www.revistageintec.net
ISSN: 2237-0722
revista GEINTEC Gestão, Inovação e Tecnologias

Ownership Structure and Commercial Banks Performance: An Empirical Study from Emerging Markets

Mohammad Salem Oudat[1]; Basel J.A. Ali[2]; Abdulqawi Hezabr[3]; Mohammed Qeshta[4]

[1]Assistant Professor, Accounting and Finance Department, College of Administrative Sciences, Applied Science University, Kingdom of Bahrain, Bahrain.

[1]mohammad.oudat@asu.edu.bh, mohammad.oudat@yahoo.com

[2]Assistant Professor, Accounting and Finance Department, College of Administrative Sciences, Applied Science University, Kingdom of Bahrain, Bahrain.

[2]basel.ali@asu.edu.bh, basil8011@gmail.com

[3]Associate Professor, Accounting and Finance Department, College of Administrative Sciences, Applied Science University, Kingdom of Bahrain, Bahrain.

[3]abdulqawi.Hezabr@asu.edu.bh

[4]Assistant Professor, Accounting and Finance Department, College of Administrative Sciences, Applied Science University, Kingdom of Bahrain, Bahrain.

[4]mohammed.qeshta@asu.edu.bh

Abstract

The current study seeks to investigate the relationship between ownership structure concentrations and commercial banks financial performance in one of emerging market (Bahrain). The current study employed panel regression analysis from 2015-2019 estimate the relationships between dependent and independent variables. The findings revealed that there is a positive impact of family, government and institutional ownership on financial performance measured by return on equity. Meanwhile, there is negative impact of family and institutional ownership on financial performance measured by earnings per share and a positive relationship with government ownership. The findings confirmed that the corporate governance implementation and a good ownership structure play a vital role in firm's financial performance through reducing the agency cost. However, the current study suggests for future researches to examine other dependent and independent variables with extension the study duration and tackles other uncovered sectors in this study.

Key-words: Ownership Structure, ROE, EPS, Commercial Banks, Bahrain.

1. Background

From earlier stages, firms around the world suffering from the conflict of interest between management and stockholders which known as an agency problem. The agency theory defined as linkage to corporations in term of separation of ownership and control and they emphasized on ownership structure and corporation performance (Berle and Means, 1932). In this regard, implementation of corporate governance mechanism it has proofed that it might reduce this globally issue. The corporate governance principles, rules, and procedures have been implemented in firms to reduce agency problem by determining and controlling the relationships between management and stockholders. However, this implementation witnessed for the firms that it can be used to minimize the agency problem's expenses and cost (Fama and Jensen, 1983). One of the corporate governance mechanism implemented in order to minimize the agency problem costs is the ownership structure. Ownership structure for the banks is very important issue to control and mentor managers practices by achieve stockholders goals instead drive benefits to themselves. Ozili and Uadiale (2017) stated that during global financial crisis managers exploited these crises to serve their own purposes, thus maximizing the risk failure of banks, and that push banks to the need to identify an optimal ownership structure for bank which improve the financial performance while discouraging excessive risk-taking and misappropriation of profits among banks. The ownership concentration is implies for owners (investors) to be better able to monitor, and control corporation management, these will accelerate the corporations to enhance their profitability.

Despite, that the research of the relationship between ownership structure and financial performance for corporations has been widely conducted in the previous decades but the debates is still unconfirmed among the scholars about the nature of these relationships. Various studies explained the relationships among ownership structures and financial performance by tackles different ownership structure concentrations like; foreign ownership, government ownership, family ownership, institutional ownership and managerial ownership. In the other hand, different proxies of financial performance have been examined such as; return on assists (ROA), return on equity (ROE), return on investment (ROI) and earning per share (EPS). The current study tries to provide new witness from emerging markets by explaining the relationship between ownership structure concentrations namely (Family, Government and Institutional) and the commercial banks performance represented by return on equity and earning per share for the period 2015 -2019.

The rest of the current paper is designed as follows: section 2 discusses theoretical review, section 3 provides research methodology and data collection, section 4 displays data analysis and final results, section 5 demonstrates conclusion and further research studies.

2. Theoretical Review

Altaf and Shah (2018) argued that ownership concentration differ from country to another country. The previous literature proposed that in developed countries like Australia USA and UK, firms ownership structure is relatively dispersed, whereas control to a significantly large extent remains in the hands of managers, and they are therefore called insiders. There are a vast empirical studies investigated the relationship between ownership structure and firm financial performance, the follow is display some of these studies related to the current study ownership structure concentrations.

2.1. Family Ownership

Maury (2006) stated that developed countries promote family owned firms because they can manage their firms in an effective way and produce more profits for their people. However, when family members are controlling and managing all the operations of a family owned firms only then these types of firms can be effective. The association between family ownership and financial performance have been examined by various scholars. Family ownership functions as a monitoring tool that can be used to regulate a firm's internal control mechanism and can also be used as a proxy to track all activities and decisions that can, in effect, help to mitigate and overcome the Agency's problems (Shah *et al*., 2015). Moreover, Cho (1998) confirmed that family share ownership is closely interlinked with firm value because decision-making is the role of managers and they can take decisions either in favor of their own interests or in favor of shareholders who can automatically influence the performance of the firms. Additionally, Jiang and Peng, (2011) stated that active family control has different advantages, once firm signed CEO from the family members instead of outside professional managers will brings special skills and valuable resources like goal congruence and trust to the firms. However, some scholars discussed that family control can reduce the effect of agency problem between stockholders and managers like (Barontini and Capiro, 2006; Maury, 2006; Ahmad *et al.,* 2014; Haija and Alrabba, 2017; Abu Zraiq and Fadzil, 2018; Jwailes *et al.,* 2020). In the other hand, Koteya *et al.,* (2019) found in their paper corporations owned by family has less financial

performance compared with corporations owned by non-family. Also, Malelak *et al.,* (2020) found there is no significant relationship between family ownership and financial performance. Hence, the current study proposed the first hypothesis as follows:

H1: there is a positive relationship between family ownership and Bahrain commercial banks performance.

2.2. Government Ownership

Previous studies brought a different consequences regarding to the relationship between government ownership and financial performance. For instance, Najid, (2016) stated that corporations owned by states found to be suffer from a lack of entrepreneurial motivation and seem to be more politically driven than economically, causing a low financial performance. In addition, some scholars like Mak and Li (2001) claimed that the role of government seems to be less in tracking their investments; also, they stated that more transparency and tracking of the financial performance of firm owned by government, along with easier to obtain finance, are likely to decrease incentives for these firms to implement a good governance mechanisms. On the other hand, others scholars such as (Fukuda *et al.,* 2018; Villalonga, 2000) who argued that once the firms are owned with a high percentage by government that will enhance the financial performance for these firms as consequences of the efficient management control which will directly reduce of the others stockholders expenses. In this regards, some researcher's studies confirmed that there is a positive relationship between government ownership and financial performance, among these scholars (Razak *et al.,* 2008; Tran *et al.,* 2014; Koji, *et al.,* 2020). Meanwhile, other scholars like (Jwailes *et al.,* 2020) found a negative impact of government ownership and financial performance. Therefore, the current study hypothesized that:

H2: there is a positive relationship between government ownership and Bahrain commercial banks performance.

2.3. Institutional Ownership

Another important ownership concentration is an institutional ownership which considered to be a useful tool to decrease the agency problem impact, where family companies may expropriate gains at the expense of minority stockholders. According to Cornett *et al.,* (2007) institutional

ownership refers to an ownership stake in a firm by large financial institutions which own a huge number of stocks firms. Therefore, institutional ownership may lead firms to have a high financial performance as consequences of a high quality of management, various opportunities and resources available, and ability to monitor these firms, also a good experiences on how to reduce others stockholders expenses (Rose, 2014). However, the findings of previous empirical studies were be inconsistency where some found a positive relationship among institutional ownership and firms' financial performance, among these studies (Haija and Alrabba, 2017; Koji, *et al.,* 2020).Whereas, (Charfeddine and Elmarzougui, 2011; Rose, 2014, Saleh *et al.,* 2017; Ahmad *et al.,* 2019) found a negative association between institutional ownership and financial performance in their studies. On this basis, the following hypothesis was formulated:

H3: there is a positive relationship between institutional ownership and Bahrain commercial banks performance.

2.4. Financial Performance

The main purpose of firm's financial analysis is to evaluate the financial position of the firm in regards of several types of assets owned by the firm and various obligations required to be settled by the firm in the limit time (Ali, Bakar, & Omar,2016; Ali, & Omar, 2016). In addition, financial analysis considered to explore the return and risk that firm may face in the future (Ali, & Oudat, 2020). Accordingly, the analysis is very helpful for numerous users of the firm either inside the firm including management, stockholders and employers or users outside the firm like creditors, potential investors, financial market analysists and government (Haija and Alrabba, 2017; Hasan, & Ali, 2019). However, monitoring the financial performance for the firm is very important to explore which most factors may influence the frim performance. Consequently, academics, researchers and analysts trying to discover the relationship between ownership structures and financial performance to determine the most concentrations ownership can improve the financial performance. Therefore, different previous studies examine the association using one or more of performance measurements such as return on assets, return on equity, return on investment, earning per share and market value (Oudat and Ali, 2021). In this regard, the current study relies on two of these measurements to assess the financial performance as an independent variables namely, return on equity and earning per share.

3. Research Methodology

The main purpose for the current study is to analysis the relationship between ownership structure and financial performance implemented on Bahrain commercial banks for 2015-2019 duration. Accordingly, data were collected from the Bahrain stock exchange and annual reports for the seven commercial banks. However, to examine the effect of independent variables on financial performance represents variables return on equity (ROE) and earning per share (EPS) ad dependent variables, the following models are estimated:-

$$ROE_{it} = \beta 0 + \beta 1 lFAMO_{it} + \beta 2 lGOVO_{it} + \beta 3 lINSO_{it} + \varepsilon_{it} \quad (1)$$

$$ERP_{it} = \beta 0 + \beta 1 lFAMO_{it} + \beta 2 lGOVO_{it} + \beta 3 lINSO_{it} + \varepsilon_{it.} \quad (2)$$

Where;

β0: is an intercept, *β1, β2* and *β3:* denote estimated coefficient for specific bank *i* at time t; *ROE:* represents the return on equity, ERP: denotes earnings per share, *FAMO:* indicates family ownership; *GOVO:* denotes the government ownership; *INSO:* represents institutional ownership and ε_{it}*:* represents error terms for intentionally/unintentionally omitted or added variables.

In this regard, besides the main appropriate statistical analysis techniques contain descriptive statistics, correlation, and multiple regression, the study employed panel data analysis to estimate the relationship between dependent and independent variables.

In order to imply the analysis of the relationship among the variables the following table displays the variables abbreviations, definitions and formulas:-

Table 1- Variables Descriptions

Variables	Abbreviation	Definition	Formula
Dependents			
Return on Equity	*ROE*	The percentage of net income after paying preferred dividends divided by average total owners' equity for the year	(Net income ÷ Total owners' equity) × 100
Earnings Per Share	*ERP*	is a firm's net income divided by the number of outstanding common shares	(Net income ÷ Average outstanding shares of the firm)
Dependents			
Family Ownership	*FAMO*	The percentage of equity owned by the firm's family members	Sum of the percentage of shares held by family members
Government Ownership	*GOVO*	The percentage of equity owned by the government	Sum of the percentage of shares held by the government
Institutional Ownership	*INSO*	The percentage of equity owned by different institutions	Sum of the percentage of shares held by different institutions like (banks, insurance, investment, pensions and hedging funds)

4. Data Analysis and Final Results

4.1. Descriptive Analysis

Table 2 illustrations the descriptive statistics analysis results for the independent variables firm performance represented by REO and ERP with the dependent variables ownership structure over the period 2015 to 2019 for commercial banks listed on Bahrain stock exchange. According to the following table the mean estimation of ROE is .0274 with organizations that have greatest and a base degree of ROE .18 and - .52 individually, and a standard deviation of .13633. It tends to be accepted that a high contrast of ROE exists over banks utilized as tests for this examination. However, the second financial performance (EPS) has a minimum value -.04, maximum value .05 with mean .0216 while the standard deviation recorded .02304. In addition, the table shows that the family ownership has a minimum value .00 and maximum value 47.00 which shows the highest value compering with government and institutional ownership, also a higher mean value as record 9.638 with 17.294 standard deviation. Moreover, the mean estimation of the government possessions in the banks in the realm of Bahrain is 6.761 with banks that have a greatest and least degree of 32.13 and .00 independently with a standard deviation of 12.455. Additionally, the mean estimation of the institutional proprietorship which contains the protection and other institutional organizations which have their interests in the banks is 5.977 with a most extreme and least degree of 29.06 and .00 with a standard deviation of 10.847.

Table 2- Descriptive Statistics Analysis

Variables	N	Minimum	Maximum	Mean	Std. Deviation
ROE	35	-.52	.18	.0274	.13633
EPS	35	-.04	.05	.0216	.02304
FAMO	35	.00	47.00	9.638	17.294
GOVO	35	.00	32.13	6.761	12.455
INSO	35	.00	29.06	5.977	10.847

4.2. Correlation Analysis

Table 3.1 displays the correlation analysis relationship between ownership and return on equity. Meanwhile, Table 3.2 indicates the correlation analysis relationship between ownership and earnings per share. However, the results for both tables indicate that the correlations between

variables are not statistically strong enough to indicate that there is a significant multicollinearity problem.

Table 3.1- Correlations for Return on Equity (ROE)

Variables	ROE	FAMO	GOVO	INSO
ROE	1			
FAMO	-0.13	1		
GOVO	0.17	-0.31	1	
INSO	0.19	-0.23	0.973	1

Table 3.2- Correlations for Earnings per Share (EPR)

Variables	EPS	FAMO	GOVO	INSO
EPS	1			
FAMO	-.143	1		
GOVO	.469**	-.372*	1	
INSO	-.290	-.372*	-.478**	1

4.3. Regression Analysis

Tables 4.1 and 4.2 indicate the results of the impact of ownership structure on return on equity and earnings per share, respectively. For the first model (ROE), findings reveal that there is positive relationship between family ownership and return on equity for Bahrain commercial banks, this implies that the greater percentage of family members in banks structure decrease the agency problem and enhancing the return on equity. This means that the first hypothesis can be accepted and the alternative hypothesis rejected which stated a negative relationship between family structure and financial performance. The result consistent with previous scholars results like (Haija and Alrabba, 2017*;* Abu Zraiq and Fadzil, 2018; Jwailes *et al.*, 2020). Moreover, the second hypothesis also accepted as the finding dominates a positive relationship between government ownership and return on equity. Therefore, this means that the higher percentage of common stocks holder by the government the higher of return on equity as a results of the ability of the government to monitor and control bank's management efficiently this will reduce the agency problem and other stockholders expenses. The study finding is in line with other findings (Tran *et al.,* 2014; Koji, *et al.,* 2020). In addition, the last hypothesis for the first model might be accepted as the result indicates a positive relationship between institutional ownership and return on equity. This may explain that the institutional stockholders have a high experience in monitoring the management practices which will directly reduce the agency problem and promote a financial performance. The finding consistent with

previous researchers who found a positive relationship among these researchers (Haija and Alrabba, 2017; Koji, *et al.,* 2020).

In contrast, the second model (EPS), the findings demonstrate that there is a negative relationship between family ownership and earnings per share which means the first hypothesis is rejected and the alternative hypothesis is accepted. This might be refer to the limit of the family ownership will diversify the management skills and positively affect the earnings per share. The result in line with previous findings such as (Koteya *et al.,* 2019). In the other hand, the results for second model display that there is a positive relationship between government ownership and earnings per share which consistent with first model as the second hypothesis is accepted and the alternative hypothesis is rejected. The result is inconsistent with other studies results like (Jwailes *et al.,* 2020). For the last hypothesis in this model found to be rejected and the alternative hypothesis is accepted which stated that there is a negative relationship between institutional ownership and earnings per share. The present result is in line with previous empirical studies results like (Saleh *et al.,* 2017; Ahmad *et al.,* 2019).

Table 4.1- Regression Analysis ROE Model

Model	**Unstandardized Coefficients**		**Standardized Coefficients**	**t**	**Sig.**
	B	**Std. Error**	**Beta**		
(Constant)	.085	.019		4.383	.000
FAMO	.000	.001	.038	.356	.724
GOVO	.001	.005	.096	.212	.833
INSO	.003	.006	.215	.488	.629

Dependent variable: ROE

Predictors: (constant), Family Ownership, Government Ownership, Institutional Ownership.

Table 4.2- Regression Analysis EPS Model

Model	**Unstandardized Coefficients**		**Standardized Coefficients**	**t**	**Sig.**
	B	**Std. Error**	**Beta**		
(Constant)	.013	.014		.944	.354
FAMO	.000	.001	-.033	-.130	.898
GOVO	.000	.000	.406	1.527	.139
INSO	.000	.000	-.108	-.408	.687

Dependent variable: EPR

Predictors: (constant), Family Ownership, Government Ownership, Institutional Ownership.

5. Conclusion

Panel regression analysis used in the current study to assess the relationship between ownership structure and financial performance of Bahrain commercial banks for the period 2015-2019. However, the data were collected from the main website for Bahrain stock exchange and annual reports for each bank. The most findings where consistent with previous empirical studies in different countries which confirmed that the government ownership found to have positive impact on financial performance represented by ROE and EPS. Whereas, the family and institutional ownership affect the ROE positively, while negatively impact on EPS. The outcomes of the current study confirmed that the ownership structure and corporate governance play a vital role in financial performance for the firms. Moreover, the firms with good corporate governance practices reduce the agency cost.

The study limitations may be traced through different aspects; firstly, the current study considered only on three of ownership structure namely; family, government and institutional ownership. Secondly, the present study considered only on ROE and EPS as measurements of financial performance. Thirdly, the sector is another limitation of this study as only the commercial banks where be examined in Bahrain context. Finally, the methodology employed in this study considered as a limitation as used a panel regression analysis only. Accordingly, the interested parties can take an different advantages from current study limitations to conduct further studies by extend the theirs researches in other dependent variables like return on assets, return on investment and firm value. Independent variables can be extended to examine other variables like managerial and foreign ownership with long period and various methodology for other sectors. In addition, new research may be useful to make a compression study among GCC countries.

References

Zraiq, M.A.A., & Fadzil, F.H.B. (2018). The impact of ownership structure on firm performance: Evidence from Jordan. *International Journal of Accounting, Finance and Risk Management, 3*(1), 1-4.

Ahmad, M., Baek, N.W., Kim, D.W., & Shah, B.A. (2019). The Impact of Institutional Ownership on Firms' Performance Evidence from Pakistan. *The Journal of Asian Studies*, *22*(1), 27-48.

Ahmad, N., Nadeem, M., Ahmad, R., & Hamad, N. (2014). Impact of family ownership on firm's financial performance: a comparison study between manfucturing firms and financial firms in Pakistan. *Nigerian Chapter of Arabian Journal of Business and Management Review, 2*(8), 51-56.

Ali, B.J., Bakar, R., & Omar, W.A.W. (2016). The Critical Success Factors of Accounting Information System (AIS) and it's Impact on Organisational Performance of Jordanian Commercial Banks. *International Journal of Economics, Commerce and Management, 4*(4), 658-677.

Ali, B., & Omar, W. (2016). Relationship between E-Banking Service Quality and Customer Satisfaction in Commercial Banks in Jordan. *American Based Research Journal, 5*(12).

Ali, B.J., & Oudat, M.S. (2020). Financial Risk and the Financial Performance in listed Commercial and Investment Banks in Bahrain Bourse. *International Journal of Innovation, Creativity and Change, 13*(12), 160-180.

Altaf, N., & Shah, F.A. (2018). Ownership concentration and firm performance in Indian firms: does investor protection quality matter? *Journal of Indian Business Research, 10*(1), 33-52.

Barontini, R., & Caprio, L. (2006). The effect of family control on firm value and performance: Evidence from continental Europe. *European financial management, 12*(5), 689-723.

Berle, A. & Means, G. (1932). *The Modern Corporation and private property.* New York: Macmillan Co.

Charfeddine, L., & Elmarzougui, A. (2011). Institutional Ownership and Firm Performance: Evidence from France. *The IUP Journal of Behavioral Finance, 7,* 36-46.

Cho, M.H. (1998). Ownership structure, investment, and the corporate value: an empirical analysis. *Journal of financial economics, 47*(1), 103-121.

Cornett, M.M., Marcus, A.J., Saunders, A., & Tehranian, H. (2007). The impact of institutional ownership on corporate operating performance. *Journal of Banking & Finance, 31*(6), 1771-1794.

Fama, E.F., & Jensen, M.C. (1983). Separation of ownership and control. *The journal of law and Economics, 26*(2), 301-325.

Fukuda, S.I., Kasuya, M., & Nakajima, J. (2018). The role of corporate governance in Japanese unlisted companies. *Japan and the World Economy, 47,* 27-39.

Haija, A.A.A., & Alrabba, H.M. (2017). Relationship between Ownership Structure and Financial Performance. *Corporate Ownership & Control*, *14*(3), 393-398.

Hasan, H., & Ali, B.J. (2019). Investigating the relationship between inflation, Trade Openness, GDP and financial development in developing country: using regression approach IOSR. *Journal of Economics and Finance, 10*(5).

Jiang, Y., & Peng, M.W. (2011). Are family ownership and control in large firms good, bad, or irrelevant? *Asia Pacific Journal of Management, 28,* 15-39.

Jwailes, A.R., Sulong, Z., & Ahmad, N. (2020). The Ownership Structure Influence on Firm Performance in Jordan. *International Journal of Advanced Science and Technology, 29*(10s), 1099-1109.

Koji, K., Adhikary, B.K., & Tram, M. (2020). Corporate Governance and Firm Performance: A Comparative Analysis between Listed Family and Non-Family Firms in Japan. *Journal of Risk and Financial Management, 13*(215), 1-20.

Koteya, R.A., Kusi, B., & Akomatey, R. (2019). Ownership structure and profitability of listed firms in an emerging market. *Growing Science. Accounting,* 1-16.

Maury, B. (2006). Family ownership and firm performance: Empirical evidence from Western European corporations. *Journal of corporate finance, 12*(2), 321-341.

Mak, Y.T., & Li, Y. (2001). Determinants of corporate ownership and board structure: evidence from Singapore. *Journal of corporate finance, 7*(3), 235-256.

Najid, Afzan Nurul & Abdul Rahman, R. (2016). *Government Ownership and Performance of Malaysian Government-Linked Companies.*

Tran, N.M., Nonneman, W., & Jorissen, A. (2014). Government ownership and firm performance: the case of Vietnam. *International Journal of Economics and Financial Issues, 4*(3), 628-650.

Oudat, M.S., & Ali, B.J. (2021). The Underlying Effect of Risk Management on Banks' Financial Performance: An Analytical Study on Commercial and Investment Banking in Bahrain. *Ilkogretim Online, 20*(5), 404-414.

Ali, B.J., & Oudat, M.S. (2020). Financial Risk and the Financial Performance in listed Commercial and Investment Banks in Bahrain Bourse. *International Journal of Innovation, Creativity and Change, 13*(12), 160-180.

Ozili, P.K., & Uadiale, O. (2017). Ownership concentration and bank profitability. *Future Business Journal, 3*(2), 159-171.

Razak, N.H.A., Ahmad, R., & Ahmed, H.J.A. (2008). Government Ownership and Performance: An Analysis of Listed Companies in Malaysia. C*orporate Ownership and Control, 6*(2), 434–442.

Rose, C. (2007). Can institutional investors fix the corporate governance problem? Some Danish evidence. *Journal of Management & Governance, 11*(4), 405-428.

Saleh, M., Zahirdin, G., & Octaviani, E. (2017). Ownership structure and corporate performance: evidence from property and real estate public companies in Indonesia. *Investment management and financial innovations, 14,* 2(contin. 1), 252-263.

Villalonga, B. (2000). Privatization and efficiency: differentiating ownership effects from political, organizational, and dynamic effects. *Journal of Economic Behavior & Organization, 42*(1), 43-74.