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IMPACT OF OWNERSHIP STRUCTURE ON CORPORATE PERFORMANCE WITH SPECIAL REFERENCE TO BSE LISTED COMPANIES

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ABSTRACT

The recent scandals have triggered the discussion on Corporate Governance. The impact of ownership structure on firm performance concerns developed markets and more recently, emerging markets also. The ownership pattern of the firms affects some key accounting and market performance indicators. Hence the objective of this paper is to explore the relationship between ownership structure and firm performance. BSE Sensex Index data were collected and analyzed for a period of five years. The study found that there was presence of highly concentrated ownership structure in the Indian Firms during the study period. According to the analysis of the study, ownership structure dose not influence the corporate governance in the Indian context.

KEYWORDS: Corporate Governance, Ownership Structure, Firms Performance, OLS Regression

INTRODUCTION

Corporate Governance is the structure as well as the process through which firms are managed for enhancing business prosperity and accountability, with the ultimate objective of enhancing the wealth of shareholders. The problem of Corporate Governance is largely dependent on their ownership, control structures and the institutional setup in which such corporations are embedded (**Fernando.A.C-2009**). At the same time, the ownership structure is one of the key internal governance mechanisms designed to mitigate governance problems, both in widely held firms and in those with concentrated ownership and control.

The ownership structure of any company has been a serious agenda for Corporate Governance and that of performance of a firm. The impact of ownership structure on firm performance concerns various developed markets and more recently, emerging markets like India also. Though the modern organization emphasizes the divorce of management and ownership, the interests of the group managing the company in practice could differ from the interests of those that supply the capital to the firm (**Aman Srivastava–2011).**

The shareholders of publicly held corporations are so numerous and hence they are unable to effectively control the decisions of the management team. In other words, it cannot be assured that the management team represents the interests of all share holders. The importance of analysing the ownership structure of Indian corporate and its link to performance is due to the fact that the onus of several high profile corporate scandals, both in India and abroad, has been placed on the underlying ownership and control structures (**Lal C.Chugh et.al.,-2011).** The researches on the performance of companies have found that there was positive relationship between Corporate Governance and Corporate Performance.

REVIEW OF LITERATURE

The research studies already conducted in the firm's performance analysis in different periods are summarized below.

Ajay Kumar Garg (2007) analysed the relationship between board independence, board size and firm performance. The study found mixed evidence that independent directors add value and improve the performance of the firm. **Akshita Arora (2010)** tested the relationship between corporate governance and performance indicators for Indian firms. The results indicate that the boards are dominated by executive directors and frequency of board meetings is high and it enhances firm performance. **Aman Srivastava (2011)** investigated whether the ownership type affects the key accounting and market performance of listed firms. The results could be related to the market inefficiency of the Indian Stock Market as well as the lack of prompt disclosure by listed companies, even the active ones, at the Indian Stock Market.

Bita Mashayekhi and Mohammed S.Bazaz (2008) studied the role of corporate governance indices on firm performance listed in the Tehran Stock Exchange (TSE). The study used board size, board independence, board leadership and institutional investors on the board to determine corporate governance and EPS, ROA and ROE were used as measures of firm performance. **David E Andersson, Martin Andersson, Bjuggren, Andreas Hogberg (2011)** focused on Sweden, Taiwan and Hong Kong, known for strong family ownership. The comparative analysis was based on an assessment of the countries' investment performance by means of a marginal q approach. **Jayati Sarkar (2010)** examined the ownership structure of listed private sector in India as a source of potential governance problems and analyzed the ways by which such problems can be alleviated by different ownership constituents.

Lal C Chugh, Joseph W Meador, Ashwini Shanth Kumar (2011) analyzed the relationship between the financial performance and characteristics of corporate governance for Indian firms. **Naveen Kumar and J.P.Singh (2012)** examined the efficacy of outside directors on the corporate boards of 157 non-financial Indian companies. The results indicated that the proportion had significant implications for devising a board model for companies in India. **Shahid Raza Mir, Dr. Mohammed Nishat (2004)** tested the link between corporate governance structure and the firm performance in Pakistan. The performance parameters included return on asset, Tobin's Q and stock return. The firm specific variables included size, leverage, and risk factor betas. The results indicated that variables such as percentage block holding by individuals and family members and by industrial companies had positive impact on firm performance. **Zunaidah Sulong, Fauzias Mat Nor (2010)** investigated the agency problems. The result indicated that the control function of dividend mechanism among Malaysian listed firms could play its monitoring role in reducing the agency costs.

The above literature provides an overview of different models used to study the Ownership Structure and Corporate Performance from various parts of the world. Thus an attempt has been made in this study to evaluate Firm Performance and Corporate Governance in the Indian context, taking the models used in the above studies.

STATEMENT OF THE PROBLEM

Corporate Governance is the system and code of contact by which the organization is managed through its corporate and business structure, its culture, policies and the manner in which it deals with various stakeholders. The success of any business firm mainly depends upon the good corporate governance. Shareholders, who are supposed to control, are unable to control effectively and make the decisions of the management and the problem is that there is no assurance that the management team represents the interest of shareholders. In addition, the shareholders have voting rights to elect and control a majority of the directors and to determine the outcome of the firms. They have tremendous powers to benefit themselves over the minority shareholders. It directly affects the firm's performance. The corporate governance is essential to protect the interests of all. The previous studies tested the ownership structure and financial performance of Public Universities in Uganda and firms listed in Chinese Stock Exchange and Malaysian Stock Exchange. But in India, few studies have examined the corporate performance in Indian firms. Hence the present study investigates the relationship between the ownership structure and the firm's performance.

OBJECTIVES OF THE STUDY

The main aim of the study is to analyze the break up and free float of Sensex Companies and to examine the relationship between ownership structure and corporate performance in Indian firms.

HYPOTHESIS OF THE STUDY

NH1: There is no significant relationship between ownership structure and corporate performance in Indian firms.

METHODOLOGY OF THE STUDY

Sample Selection

BSE is the oldest stock exchange in Asia. BSE Sensex companies represent nearly 93% of the total market capitalization on Bombay stock Exchange Limited. Besides, BSE Sensex Index is considered to be the best indicator that reflects the whole economy of India. Hence for the purpose of this study, BSE Sensex 30 companies were considered as the sample size.

Source and Collection of Data

The study mainly depended on secondary data. The required information for the study was the financial statements of BSE Sensex companies and they were collected from the CMIE Prowess Corporate Database and www.bseindia.com. The other required data were collected from various books, journals and magazines.

Period of the Study

The study analyzed the financial statement of BSE Sensex companies from 1st January 2007 to 31st December 2011.

Tools Used in the Study

The present study used the following tools

- Descriptive Statistics like Mean, Standard Deviation, Minimum and Maximum.
- The Financial Ratios like Return on Asset (ROA), Return on Equity (ROE), Price-Earnings Ratio (P/E) and Price to Book Value (P/BV).
- **OLS Regression**

The residual, ê, is the difference between the actual Y and the predicted Y and has a zero mean. In other words, OLS calculates the slope coefficients so that the difference between the predicted Y and the actual Y is minimized. (The residuals are squared in order to compare negative errors to positive errors more easily.)

The estimated regression equation is:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 D + \hat{e}$$

LIMITATIONS OF THE STUDY

The following are the major limitations of the study

- The study was based on secondary data and hence it is riddled with certain limitations which are bound to be connected with secondary data.
- This study focused only on BSE Sensex Index.
- All the limitations associated with various tools like Descriptive Statistics and OLS Regression Test, are applicable to this study also.

ANALYSIS OF OWNERSHIP STRUCTURE AND FIRMS PERFORMANCE

For the purpose of this study, the analysis was made as follows;

1. Analysis of Break Up of BSE Sensex Companies (Sectorwise)
2. Analysis of free float of BSE Sensex Companies
3. Analysis of Descriptive Statistics for Ownership Structure of BSE Sensex Companies
4. Analysis of Descriptive Statistics for the Performance of BSE Sensex Companies
5. Analysis of OLS Regression for Financial Indicators of BSE Sensex Companies

Analysis of Breakup of BSE Sensex Companies (Sectorwise)

It is to be noted that Free Float Methodology refers to an index construction methodology that takes into consideration only the free-float market capitalization of a company for the purpose of index calculation and assigning weight to stocks in the Index. It generally excludes promoters' holding, government holding, institutions holding and other locked-in shares that will not come to the market for trading in the normal course. The free float factor is multiplied with the total market capitalization of a company to arrive at the adjusted free-float market capitalization. **Table-1** exhibits the sectorwise break up of BSE Companies (free float) in India during the study period from January 2007 to December 2011. As far as the analysis of sectorwise break up of BSE Sensex is concerned, Finance Sector was ranked number one with a free float of 25.46%. This was followed by Oil & Gas (14.79%), Information Technology (14.30%), FMCG (13.14%), Transport Equipment (9.55%), Capital Goods (6.63%), Metal, Metal Products & Mining (6.50%), Health Care (4.48%), Power (2.95%) and Telecom (2.18%).

Analysis of free float of BSE Sensex Companies

The details on company wise (free float) of BSE Sensex during the study period from January 2007 to December 2011 are given in **Table-2.** It is to be noted that the majority of the sampled companies (18) were allocated under free float firms of 0-25%. The free floats of 75-100% were only 3%. The ownership structure and firm performance were calculated under the company market capitalization. Only 25% of sample companies recorded a free float greater than 75% during the study period. The results indicate that companies were in the first category and this clearly depicts the performance to be not highly leveraged.

Analysis of Descriptive Statistics for Ownership Structure of BSE Sensex Companies

Table-3 reveals the results of Descriptive Statistics for BSE Sensex 30 companies during the study period from1st January 2007 to 31st December 2011. It is understood from the above Table that there are four types of ownership of firms

(Indian Promoters, Foreign Promoters, Non Promoter Institutions and Promoter Non Institutions) in India. For the purpose of analysing the ownership structure of Indian firms, the Mean, Standard Deviation, Minimum, Maximum, Kurtosis and Skewness were used. The analysis of mean value clearly depicts that the stake of Indian Promoters (average holdings) was high (41%) during the study period. It means that on an average, the sample companies in India were dominated by Indian Promoter holdings and their stake. While the average foreign promoter holdings was just 20% during the study period, the average holdings of non promoter institution was at 23% and the share of promoter non institutions was only 13%. The standard deviation of Indian Promoters was 0.4173 (low) whereas the non promoter institutions recorded 0.8189 (high). The value of kurtosis was leptokurtic in all parameters, though it was very high in the case of promoter non institutions category (3.9151). Thus, the possibility of distribution was peak as the value of kurtosis was positive. The ownership structure of Indian firms was negatively skewed in the case of Non Promoter Institutions (-0.3503) and positively skewed in all other ownership structure.

Analysis of Descriptive Statistics for the Performance of BSE Sensex Companies

The analysis of Descriptive Statistics (Mean, Standard Deviation, Skewness and Kurtosis) for the performance of BSE Sensex firms during the study period from1st January 2007 to 31st December 2011 is shown in **Table-4.** It is to be noted that the performance of sample firms was measured in respect of Return on Asset, Return on Equity, Price Earnings Ratio and Price to Book Value as these ratios are considered to be important parameters. The mean return value (22.0588) and standard deviation of ROE (0.0320) for all sample firms during the study period was greater than that of other financial indicators (ROA, P/E and P/BV). It indicates the fact that the Return on Equity (ROE) was a factor more important than other parameters for all the sample companies during the study period. According to the result of kurtosis, the financial performance in respect of P/E (Price Earnings Ratio) for all sample firms was leptokurtic as it earned the value of more than three. Besides, the analysis of kurtosis indicates that the return data were perfectively distributed in a normal bell curve. The sample firms' performance was positively skewed for ROE and Price to Book Value while other two indicators (ROA and P/E) were negatively skewed during the study period.

Analysis of OLS Regression for Financial Indicators of BSE Sensex Companies

Table-5 reveals the results of the linear regression analysis for the financial parameters of BSE Sensex companies from January 2007 to December 2011. For the analysis of this study, variables like Indian Promoters, Foreign Promoters, Non Promoter Institutions and Promoter Non Institutions were considered as dependent variables while ROA, ROE, P/E and P/BV were taken as independent variables. The extent of relationship of each independent variable on the dependent variable was ascertained. There was significant value (0.0119) for a variable, namely, ROE. This indicates the fact that Indian investors preferred dividend for their equity shares and hence they ranked ROE as a top indicator rather than other financial indicators taken for this study. Besides, there was no significant value for all other performance variables – ROA (0.8700), P/E (0.7726) and P/BV (0.3213). It is seen that the value of R was 0.9774 whereas R^2 was 0.9554 for ROE, with 95% of variation (at 5% significant value).

The adjusted R^2 square value was negative for some financial indicators like - ROA (-1.3774) and P/E (-0.6831). With reference to the analysis of F value, it is clear that there was significant value (more than 5) for the performance variables, namely, ROE (5.3604) and P/BV (5.0263) while there was insignificant value (less than 5) for other two performance variables viz ROA (0.2764) and P/E (0.4926). Based on the F-statistics, it is clear that there was no significant difference between the financial indicators and ownership structure of sample firms during the study period. Further, Durbin-Watson Statistic of 1.9480 clearly indicates autocorrelation in the residuals. Hence the null hypothesis

(NH1), namely, **"There is no relationship between ownership structure and corporate performance in Indian firms"**, is accepted. In other words, the empirical results at 5% level of significance reveals that the ownership structure of sample firms did not have any relationship with financial performance measures during the period taken in this study.

DISCUSSIONS AND CONCLUSIONS

The relevance of Corporate Governance in today's world cannot be ignored as it is a central and dynamic aspect of business. It enhances firm's performance as well as competitiveness. The significance of ownership structure and financial performance measures (ROA, ROE, Price-Earnings Ratio and Price to Book Value) could be explained by the fact that the fundamental evaluation of companies are based on factors used by share holders in India to assess company's performance. The present study indicates that ownership registered insignificant impact on performance measures, which implied that indicators were mainly affected by economic and market conditions rather than ownership concentration during the study period.

The investors, policy makers and stake holders are to be educated about the relationship between ownership structure and performance of the firms. The investors may take appropriate decision on the portfolio, after taking into account these pieces of information.

There is a need to reasonably diversify shareholding pattern as a way of attracting more skills and competencies among the shareholders. Such skills are to be tapped among shareholders to improve the performance of the firms.

According to the result of research studies undertaken by **Ajay Kumar Garg (2007), Bita Mashayekhi etal., (2008), David E Andersson etal., (2011), Naveen Kumar etal., (2012) and Aman Srivastava (2011),** there is no significant relationship between Ownership Structure and Firm Performance. The present study also confirmed the findings of above studies.

However, there are studies undertaken **by Lal C Chugh etal., (2011) Zunaidah Sulong etal., (2010), Akshita Arora (2010) and Shahid Raza Mir etal., (2004),** who found that there was significant relationship between Ownership Structure and Firm Performance. This was not confirmed by the present study. Thus, the study describes the results related to the market inefficiency of the Indian firms, given its firms performance by the listed industries. The Corporate Governance is not just a trendy word but a long lasting concept for every company to enhance its performance.

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APPENDICES

Table 1: Analysis of Breakup of BSE Sensex Companies (Sectorwise) During the Study Period from January 2007 to December 2011

S.No.	Sectors	Free Float	Rank
1.	Finance	25.46	1
2.	Oil & Gas	14.79	2
3.	Information Technology	14.30	3
4.	FMCG	13.14	4
5.	Transport Equipment	9.55	5
6.	Capital Goods	6.63	6
7.	Metal, Metal Products & Mining	6.50	7
8.	Health care	4.48	8
9.	Power	2.95	9
10.	Telecom	2.19	10
	BSE Sensex	**100**	

Sources: Bombay Stock Exchange
(Adjusted factors are converted into % free float)

Table 2: Analysis of Free Float of BSE Sensex during the Study Period from January 2007 to December 2011

S.NO	Free Float	Number of Companies	Cumulative
1.	0 – 25%	18	18
2.	25 – 50%	5	23
3.	50 – 75%	3	26
4.	75 – 100%	3	29
5.	100%	1	30

Sources: Bombay Stock Exchange (Adjusted factors are converted into % free float)

Table 3: Analysis of Descriptive Statistics for Ownership Structure of BSE Sensex Companies from January 2007 to December 2011

Promoters \ Descriptive Statistics	Mean	Standard Deviation	Minimum	Maximum	Kurtosis	Skewness
Indian Promoters (%)	41.7127	0.4173	46.1337	47.1459	3.110	0.6422
Foreign Promoters (%)	20.7524	0.6587	29.2206	30.5765	3.2199	0.6356
Non Promoters Institution (%)	23.5315	0.8189	40.5053	42.4446	3.1937	-0.3503
Non Promoters Non Institution (%)	13.3208	0.6515	34.878	36.4436	3.9151	1.8695

Source: Computed from PROWESS corporate database using E-Views (5.0).

Table 4: Analysis of Descriptive Statistics for the Performance of BSE Sensex Companies from January 2007 to December 2011

Ratio \ Descriptive Statistics	Mean	Standard Deviation	Minimum	Maximum	Kurtosis	Skewness
ROA	4.6783	0.3087	4.2396	4.9815	3.1512	-0.7577
ROE	22.0588	0.0320	20.7264	24.7885	3.5808	1.5933
P/E	2.9785	0.0552	0.9697	0.9833	3.8641	-1.6614
P/BV	3.9756	0.1235	0.9715	0.9804	3.3247	0.2733

Source: Computed from PROWESS corporate database using E-Views (5.0).

Note: ROA-Return on Asset, ROE-Return on Equity, P/E-Price Earnings Ratio, P/BV-Price to Book Value

Table 5: Analysis of OLS Regression for Financial Indicators of BSE Sensex Companies from January 2007 to December 2011

Dependent Variable \ Independent Variable	ROA	ROE	P/E	P/BV
C	1.9033	1.2704	-0.0123	1.6007
IP	-1.0156	-0.2725	0.0129	-0.7388
FP	-0.1303	-0.0199	1.0194	0.6185
NPI	-0.2645	-1.2956	-0.2994	-0.5156
PNI	-0.7345	0.6724	0.5709	0.7260
t-value	1.5502	5.2092	-0.0146	1.3322
F-value	0.2764	5.3604	0.4926	5.0263
Sig.	0.8700	**0.0119***	0.7726	0.3213
R	0.7246	0.9774	0.8144	0.9760
R Square	0.5251	0.9554	0.6633	0.9526
Adjusted R Square	-1.3744	0.7772	-0.6831	0.7630
Durbin-Watson stat	1.6307	1.9480	1.680	1.1697

Source: Computed from PROWESS corporate database using SPSS (11.5).

* Significant at 0.05 level

Note: C-Constant value, IP-Indian Promoters, FP-Foreign Promoters, NPI- Non, Promoters Institutions, PNI-Promoters Non Institutions, ROA-Return on Asset, ROE-Return on Equity, P/E-Price Earnings Ratio, P/BV-Price to Book Value