be about the firm’s financial soundness and prospects. Perhaps the strongest tool for such an assurance is firm’s proper leadership. Now, since the investors (shareholders and lenders) do not run the business themselves, they need a degree of confidence in the management team that is entrusted to run the affairs of the firm.

Large incorporated businesses are usually owned by one group of people (the owners or shareholders) but are run by another group of people (the management or the directors). This separation of ownership from management creates an issue of trust. This situation creates a two-faceted problem: the owners need assurance that the management will run the affairs of the firm in a manner that serves and protects their (owner’s) interest while the management have their own personal interest which they are likely to place before that of the company or its owners. This gives birth to the importance of governance structure. The governance structure of the modern corporation aims at resolving the problem with a two-pronged strategy: the assignment of the right people to the management and the efficient provision of incentives to the managers. Poor selection of directors/managers and consequent moral hazards can harm the cause of the

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harm the cause of the corporation, adversely effecting its performance and potential.

In developing countries, the issue of governance differs from the West in one significant aspect. Whereas in the West and other developed economies, the companies are run by fairly independent managers (that is, executive directors) who control only a small percentage of total shares, in developing economies the management of the company is exclusively in the hands of controlling shareholders who appoint and treat executive directors as employees of the controlling family rather than the company. Therefore, in the West the focus of governance is on executive directors while in the developing countries it is on the ownership structure. We believe that more and more investors in Pakistan are becoming aware of the significance of taking ownership structure into consideration when making investment decisions. Capital markets are slowly but consistently becoming more efficient, with information on firm strategy and investment decisions more readily accessible to investors. At the same time, modern corporations have become less reliant on physical assets and are more dependants on intangible assets such as intellectual property and highly skilled employees who are often awarded ownership stakes as a form of compensation. Recent changes in ownership patterns are also likely to increase the importance of understanding that the distributive consequences of ownership are highly intertwined. So, we believe this study will provide another point of view to investors on what sort of ownership is likely to have a positive impact on the performance of the firms. According to the agency theory, there are three main categories of shareholders: managerial shareholders, financial shareholders and institutional shareholders.

**Managerial shareholders**

These are the shareholders who are present in the Board of Directors and thus participate in the management of the company.

**Financial shareholders**

These are the shareholders who own shares of companies with an intention of earning future dividends and for the potential of growth in the value of their investment. They are not represented on the board of the company and, in the context of developing countries; generally do not have any influence on the board’s decisions.

**Institutional shareholders**

Institutional shareholders are organizations that have large amounts of funds to invest and they do invest a healthy amount of these funds into company shares, e.g. pension funds, insurance companies and collective investment institutions such as unit trust funds and investment companies.

As this study is focused on finding out the relationship between ownership structure and performance of the firms, we will mainly concentrate on the shareholders who have a direct involvement in board’s decision-making, namely the managerial shareholders who are a part of the Board of Directors. The purpose of this study is to undertake an empirical analysis of ownership structure and its relationship with the performance of firms within the Pakistani context. We will try to explore the nature of the “puzzle” of ownership structure.

**CORPORATE GOVERNANCE VIEW**

Internationally, over the past few years, much emphasis has been placed on the importance of corporate governance. Corporate governance can be defined as the way the management of a firm is influenced by its stakeholders, including owners/shareholders, creditors, managers, employees, suppliers, customers, local residents and the government. Different economies have systems of corporate governance that differ in the relative strength of influence exercised by the stakeholders over the firms’ management. Corporate governance is all about governing (running or managing) corporations (incorporated firms). It is generally assumed, and not too erroneously, that corporate governance significantly influences corporate performance. Some spectacular business successes as well as bankruptcies have been ascribed to good or bad leadership. Even though corporate performance in general is less extreme, the effect of firm ownership and control on the firm’s performance has been widely discussed since Berle and Means (1932) described corporate enterprises. We are principally interested in finding out if the ownership structure of a company has any effect on its performance, and if so to what extent? As performance is an economic and empirical term in the context of businesses, this study aims to examine the linkage and support the conclusion with statistical evidence. After examination of the literature on firm performance and ownership structure, we classify the different results into three main groups.

**BASIC ASSUMPTIONS ON OWNERSHIP STRUCTURE AND PERFORMANCE OF FIRMS**

**Neutrality**

According to Demsetz (1983) corporate performance depends on environmental constraints; it has nothing to do with the ownership structure. For Demsetz (1983) all structures are equal. So performance has no relationship with the ownership structure and it is dependent on internal and external environment. The assumption that ownership structure has no influence over a firm’s
Performance is referred to as the “neutrality assumption”.

Convergence in interest

Under this assumption, the greater the managerial ownership, the less inclined the managers are to divert resources away from value maximization. In other words, higher ownership by managers aligns the interest of the managers with that of the company. In other words, the greater the managerial ownership (i.e. larger the percentage of shares held by the directors of the company), the better will be the company’s performance.

Entrenchment

According to this assumption, the greater the percentage of shares held by the managers, the lesser the other shareholders can compel them to manage the firm in their (other stakeholders’) interests. The managers may seek entrenchment by weakening the mechanisms able to control or replace them (Charreaux, 1997). Numerous empirical studies have tried to highlight the relationship between ownership structure and corporate performance. The results are sometimes contradictory. Some works showed a linear relation (Cole and Mehran, 1998) whereas other studies highlighted a non-linear relation (Morck et al., 1988; McConnell and Servaes, 1990; 1995; Kole, 1995; Short and Keasey, 1999). For a study of this nature to have a firm foundation, it is necessary to choose variables that are quantifiable and comparable. We have therefore chosen four variables of performance that meet these two qualifications. The chosen variables are Tobin’s Q, Marris Ratio, Return on Equity (ROE), and Return on investment (ROI).

Tobin’s Q

Morck et al. (1988) used Tobin’s Q as a measurement of performance and the percentage of shares owned by the Board of Directors as a measure of ownership. In line with this paper McConnell and Servaes (1990) used Tobin’s Q against managerial ownership and managerial ownership squared and found that the coefficient of management ownership was statistically significant and positive while the coefficient of managerial ownership squared was statistically significant and negative. In addition McConnell and Servaes (1995) replicated their earlier study over a later time period and reported the same results. Eric (2001) also being inline with these authors used the same variable as one of the performance indicator. With the current state of capital markets in emerging economies, we believe Tobin’s Q is a very pertinent and expressive variable for measurement of firm performance.

Marris ratio

The Marris ratio is an indicator of growth opportunities. As specified by Hirigoyen and Caby (1997, pp. 18-19), the Marris ratio “is a permanent valuation indicator of choices of the firm, of the management and of strategic perspectives”. When this ratio is higher than one, the firm is said to be capable of creating value; otherwise it shows a declining trend in firm’s value.

Return on equity and return on investment

These are basic ratios used for measuring the performance of a firm with wide validity and relevance to our study. These are as effective a measure of firm’s performance in developing economies as they are in the developed countries. By taking these variables we tested the theories regarding ownership structure and performance of firms. Our results suggest that the relationship between firm’s ownership structure and its performance is negative in Pakistani companies. Our results are in agreement with the findings of Hu et al. (2004) with Chinese context.

LITERATURE REVIEW

Ownership structure and performance of firms is a topic, which has been discussed by researchers and financial scientists for a very long period of time. A large number of researchers in various parts of the world have done commendable work on it and presented their findings on the basis of facts and figures. Some studies are being presented over here with reference to the topic defined earlier. Agrawal and Knoeber (1996), examined the relationship between ownership structure and performance of firms by taking 383 large US firms for the year 1987. They took percentage of insider ownership by directors and officers, Dummy for presence of founding CEO and percentage of shares held by above 5% block holders as ownership variables and Tobin’s Q by market value of stock, preferred stock and debt to book value of assets were taken as performance variables. OLS and 2SLS regression was applied for the analysis. Results accessed were: OLS on Tobin’s Q: Tobin’s Q decreases significantly with board outsiders, leverage, and corporate control activity. It increases significantly with insider ownership on Tobin’s Q: Tobin’s Q decreases significantly with board outsiders. SLS without Tobin’s Q: Shareholdings by block holders and institutional investors increases significantly by corporate control activity. Institutional ownership decreases significantly with block holder ownership and vise versa. Leverage increases significantly with insider ownership and outside board membership but not vise versa. Years of CEO employment decreases significantly with institutional and block
block holder ownership, but not vice versa.

Chong-En et al. (2004) paper examined the relationship between the governance mechanisms and the market valuation of publicly listed firms in China empirically. They constructed measures for corporate governance mechanisms and measures of market valuation for all publicly listed firms on the two stock markets in China by using data from the firm’s annual reports. They investigated how the market-valuation variables are affected by the corporate governance variables while controlling for a number of factors commonly considered in market valuation analysis. A corporate governance index has also been constructed to summarize the information contained in the corporate governance variables. The index is found to have statistically and economically significant effect on market valuation. The results indicated that investors pay a significant premium for well-governed firms in China, benefiting firms that improve their governance mechanisms. Eric (2001) dealt with the influence of ownership structure; variables of external and organizational discipline on financial and economic performance were used. By means of self-organizing maps, in particular Kohonen maps, they highlighted three main results. Firstly, a non-linear relation between ownership structure and performance was obtained. Secondly, the variables of external discipline, that is leverage and stock-turnover, partly explain performance. Although debt level negatively influences performance, conversely, stock-turnover had a beneficial impact on performance. Finally, though the organizational variables seem to have no significant impact on performance, corporate size had a positive influence on performance.

Morck et al. (1988) examined the relationship between ownership structure and performance of firms by taking 371 of the largest US firms for 1980, variables taken for ownership were Combined shareholding by all members of the board in the ranges: (0 -5%), (5 - 25%), and (25 - 100%), Combined shareholding by top two officers, Dummy for presence of founder on board. Variables taken for performance were Tobin’s Q, Profit rate by net cash flow to replacement cost of capital. OLS regression was used for data analysis. Used piecewise linear regression also. Results accessed were: Profitability is significantly increasing for board ownership in the (0 - 5%) range and significantly decreasing in the (5 - 25%) range and if the founder is present on the board of old firms. Significant controls: R&D to size and debt to size. Similar results for top two officers. However foreign ownership was found to have a positive and significant effect on corporate governance quality. State ownership and concentrated ownership rights improve efficiency.

The quality of corporate governance found to have a positive impact on efficiency of domestically owned firms.

A review of the work done by different researchers in the world indicates three possible situations:

1. Some researchers proved that ownership structure has a positive relationship with performance,
2. Others proved that ownership structure does not have any impact on performance. In their findings other factors like environment and externalities regulate the performance; and
3. Yet others proved that ownership structure has a negative relationship with the performance. In simpler terms, a higher percentage of share-ownership by the board members leads to lower performance.

The above results are according to the different corporate environmental findings where the researchers were conducting their research. As yet, no study is known to have been made on the basis of Pakistani corporate scene. Hence, the present study is the first in this area of research. While it essentially aims to highlight the relationship of ownership structure and performance of firms with respect to Pakistani corporate culture, it will also dilate on such other factors which affect the performance of Pakistani companies, diluting the impact of ownership structure.

METHODOLOGY AND DATA DESCRIPTION

Data description

KSE 100 index firms for the year 2005 have been selected as sample. However, we excluded:

1. Firms in the financial sector (capital structure of these firms is significantly different from those of other sectors; also capital structure of financial institutions is regulated to a considerable extent by SBP and SECP);
2. Firms for which the required data was unavailable.

As a result of the above exclusions, our sample shrank to 67 companies. Nonetheless, it still covered more than two-thirds of the 100 companies constituting the KSE 100 index.

Measuring the firms’ performance

For measuring performance, we confined our attention to the profitability and market value of the company’s share. Hence, we used the following variables for performance:

1. Indicators of Performance
2. Return on Investment (ROI)
3. Return on Equity (ROE)
4. Tobin’s Q
5. Marris Ratio

To represent ownership we used Ownership variables: Percentage of shares held by the Board of Directors.

Pertinence of measurements in performance and ownership structure

Return on Investment (ROI): (net result + interest) / (equity + total debt)

Eric (2001) took this variable as performance indicator for measuring performance of companies in France. Return on investment
(ROI) is a key financial metric of the value of business investments and expenditures. It is a ratio of net benefits over costs expressed as a percentage. ROI values the total performance of the firm. ROI is calculated in book value and equals to: (net result + interest) / (equity + total debt). ROI divided by 100 gives us the number of years, a firm takes to earn its total investment. It follows that net profit plus interest represents the total return to both the shareholders as well suppliers of long term debt. Nevertheless this indicator is not free of criticism. Indeed ROI uses the net profit that very often includes non-operating elements. That is why it would be better to choose EBITDA (earning before interest and taxes and depreciation) because this measurement excludes in particular amortization. Despite these imperfections, we chose this ratio purely for its simplicity in measurement.

Return on Equity (ROE): (net profit / equity - in book value -)

Financial performance is given by the ROE (net profit / equity - in book value -). This indicator is very important for shareholders. However the ROE does not permit assessment of the profitability of all invested funds. Furthermore, we were careful to reprocess the absurd values (Eric, 2001) which arise out of negative results and unrealistic debt levels. This ratio is influenced by the degree of a company's leverage and cost of its debt. ROE divided by 100 gives the number of years; a company theoretically takes to earn its equity.

Tobin's Q: (market value of equity + book value of debt/total of assets - in book value -)

Another measure of performance, Tobin's Q, is the ratio of the market value of a firm's assets (as measured by the market value of its outstanding stock and debt) to the replacement cost of the firm's assets (Tobin 1969). This measure of performance is not used as often as either rate of the two other rates of return or price-cost margins. If a firm is worth more than its value based on what it would cost to rebuild it, then clearly extra value has been earned/built. These profits are above and beyond the level that is necessary to keep the firm in the industry. The advantage of using Tobin's Q is that the difficult problem of estimating either rate of return or marginal costs is avoided. On the other hand, for Tobin's Q to be meaningful, one needs accurate measures of both the market value and replacement cost of a firm's assets. It has been traditionally used in the financial literature Eric (2001), (Lang and Litzenberger, 1989; Howe et al., 1992; Denis et al., 1994). Lang and Litzenberger (1989) justify the utilization of Tobin's Q as measurement of growth opportunities. They show that a Tobin's Q above 1 is a necessary condition for a firm to be at a level of investment that maximizes its value and that a Tobin's Q below 1 characterizes a firm with no growth opportunities. In Pakistan, we cannot strictly use this measurement because some items (for instance debt maturity, market value of the debt, interest rates or value replacement of the firm) are not available in our dataset. Hence in line with Eric (2001) we chose the total assets instead of the replacement value. Thus the measurement of Tobin's Q is the ratio becomes (market value of equity + book value of debt/total of assets - in book value -).

Marris: (Market value of equity/ book value of equity)

Marris ratio confines itself to shareholders value, rather than company's global or stakeholders value as measured by Tobin's Q. To compute Marris ratio we divide the market value of a company's equity by its book value. A ratio of higher than value indicates that the market perception of the company's profitability potential is greater than its net assets (total assets less total debt at book value).

Ownership variables

In line with the approach used by Eric (2001); Morck et al. (1988), we have chosen the percentage of shares held by directors as representative of company's ownership structure. Our choice has been influenced by the inevitable fact that all decisions for company's operations are made by its board of directors. We have also made the assumption that the relationship between performance and ownership structure is non-linear.

Analysis of convergence in interest

To test the first theory that is convergence of interest, the following hypothesis has been developed:

H$_2$: Ownership structure influences performance of the firms.
H$_2$: Ownership structure does not influence performance of the firms.

First of all as per literature many of the traditional methods are applied on the basis of normality of the data. To test this, we examined the distribution of the ratios whether they are normally distributed or not. We used Kolmogorov-Smirnov test for normality. According to Eric 2001; Morck et al., 1988; McConnell and Servaes, 1990; Short and Keasey, 1999, there may exist a non-linear relationship between ownership structure and corporate performance. Self-organized maps (SOM) and more especially one of the variants called the Kohonen Map (Kohonen, 1982; 1995) have been used for the analysis of data by Eric (2001) in France. One of the major advantages in its use is its capacity to deal with non-linear problems in particular. Our objective was to determine several groups of homogeneous individuals. Secondly, non-parametric test ($x^2$) has been used to highlight significant differences between the groups. Use of Kohonen map had two main objectives:

1. Clustering: Each unit will be associated with a similar kind of individual. The vector associated with the unit converging toward the mean profile of the associated individuals;
2. Reduction in the number of dimensions: The (at least local) proximities between the units will give us an idea of the proximities of clusters of individuals in the input space.

The non-normality and the fulfillment of these objectives led us to cluster our individual companies into 3 groups. Hence, we transformed each character (that is to say the performance variables: Tobin's Q, Marris, ROI, ROE and the ownership structure variable: BOD) into 3 categories (Strong, Average and Weak). To derive the data in three main groups we used the cluster analysis.

Cluster analysis

Cluster analysis is an exploratory data analysis tool for solving classification problems. Its objective is to sort cases (people, things, events, etc) into groups, or clusters, so that the degree of association is strong between members of the same cluster and weak between members of different clusters. Each cluster thus describes, in terms of the data collected, the class to which its members belong; and this description may be abstracted through use from the particular to the general class or type. Data clustering can be hierarchical or partitioned. Hierarchical algorithms find successive clusters using previously established clusters, whereas
Cluster analysis

As a result of normality it has been found that data is non normal. After which we applied cluster analysis and got the following table. Tables are presented in descriptive form for clear understanding. There are a lot of methods to present the results originated by cluster analysis. Our representation is in line with Eric who used in 2001 the above mentioned style to represent the Kohonen map results. In three clusters we divided our performance variables into three categories. That is strong, weak and average same categorization is made with Board of Directors that is percentage held by board of Directors, where it is highest the Board is called as strong where it is least it is called as weak and in the middle has been called as average Board.

The representation in Table 1 highlights that all performance variables converge. It is important to note that firms with the worst performances are those where the percentage held by the shareholders in Board is the greater. Nevertheless, the influence of ownership structure on corporate performance seems complex but the existence of negative effects of ownership structure on performance leads us to note that the relationship between ownership structure and performance is negative. Our null hypothesis is rejected and alternate hypothesis is verified. Our results are slightly different with McConnell and Servaes (1990) showing firstly that performance increases and afterwards decreases when the shares are concentrated in the hands of managers. Contrary to their results we can explain the negative relationship between ownership structure and corporate performance when ownership becomes highly concentrated in the hands of managers.

According to Berle and Means (1932) contending the greater the managerial ownership the less inclined the managers are to divert resources away from value maximization. Consequently, the firm’s performance increases uniformly. Our results are also contradictory to the statement. As above mentioned table is showing that with highest performing firms weakest board (in which percentage held by the Board of Directors is least) is present but when this board is having strong percentage the performance is weak. We can also say here that the entrenchment hypothesis which states "that greater the percentage of shares held by the manager, the less the other shareholders can compel him to manage the firm in their interests".

In fact the managers may seek entrenchment by weakening the mechanisms able to control or replace them. (Charreaux, 1997)” may be one of the reason for the above results. Our findings support the entrenchment hypothesis. We believe the causes of poor financial performance by the companies with a high percentage of shares ownership by the board members is attributable to the following factors, all of which are connected with entrenchment.

Siphoning of revenues

Majority of Pakistan’s companies have a saith culture. Saith, a term quite difficult to translate in English but roughly means unscrupulous rich man, are hard wired to put their personal interest before any one else’s. It is common for saith controlled companies to expropriate the interests of other shareholders by siphoning off revenues in a number of ways. Siphoning of revenue may be defined as a type of corruption in which owners enjoy the benefits from the business outside the business. Let us take an example to understand it. If a spinning mill sells its yarn at say Rs 70 per kg, but the chairman ensures that the transaction is recorded in the company books at Rs 60 per kg, with the difference going to his personal bank account. This would mean that the company’s revenue will decline by Rs 10 per kg and other things being equal, the company’s overall profitability will go down. In turn, this will mean lower EPS, lower dividends and lower share price. Siphoning of revenue proves, at least in an indirect manner, the entrenchment hypothesis. This explains why or how a larger percentage of shareholding by the directors may lead to poor performance (as per the books of the company, even if the actual performance may be some what better).

Overstatement of expenses

This is another corruption technique used by saiths to personally benefit from the company’s fortunes. In this technique Saiths simply overstate the profit (pocketing the excess of shown expenses over actual expenses), thereby leading to a reduction in profit. Lower book profits cause lower dividends and lower share price. Let us take a simple example of how expenses are overstated. It is a fairly common practice among sugar mills to show a higher
Table 1. Representation Of Results By Cluster Analysis In-Group Form.

<table>
<thead>
<tr>
<th>S/No.</th>
<th>Unit 1</th>
<th>Unit 2</th>
<th>Unit 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>ROIS</td>
<td>ROIA</td>
<td>ROIW</td>
</tr>
<tr>
<td>2</td>
<td>ROES</td>
<td>ROEA</td>
<td>ROEW</td>
</tr>
<tr>
<td>3</td>
<td>QS</td>
<td>QA</td>
<td>QW</td>
</tr>
<tr>
<td>4</td>
<td>MS</td>
<td>MA</td>
<td>MW</td>
</tr>
<tr>
<td>5</td>
<td>BODW</td>
<td>BODA</td>
<td>BODS</td>
</tr>
</tbody>
</table>

ROIS, ROIA, ROIW: ROI strong, Average, weak, ROES, ROEA, ROEW, ROE strong, Average, weak, QS, QA, QW: Tobin’s Q strong, Average, weak, MS, MA, MW: Marris strong, Average, weak, BODS, BODA, BODW: Percentage of capital held by the Board of Directors Strong, Average, Weak.

higher quantity of sugarcane as having been crushed each day than the actual quantity. The price of the difference in quantity is sent directly to the Saith. This means the overall cost of raw material (sugarcane) increases, resulting in lower book yield rate, lower profit, lower dividends and lower share price.

The directors play these games with impunity. They control the majority shares and have therefore no fear of being votes out. They make all the decisions and as long as they succeed in hiding their deceit from the external auditors (or buy his loyalties off as well), there is little any other stakeholder can do to protect his interest. Being in majority in the Board they may hand pick the audit committee to serve their own interests. In turn, the puppet audit committee and often a subservient external auditor give their approval to seriously misleading set of financial statements.

The siphoned revenue and overstated expenses go straight to the personal coffers of the directors. Since this bounty translates into a more than handsome return on the investment made by the directors, they easily become oblivious to the book profits disclosed to the stock exchange. Their interest in dividends and share price is completely lost.

Using company bank accounts as kitty

Saith controlled companies can allow their directors to use the company bank account as their personal kitty. Quite often, the Articles of Association of a company allows its board to borrow virtually any amount a lender is willing to lend. This often leads to a successful company borrowing disproportionate amounts which are then squandered on directors’ favorite projects. In effect, this amounts to funneling one company’s cash flows to another loss making project. Excessive borrowing increases debt servicing cost and burden for the company, and reduces its profits, dividends and share value. Delay in repayment increase the risk of bankruptcy which negatively affects the minority shareholders and other stakeholders. Most majority shareholders of a bankrupt company are often rumored to have recovered their own investment well before the company lands into difficult waters.

Playing with dividends

A saith will make his company declare cash dividend only when it suits him personally. He will prefer to retain cash in the company and resort to issue of bonus shares so that he remains in control of the company’s surplus cash-flows. Bonus shares increase the number of shares in the market. Minority shareholders tend to sell these shares in order to raise liquid cash for their use. This in turn increases the supply of these shares in the market, thereby curtailing their market value. The Saith unaffected by this reduction in share price as he is not likely to ever off load his own shares - and more importantly because he has already received more than his due share of cash flows through siphoning of revenues or overstatement of expenses.

Resource utilization

Directors when present in the board with the majority share holdings they do not care about the resources utilization they only prefer their own interest. The very common example in this context is that with respect to Human resource management they hire the people with the personal biases or with their own interests. This can be seen very easily that armed organizations hire army officers in their organization. Family firms prefer their family members in their organizations without taking care of their skills and competencies. Hence they get the fruit for their own selves on the expense of others but without giving any return to the other shareholders.

Descriptive statistics

Being in line with (Eric, 2001), descriptive statistics has also been used for more explanation of results. Table 2 also verifies and supports our results. The mean of all performance variables is highest in the first group as indicated in Table 2 but the percentage held by Board of
Table 2. Descriptive statistics of performance and ownership variables for each group.

<table>
<thead>
<tr>
<th>Statistic</th>
<th>Q</th>
<th>MARRIS</th>
<th>ROE</th>
<th>ROI</th>
<th>Percentage held by BOD</th>
</tr>
</thead>
<tbody>
<tr>
<td>N</td>
<td>7</td>
<td>7</td>
<td>7</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>Mean</td>
<td>3.3438</td>
<td>12.159</td>
<td>0.36874</td>
<td>0.24845</td>
<td>0.01501</td>
</tr>
<tr>
<td>Median</td>
<td>2.74842</td>
<td>6.9494</td>
<td>0.3962</td>
<td>0.29291</td>
<td>0</td>
</tr>
<tr>
<td>N</td>
<td>30</td>
<td>30</td>
<td>30</td>
<td>30</td>
<td>30</td>
</tr>
<tr>
<td>Mean</td>
<td>1.36577</td>
<td>2.83672</td>
<td>0.28652</td>
<td>0.16244</td>
<td>0.09118</td>
</tr>
<tr>
<td>Median</td>
<td>1.27138</td>
<td>2.8248</td>
<td>0.30133</td>
<td>0.12742</td>
<td>0.0288</td>
</tr>
<tr>
<td>N</td>
<td>30</td>
<td>30</td>
<td>30</td>
<td>30</td>
<td>30</td>
</tr>
<tr>
<td>Mean</td>
<td>0.54832</td>
<td>1.25531</td>
<td>-7E-05</td>
<td>0.05191</td>
<td>0.09873</td>
</tr>
<tr>
<td>Median</td>
<td>0.546</td>
<td>1.36198</td>
<td>0.11926</td>
<td>0.0487</td>
<td>0.06998</td>
</tr>
</tbody>
</table>

N = Number of observations.

Directors is least in this group. The results for Group 2 and 3 are also consistent with the clustering table.

A non parametric test of ownership variables

Eric (2001); Charreaux (1991) classified the firms into three categories: family, controlled, group controlled and managerial firms. The study also classified firms into these categories. As we have determined that ownership structure negatively influences the performance on the basis of groups. Now to verify that whether these groups are really statistically different from each other on the basis of ownership structure or not, $\chi^2$ test of homogeneity has been used which is in line with Eric (2001).

The calculated value of $\chi^2$ in our data was 6.394 with P value of 0.041 which is less than 0.05. This shows that groups are significantly different from each other on the basis of ownership structure. Hence, we can say that ownership structure has a significant relationship with performance. The results are same with Berle and Means (1932) who found a significant relationship in their study but are contrary to Eric 2001; Charreaux (1997).

Conclusion

In this study, we examined the hypotheses concerning the relationship of managerial ownership with a firm's performance per "convergence of interests" hypothesis. We found evidence while analyzing the hypothesis that the firms showing lower levels of performance are with strong shareholder's holdings in the Board and companies with higher performance were having weak shareholders holdings. The relationship between ownership structure and performance of firms appears to be negative in our findings. This led us to relate our results with the entrenchment hypothesis. As stated earlier in this paper, entrenchment hypothesis suggests that when a group of shareholders controls the Board, they weaken the interest of other shareholders by strengthening themselves and in the process firm’s performance declines. The following main economic results appear:

1. The results indicate that on a sample of listed firms the relation between ownership structure and performance is negative. The results were found in line with the findings of Hu et al. (2004). On the governance view, it was found that a more independent and effective board of director’s boosts a firm’s performance; more independent and professional managerial decisions also significantly improve the firm’s performance.
2. The quality of corporate governance is found to be positively associated with technical efficiency of companies. This result confirmed the necessity to implement and legally enforce generally accepted corporate governance principles in the country which are currently voluntary.
3. Finally it is concluded that the relationship between ownership structure and performance of the firms is an important but neglected sociological and organizational topic that deserves a continued academic research. The study, while establishing the effects of different variables including ownership structure on efficiency, still leaves a room for further research in this field. Firstly, it can be beneficial to generate a larger sample of firms for future analysis and to test the estimated results for other data sets. Secondly, bootstrap analysis may help to test the hypotheses on the significance of differences in ownership group aggregated efficiency scores.

REFERENCES