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DOES OWNERSHIP STRUCTURE AFFECT FIRM PERFORMANCE

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Abstract *This research has investigated the effect of ownership structure and typology investor (General Manager, State), on the one hand and corporate performance of 55 listed companies in Bucharest Stock Exchange in 2010-2013, on the other hand. Statistical method used in this research was panel data. To test each hypothesis, two models defined based on dependent variables (Return on Equity – ROE, Return on Asstes – ROA) and the independent variables related to ownership structure and typology (concentrated ownership, State as a shareholders, General Manager as a shareholders). To decrease management-shareholder conflict, the solution consist in providing some shares to the General Manager, which is interested in increasing the value of his property, and hence the shareholders wealth. So the relationship between the General Manager as a shareholders and firm performance is a positive one.*

Key words:

General Manager, State, Return on Equity – ROE, Return on Assets – ROA, shareholders,

• INTRODUCTION

This paper surveys the theoretical basis for, and empirical evidence on the relationship between ownership and typology structure and corporate performance from three perspectives: ownership concentration, managerial ownership and state ownership. Most of this research has been carried out for developed market countries, most notably the United States. Only a few of the studies have considered emerging market economies, with few focusing on Romania. There exist huge institutional differences, including the mechanisms of corporate governance, between Romania and the developed economies. However, it is not known whether existing differences in institutional, regulatory and corporate governance practices also translate into differences in the relationship between ownership and firm performance. This study seeks to answer precisely this question by using a panel models to study the nature of the relationship between concentrated ownership and financial performance, as measured by ROE or ROA, for Bucharest Stock Exchange listed firms. The remainder of this paper is structured as follows. Section 2 briefly examines the literature review to investigate the ownership-performance relationship. Section 3 details the research methodology and data while Section 4 describes the results of empirical testing. Finally, Section 5 provides the conclusions of the paper.

• LITERATURE REVIEW

Most research on the relationship between ownership and financial performance is rooted in an agency framework. It is argued that the separation of ownership from control for a corporate firm creates an agency problem that results in conflicts between shareholders and managers (*Jensen and Meckling, 1976; Shleifer and Vishny, 1997*). The impact of ownership on firm performance is twofold. On the one hand, concentrated ownership can provide for better control of management, as size of ownership stake and the incentive to monitor are positively correlated. In turn, this should improve firm performance and equally benefit minority shareholders. On the other hand, it can come with costs for minority shareholders as the controlling owners might try to expropriate from them.

The relationship between the existence of a shareholder and manager performance of listed companies has been tested by authors such as: *Morck et al. (1988)*, which investigates the relationship between management - shareholder and performance for 371 Fortune 500 companies in 1980 and identified a performance companies from 0% to 5%. *Mehran (1995)* tested the relationship between the same two variables for 153 industrial companies in the period 1979-1980 and identified a positive relationship. *Harhoff and Stahl (1995)* tested the same relationship for a sample of companies in Germany and observed a positive relationship.

Shleifer and Vishny (1997) believe that those who run the state campaigns have no claim regarding income of these companies, but the personal benefits. It is considered that a policy aimed at private sector participation in the management of state enterprises should introduce modern management styles in the public sector, which should improve performance for these companies.

• RESEARCH METHODOLOGY

The econometric analysis is based on regression models for estimating panel data, using Eviews program.

where Y is the dependent variable (performance), X is the vector of independent variables (*OWN, INV. STATE, INV. MAN, SIZE, D/E*), which supposedly can influence the outcome Y - dependent variable (profitability), the index *i* is a cross-sectional dimension or companies listed on the BSE, while *t* index represents time, 2010-2013. Based on the predictions of financial theory and the previous discussion on the five statistical assumptions identified, consider the following two regression models.

$$\textbf{PROFITABILITY} = \alpha_i + \beta_1 \times \textbf{OWN} + \beta_2 \times \textbf{INV. MAN} + \beta_3 \times \textbf{INV. STAT} + \beta_4 \times \textbf{SIZE} + \beta_5 \times \textbf{D/E} + u_{it}$$

Basic characteristics and notations for each variable characterizing company's performance or the ownership structure are as it follows:

Table Definition of variables

VARIABILES	DESCRIPTION
Dependent Variabiles (PROFITABILITY)	
ROA	Return on Assets
ROE	Return on Equity
Independent Variabiles	
OWN	Shareholder structure. Dummy variable: 1 - majority shareholders (the first three shareholders have holdings exceeding 50%), 0 - minority shareholders
INV. STAT	Dummy variable: 1 State as shareholder, 0 - otherwise
INV. MAN	Dummy variable: 1 CEO as shareholder, 0 - otherwise
Control Variabiles	
SIZE	Company Size
D/E	The leverage (Debt / Equity)

• EMPIRICAL RESULTS

Grossman and Hart (1986) argue that large shareholders have a large stake in the company tend to play an active role with regard to corporate decisions, because in this way can avoid the additional costs of monitoring. A higher concentration of ownership gives shareholders a greater incentive large and more power to monitor management. Shareholders effectively monitor the performance of a company than a large number of shareholders, one reason being closely control achieved by the majority shareholders on managing their wealth manager. *Claessens and Djankov (1999)* find a 10 percent increase in concentration leads to a 3 percent increase in short-term profitability in the Czech Republic. *Earle et al. (2005)* imply that the size of the largest block increases profitability and efficiency strongly and monotonically in Hungary over 1996 to 2001. Literature (*Fama and Jensen, 1983*) argues that concentrated ownership may reduce shareholder-manager conflict, but at the same time, the possibility of conflict between shareholders and minority shareholders, especially when legal protection of minority investors is weak and transparency is low.

Table 2 The impact of ownership and typology structure on corporate performance

Regression Models	MODEL 1	MODEL 2
Dependent var / Independent Var.	ROA *Coef* *t-stat*	ROE *Coef* *t-stat*
X_1(OWN)	-0.098 (-0.766)	0.087 (-1.125)
X_2(INV. STAT)	-0.216 (-1.243)	0.167 (1.159)
X_3(INV. MAN)	**0.336***** **(1.763)**	0.116 (1.014)
X_4 (SIZE)	0.038 (1.141)	**0.033***** **(1.636)**
X_5(D/E)	**0.016*** **(3.239)**	-0.080 (-26.922)
R-squared	6.90%	77.60%

Thus one can observe a positive and significant relation between the variable showing the presence of managers shareholders (INV.MAN) and return on assets (ROA) of companies listed on the Bucharest Stock Exchange (*Table 2 - Model No. 1*). A package of shares held by the manager may be an internal governance mechanism that contributes to the formation of appropriate behavior manager, a behavior that aligns its interests minority interests of other shareholders.

Company Size positively affects financial profitability (ROE) of companies listed on the Bucharest. Large companies may also use their reputation as an advantage, and / or have higher quality products, motivating them to charge higher prices than smaller companies.

• CONCLUSION

To decrease management-shareholder conflict, the solution envisaged by many authors as providing some shares to the Manager (for companies listed on BSE 'share of this category of investors is 11%), which is interested in this type of increasing the value of his property, and hence the shareholders, but also the maneuver be performed with great care; managers can get insider buying and selling operations performing in his own name with the issuance of wrong informations. When the manager is also a shareholder in the company it has a positive impact on corporate performance, because we found a positive and significant relation between the variable showing the presence of managers shareholders (MAN) and return on assets (ROA) of companies listed on the Stock Exchange BVB.

This study does not claim to provide a complete picture of the structure of ownership and agent problems in Romania. However, the study opens an interesting discussion about how the ownership structure, types of investors can influence the performance of companies listed on the BSE. It should be noted that the main general trends and findings that have been disclosed in the study, but other conclusions could be identified in future studies.

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