

## APPROVAL FORM

The undersigned certify that they have supervised the student Brighton Dube. Dissertation entitled: **The Relationship between Ownership and Firm Performance on Companies Listed on the Zimbabwe Stock Exchange (2010-2013)** submitted in partial fulfillment of the requirements of the Bachelor of Commerce (Honours) degree in Banking and Finance at Midlands State University.

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## RELEASE FORM

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## **DEDICATIONS**

*To my mother. May her soul rest in peace!*

## **ACKNOWLEDGEMENTS**

To the glory of God and to the special woman in my life Daisy, for being a source of incessant inspiration

I would like to extend my sincere thanks foremost to the Almighty God for His assistance and mercy. My profound gratitude goes to Dr. N. Nkomazana for his supervision, guidance and his shepherd role he played towards getting this work done.

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I am solely responsible for any shortcomings in this research

## **ABSTRACT**

*The study sought to examine the relationship between ownership structure and firm performance in companies listed on the Zimbabwe Stock Exchange. The study analysed the various types and forms of ownership structure and how they influence the performance of the listed companies. Different forms of performance measures and determinants were also explored. The study made use of secondary data collected on the Zimbabwe Stock Exchange for a period of four years (2010-2013) and the data was analysed using the Pearson's Product Moment Correlation and Logistics Regression. Sixty-five companies listed on the Zimbabwe Stock exchange were studied and the measure of performance used in this study was Return on Assets. Firstly, the findings revealed that there is a positive relationship between institutional ownership structure and foreign ownership structure and firm performance. The study also revealed that some of the variables such as managerial ownership were not statistically significant in explaining firm performance. Secondly, the study proved that on average, best company performance is associated with foreign and institutional ownership structures.*

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# CHAPTER 1: INTRODUCTION

## 1.1 Introduction

The study seeks to examine the relationship between ownership structure and firm performance in companies listed on the Zimbabwe Stock Exchange (ZSE). The main thrust is on the examining of whether different ownership structures can affect the performance of a firm on the ZSE. This chapter gives a momentary outline of the facets covered and the research framework. Thus, the chapter focuses the background of the study stating an overview of previous work done and the problem statement indication. Further, it discourses the research objectives and the hypothesis to be tested. The discussion then moves on to the broad and specific problem area, highlighting the reasons that prompted the researcher to embark on this research. The significance of the study is also going to be highlighted and finally this section will explore the delimitations and assumptions of the study.

## 1.2 Background of the Study

Each individual company has numerous techniques of moulding its ownership structure. Ordinarily, the form of ownership structure a company adopts is influenced by the vision of the firm. Kumar (2003), states that corporate government should be integrated into all parts of the firm since it is an important effort to guarantee responsibility and accountability.

Ownership structure is defined by the distribution of equity with regard to votes and capital as well as the identity of the equity owners. According to Jensen and Meckling (1976), these structures are of paramount importance in corporate governance because they determine the incentives of managers and thereby the economic efficiency of the corporations they manage. Imam and Malik (2007), indicates that corporate governance is an internal and external control mechanism that encourages efficient usage of corporate resources at the same time guaranteeing accountability for the management of the resources exploited. Lins (2002) argue that corporate governance helps to align the goals of the individuals, firms, and public through vital ethical grounds and it also fulfils the shareholders' long-term strategic objectives, creating investor value building shareholder value and crafting an overriding market share.

Stulz (1999) denotes that ownership may arise as a result of capitalisation, which can be acquired through bank loans, retained earnings and through issuing more shares to the public.

In the finance literature, capital structure indicates the method a firm finances its assets over a specific mixture of debt, equity, or hybrid securities (www.wikipedia.com; accessed 12/01/2012). Therefore a company's capital structure is as a result of the composition of its assets and liabilities. A firm's capital structure is actually a blending of the equity and debt it employs in financing its activities Gorton and Schmid (1996).

Organisations are faced with a crucial decision of generating profits. This is a crucial decision because the capability of the company to generate more returns in the competitive market largely determines its ability to be going concern (to continue operating into the foreseeable future). The desire to make returns has an effect on the capital base of the firm and subsequently influencing the decision of whether to go for equity financing or debt financing. When going for debt financing, firms acquire funds from outside or external sources, and the firm is expected to repay the borrowed money over time and usually with some interest. Stulz (1999) highlighted several firm specific factors that determine corporate capital structure decision, and these factors include volatility in earnings, dividend pay-out ratio, profitability, and asset tangibility.

The Zimbabwe Stock Exchange is a small but dynamic African stock exchange and according to (Artivor et al (2003)), the Zimbabwe Stock Exchange is one of the most important equity exchanges in Africa. At the moment it has 67 listed companies.

Listed companies in Zimbabwe are regulated by the Companies Act and by the listing rules of the Zimbabwe Stock Exchange Act (under the ZSE act). There is no capital markets regulator in Zimbabwe according to (Artivor et al (2003)). The Zimbabwe Stock Exchange has adopted listing rules based on those of the London Stock Exchange and the Johannesburg Stock Exchange. Shares are freely transferable and most shareholders rights are defined in a company's memorandum and articles of incorporation. Furthermore the World Bank (2002) states that an investor who reaches 35% ownership threshold in a listed company is required to make an offer to minority shareholders. Other shareholders must be informed and approve material transactions. Certain transactions such as reduction of capital, issuance of shares at a discount, removal of directors and auditors, mergers and acquisitions and voluntary wind up of a company require special resolution passed by 75% majority. Furthermore, if a company decides to issue more shares, current shareholders have the option to buy shares before they are offered to the public and hence shareholding structure is unlikely to be affected.

According to the MBCA Bank Financial Journal of December 17 2009, since the resumption of trade on the Zimbabwe Stock Exchange in February 2009, market analysts are saying investors from Ukraine and Russia have become net buyers of the relatively cheap stocks which local investors were and still hurriedly disposing to meet other commitments. Considering the high charges that were being charged on the equity market, some investors decided to move away from the market. Transactional costs charged in 2009 were 7.5% (4% when buying and 3.5% when selling). The reduction of transaction costs on the Zimbabwe Stock Exchange to 3.2% with effect from January 2010 offered investors incentives to switch from overvalued stocks to those they perceive to be undervalued at reasonable cost.

This is affecting shareholding structures of companies whose shares are being disposed and those companies whose shares are being acquired.

The study basically looks at the shareholding structures in relation to control, ownership and which basically leads to corporate value

### **1.3 Problem Statement**

Ownership structures are different and vary between companies. Companies have been adopting different ownership structures for different purposes but there is need to clarify whether this is having an impact on how they are performing. There are those institutions with dispersed ownership structure whereby shareholders comprise of many individuals with each individual having a small number of shares. On the other hand, there are those institutions with concentrated ownership structures. Whether concentrated or diffuse, the ownership structure has an influence on the profit-maximisation goals of the investor and the firm performance. Though these companies are listed on the Zimbabwean Stock Exchange, few individuals will thus have the majority number of shares. Companies adopt different shareholding ownership structures for different purposes but there is need to clarify whether this has an impact on how they perform. In this respect the study aims at highlighting the impact of ownership structure on firm performance.

### **1.4 Research Objectives**

The main purpose of this study is to empirically examine if there is a relationship between ownership structure and firm performance among listed companies on the ZSE. To accomplish this objective, the following precise objectives had been crafted;

- To describe influence of different ownership structures in relation to decision making in a company.
- To describe ownership in relation to control of a company
- To describe the patterns and variations of ownership structure
- To assess the effect of agency problems on firm performance
- To provide policy recommendations based on the results of the study.

### **1.5 Research Hypothesis**

This study seeks to test the following hypotheses:

There is a positive relationship between ownership concentration and company performance.

- ✓ Hypothesis H1: Manager (Insider) Ownership has a positive effect on firm performance.
- ✓ Hypothesis H3: Institutional ownership has a positive impact on company performance.
- ✓ Hypothesis H4: Diffuse (Diverse) ownership has a negative positive impact on company performance.
- ✓ Hypothesis H5: Foreign Ownership has a positive effect on firm performance.

### **1.6 Significance of the Study**

The study will be of paramount importance to numerous players in the economy. Some of the players that are likely to benefit from this study include investors, the general public, and the government to mention but a few. The information will help investors and the general public to make informed decisions on their investments when it comes to buying of shares. If shareholding structure influences company performance, then the research is of help to government in coming up with policies that promote certain ownership structures over others.

This research is expected to provide useful information that may assist investors in general, policy makers in formulation of appropriate and applicable and policies designed to maximise company performance and hence maximising the share value. There is justification on the investigation of whether shareholding ownership structures influence company performance since it is not clear whether shareholding structures has an impact on company performance

### **1.7 Delimitation of the Study**

The broad nature of the research calls for the need to have a scope and limit to which the research will be undertaken. To avoid a narrow scope, the study will be conducted on all companies listed on the Zimbabwe stock exchange. Thus, 67 companies were selected that the information and data of these companies were collected via Zimbabwe Stock Exchange Organization and its publications. The time domain of this research is from the beginning of January 1, 2010 until the end December 31, 2013).

### **1.8 Assumptions of the Study**

- The end of fiscal year of the companies is December 31
- This firm has continued activities during research and its stock is being traded and the book value of equity in any year of the scope of review is not negative.
- Political influence does not determine ownership structure.

### **1.9 Limitations of the Study**

The major limitation to this study was the inadequacy of a comprehensive and timely updated database on ownership concentration and share identities owned by numerous groups under the period of study. Notwithstanding this limitation, the researcher used internet sources and conducted interviews to ask for this information from company personnel's.

### **1.10 Organisation of the Study**

The chapter's major focus was to make known to the subject matter and state the key objectives of the study. The chapter clearly outlined the area of approach and what this study seeks to achieve. This chapter has paved a way for the development of the study, which will provide an in-depth analysis of the relationship between ownership structure and firm performance on companies listed on the Zimbabwe Stock Exchange. The study continues as follows, the second chapter discusses some of the published theoretical and empirical literature significant to this study and also provides a comprehensive insight into the existing literature on the effects of ownership structure and concentration on firm's performance. In chapter three the methodology is presented. It is still in the chapter three that the research design, method and the data analysis technique used to conduct the study is outlined. Chapter four presents the empirical results acquired from analysing the data and reasonable explanations of the findings while the chapter five introduces the principal conclusions and recaps the main findings of the study, comes up with policy recommendations and the direction for future research.

## **CHAPTER 2: LITERATURE REVIEW**

### **2.1 Introduction**

This chapter reviews both the theoretical and empirical evidence regarding the relationship between ownership structure and company performance. It touches on various determinants, how they affect different ownership structures as well as factors affecting firm performance. The importance of ownership structures on company performance and some variables used to measure company performance are also highlighted in this chapter. Empirical studies carried out on other markets are also outlined.

### **2.2 Endogeneity and Ownership Structure**

One of the most debated issues is whether ownership structure is determined endogenously. It is argued that an existing ownership structure, whether concentrated or dispersed, is the result of market forces driven by profit-maximizing incentives. “The ownership structure of firms is the endogenous result of competitive selection in which the advantages and disadvantages in costs are balanced to achieve a balanced organisation in the firm,” (Demsetz, 1983, p.384). According to Demsetz (1983), a firm’s ownership structure, whether concentrated or dispersed, should maximise its value. The existence of endogenous ownership should not lead to rise in systematic effect on ownership concentration on company value.

The indefinite and varied evidence on ownership concentration can best be explained by the endogenous ownership hypothesis. In their argument for endogenous ownership, Demsetz and Lehn (1985) indicated that there are other factors that influence ownership structure and these factors include size of the firm, volatility of the profit rate, whether the company is a registered utility or it is a financial institution, and the industry the firm is operating in whether supporting industry or in the mass media. Their findings did not reveal a meaningful relationship between company performance and ownership concentration. However there are several empirical studies in support of the endogenous ownership such as Holderness and Sheehan (1988), Bergstrom and Rydqvist (1990), Agrawal and Knoeber (1996), Cho (1998), Himmelberg et al. (1999), and Demsetz and Villalonga (2001). ). A meta-analysis by Sanchez



and Garcia (2007) indicate that controlling endogeneity regulates the impact of ownership on company performance. Their research didn't address the problem of endogeneity which reveal a positive effect, nonetheless no effect exist in studies that ownership concentration as an endogenous variable.

### **2.3 Agency Theory and Ownership Structure**

One way to examine the link between a firm's ownership structure and firm performance is to consider the principal agent relationship, whereupon the agent acts on behalf of the principal. In this agency relationship, the shareholder and management are respectively the principal and agent. This separation between ownership and control creates different types of behaviour. The shareholders want to maximize profit for their company. If managers and shareholders are both utility maximisers, there is a good reason that managers are not always acting in the same interest as the shareholders. Under the Agent Principal theory, as argued by Hart (1995), there is trade-off between incentives and risk sharing where managers are motivated to work hard through "high powered" incentives while also protected from risk through "low powered" incentives such as compensation that is insensitive to a firm's performance. The shareholders need assurance that the management will run the company in a manner that serves and protects their interest, while management has their own personal interest.

Besides, Letza (2008) states that since the agency theory argue that people are motivated by their own self-interest, managers will aim to maximise the firm's value only if it is in line with their own best interests. This can effectively lead to a conflict of interest which in turn leads to agency cost for the company. The agency costs are described as the sum of bonding costs, monitoring costs and a residual loss from decision making (Jensen and Meckling, 1976). Reducing agency costs increases a firm's value (Hart, 1995). Should conflict of interest arise, ownership structures can facilitate decisions that were not included in the original principal agent contract through the allocation of residual rights of control over the firms' non-human assets(Hart, 1995)

Jensen and Meckling (1976) suggested that the firm's ownership structure is the primary determinant of the extent of agency problem between insider and outsider investors, which has important implications on the value of the firm. The insiders who control corporate assets can potentially expropriate outsider investor by diverting resources for their personal use or by committing funds to unprofitable projects that provide private benefits. By diverting

resources for their private benefits, controlling managers have the opportunity to increase their current wealth or perquisite consumption without bearing the full cost of the actions. Recent studies have shown that company performance declines the most in firms where managers employ ownership structures that allow them to effectively control the firm while reducing the cash flow rights associated with their control rights. In their study, Lemmoa and Lins (2003) argued that though indirectly, there is evidence that corporate ownership structure plays an important role in determining the performance of a firm.

#### **2.4 Forms of Ownership Concentration**

There is no universal method or approach of selecting a specific measure of analysing the relationship between ownership structure and firm performance. Various measures embraced by academics are centred on the facts available and the suitability of the method of the research question. Most researches that analyse the relationship between ownership concentration and company performance use the Herfindahl index or the equity stake of the top five shareholders (Demsetz and Lehn, 1985). According to Kapelyushnikov (2000), the equity stake of the largest shareholder has widely been employed in most studies done in emerging economies where data are limited. Moreover, survey literature indicates that ownership identity and ownership concentration have widely been used as the main measures of ownership structure and firm performance. Ownership concentration is defined as the proportion of shares an investor holds in relation to the total shareholding of a company whereas ownership identity denotes the exact names or identity of the majority investors.

Kuznetsov et al. (2001), states that there is no single method that can claim to have comprehensively analysed the effect of ownership structure on company performance. However, the strength of ownership concentration is that it focuses on the capability of the shareholders to monitor and evaluate managerial preference, while it suffers from the fact that it doesn't consider the shareholder(s) investment preferences and how they affect a firm's priorities and strategies. On the other hand, researches employing ownership identity focus on the problems associated with risk aversion, creation of wealth and investors value, but fail to address the issue of the powers to control and monitor managers that are deliberated by actual shareholding (Cubbin and Leech, 1983).

Prugsamatz (2009) argued that there are two main forms of ownership concentration, there is concentrated ownership structure and diffuse ownership structure. The main difference between the two structures is all about how much percentage stake do the majority

shareholders own in the company. Akimova and Schwodiater (2004) further argued that ownership structure is measured by the percentage of shares held by each owner

#### **2.4.1 Concentrated Ownership**

According to La Porta et al., (1999); La Porta et al., (2000); Becht and Mayer, (2001); Franks and Mayer, (1995) concentrated ownership is characterised by an equity structure in which a larger percentage of a company shares are held by a small number of shareholders. Nevertheless, the level of ownership concentration may differ dramatically between countries. In Shleifer and Vishny (1997), ownership is concentrated when one investor in the firm has at least 25% of the equities. Prior studies such as Shleifer and Vishny (1986), Demsetz (1983) and Holderness (2009) concluded that controlling shareholders generally use these cut offs at least 25% of control right to define control as being concentrated or not.

Concentrated ownership structure is theoretically setup to limit management from expropriating profits and reducing the agency problem. A key attribute of concentrated ownership is that it results in transparency to both the shareholders and the management and it is also believed that this type of ownership structure speeds up the process of the external sources of capital and therefore enhances the firm's performance. It has strongly been recommended that this type of ownership may be put in use as an alleviating tool in countries like Zimbabwe, where legal safeguard of the minority equity rights is weak, market institutions are relatively small, and contract enforcement is poor. Therefore, concentrated ownership plays a prime role in the way organisations are managed. Franks and Mayer (1935) went on to argue that concentrated ownership is needed where investment by other stakeholders is important and cannot be promoted contractually. Controlling owners are the centre of gravity of these systems, high in stability and long-term commitment, but low in flexibility, and the capacity to attract outside investment.

#### **2.4.2 Diffused (Dispersed) Ownership**

According to La Porta et al. (2000); Franks and Mayer (1995) diffused ownership is characterised when company shares are in the hands of a large number of shareholders. In Shleifer and Vishny (1997) ownership is diffused when one majority investor in the firm have less than 25% of equities. According to Berle and Means (1932), dispersed ownership has given rise to separation of ownership and control. Diversified shareholdings are useful from the point of view of risk reduction but discourage active participation of investors. Dispersed ownership gives management more discretionary power but permits restructuring of

management largely because owners are unable to commit. When little investment is required by other parties or adequate contracts can be written, dispersed ownership will be advantageous.

## **2.5 Why Firms Have Concentrated Ownership**

Shleifer (1998) argued that insider concentrated ownership improves efficiency but insider ownership concentration does not achieve efficiency benefits. To ensure efficiency benefits, a change in management conduct, and lastly enhanced firm performance, insider concentrated ownership must craft an effective tool of corporate governance. This denotes instituting a system that will assume owners of capital, that is, investors getting a maximum return on their investment.

Andreyeva and Dean (2007), states that company performance becomes a problem if shareholders acquainted with managers to maximise returns on their investment especially where there are many of shareholders who hold ownership rights over the firm's assets.

Shleifer and Vishny (1997) argued that concentration of ownership is an alternative approach to corporate governance that is aimed to aid company performance. Large shareholders acquire authority over their investment and therefore large investors have the ability to lessen agency costs, guaranteeing improved firm performance and, eventually acquiring improved return on their investments. Therefore the writer concluded that ownership concentration positively affects firm performance. The rationale behind this approach is that dispersed ownership results in little incentives for minority investors to monitor and influence management and higher incentives for them to skive and free ride on others.

Shleifer and Vishny (1997) argued further that dispersed ownership is typically allied with a less transparent corporate structure. In that instance, shareholders cannot liberally observe their cash flows and consequently have little incentives to offer extra funding. All this eventually poses an undesirable impact on firm performance and its value in the market. Additionally, the authors highlight that when company ownership is more concentrated, the externalities associated with management monitoring and resulting inefficacy are much lower. In that instance, the costs and the benefits of skiving are endured by the same shareholder or collective among a small number of investors proportionately to their stake, giving larger investors a pronounced incentive to regulate and monitor managers and to avoid skiving. Benefits from economies of scale in monitoring costs enhance incentives and resources for majority shareholders to effectively monitor management. The resulting effect

is that management capability to perform in its own interest and benefit at the expense of investors is considerably restricted.

The importance of concentrated ownership is also brought about by Demsetz and Lehn (1985), and these infer that this kind of ownership structure probably arise when company environment is unstable. Environmental uncertainty results in difficulties in observing managerial behaviour. Isolating the effects of management on firm performance from that of its environment cannot be an obvious thing, for example an unpredictable business, unfriendly market or system fluctuations. This form of inadequate information elevates monitoring costs to heights that only reward to larger investors. Therefore, considering uncertainty, concentrated ownership is proficient in guaranteeing maximum return on investors' investment

## **2.6 Why Firms Have Diffused Ownership**

Berle and Means (1932) likewise disputed that notwithstanding these benefits of diffused ownership, it is nevertheless wide spread in the real world. Shleifer and Vishny (1997) states, this infers certain characteristics that results in concentrated ownership being less eye-catching for shareholders. These encompass extreme risk that is endured by non-diversified shareholders; expropriation of large investors by other investors through takeover; and the significant transactional and informational costs related to the maintenance of corporate control.

According to Shleifer and Vishny (1997), excessive risk runs are endured by concentrated owners as follows. To preserve concentrated ownership in the event of large capital requirements, shareholders ought to inject additional funds into a single firm. Risk averse investors will demand rewards for any additional risk assumed. Capital costs are thus increased and this in turn discourages owners from retaining concentrated ownership. Therefore Demsetz and Lehn (1985) denoted that the bigger the firm, the more dispersed should be its optimum ownership structure. Grossman and Hart (1988) also disputed that the prospective for takeovers presents a more serious burden related to concentrated ownership. This prospective comes about if there is a deviation in objectives or opportunities amongst large shareholders. The capability to exploit other shareholders is particularly likely for shareholders who have high power to control. This phenomenon arises spontaneously in cases of uneven voting rights, whereby some shareholders have preferential positions as compared to others, amounting to control through a pyramid structure. For

instance investors may benefit at the expense of the creditors of other firms by assuming undue risks and conveying all opportunities costs to such creditors. Altogether, preferentially placed investors might expropriate other shareholders by adjourning noble investment ventures as they would have to sustain costs for the project while benefits will be shared among all owners. Hence, Grossman and Hart (1988) highlighted that in several instances, firms with dispersed ownership structures have a tendency to perform better.

## **2.7 Determinants of Ownership Concentration**

Three groups or factors have popularly been used to classify the determinants of ownership concentration and these factors include the characteristics of the company, its industry, and the country it is residing in. However, it can be argued that the industrial characteristics are already revealed in those of the organisation or the country. The idea to distinguish the industry as a separate level can correctly be revealed by conducting an empirical research. Since Van der Els (2005) found out that the dissimilarities between industries were much less significant than those between countries, in this particular study, the writer confines the examination to firm and country-level variables.

The first variable to consider is the size of the company. If the size of the company's capitalisation is large, this results in a larger amount of the capital required to own a given stake in the company (Van der Els, 2005). The willingness and ability to embrace a portion of the firm's shares is likely to be limited by constrained wealth and the desire to diversify risks. Hence, monitoring costs are probably going to be higher in these companies. According to La Porta et al. (2003), the necessity to monitor the firms by shareholders is decreased due to the presence of analysts and rating agencies who give a closer attention to the larger firms and this increases the opportunity of shareholders' control at arm's length. The above arguments advocate that the larger companies are most likely to be widely held. The value of market capitalization is used as the size indicator.

Given a specific firm size, companies usually vary in their needs for external funding. Due to wealth constraints and aversion of risk, the needs for external financing are likely to be satisfied by a large number of investors and thus will lead to dispersed ownership. Following Thomsen and Pedersen (1996), the writer adopts firm growth rate and capital intensity as the main indicators of external financial requirements.

Demsetz and Villalonga (2001), states that creditors might offer part of the monitoring of managers that or else that will have to come from the shareholders. Therefore we may anticipate more indebted companies to have a more diffused ownership structure.

Looking at the perspective of the portfolio selection, holding a higher stake in a firm is made less attractive for an investor who is risk-averse because of the firm-specific risk of that particular company. Conversely, Demsetz and Lehn (1985) argued that larger levels of volatility in the company's operating environment compel much devotion from investors to ensure professional managers stays 'on top' of the ever-changing business environment. Thus this dispute favours ownership concentration so as to cut back on the costs monitoring. Therefore, the impact of greater firm-specific uncertainty on the company's ownership diffusion is hypothetically vague. Thus two measures of uncertainty have been employed by the writer, that is, the volatility and beta of the firm's yearly before debt, interest, and taxes, divided by the asset value.

The legal view asserts that equity markets and subsequently diffuse ownership structures can only prosper if domestic laws and practices in the legal court protect the rights of the minority investors. Diffused ownership structures can only be enhanced by domestic legislation if the rights of outside investors contrary to corporate insiders and the legal requirements for information disclosure about a company which makes an initial offer to the public are well established (La Porta et al. 2003). Legislation on its own will not guarantee the job done, judicial measures are equally essential. If judges solely base their decision on legislature, corporate insiders who expropriate outsiders that is not clearly prohibited might not be scared of judicial punishment, whereas if judges base their decisions on moralities of equity, they might attempt to estimate if the actions of insiders is bigoted to outsiders, even if not explicitly prohibited (Beck et al. 2003). This is termed the legal adaptability factor.

The political view presents a strong argument that states that political forces and interests have fashioned the rises of diffused ownership. A strong case is presented by Roe (2000) for the social democratic philosophy in continental Europe countries where more emphasis is placed on the interest of the employees and little emphasis is placed on the interest of investors which is the case in the US. The implementation of practices associated with dispersed ownership is made difficult by the political and social climate. Publicly accessible information about an organization must be made difficult or impossible to understand, for the reason that politicians and owners are scared that revealing high profits attract higher salary

demands, which are more likely to flourish than in the United States. Implementing incentive compensation is not easy, because it would intensify employee demand for wage, and government permission is usually required in hostile takeovers, which seems to be of less value for the bidder.

## **2.8 Ownership Identity and Firm Performance**

According to Shleifer and Vishny (1997), quite a reasonable volume of literature on company performance has focused much consideration to the subject of investor identity. Apart from ownership concentration, the issue of ownership identity has been regarded to be important in the perspective of the agency problem. Monitoring is more effective when shareholders have sufficient knowledge and experience of financial and corporate matters. Most sampled literature point out that the goal functions and the costs associated with exercising control over management differ considerably for different types of investors. This entails that knowing who the investor is, is rather more relevant than knowing how much equity the shareholder owns in a particular firm. The notion behind this is that shareholders vary in terms of their wealth, their risk appetite and how they prioritise investor value relative to other objectives. This is because shareholder preferences and the choice of investment are influenced by investor interests (Nickel, 1997; Hansmann, 1996). Furthermore, conflicts of interest tend to arise because the shareholders have their own economic relations with the company, for example, banks may assume the role of a lender and owner, and the government can also be regulators or owner (Thomsen and Pedersen, 1997). For these stakeholders, preferences about a firm's policy will include a trade-off between the interest of investor value and other objectives (Thomsen and Pedersen, 1997).

## **2.9 Forms of Ownership Structures**

The most controversial form of ownership has been deemed to be managerial ownership since it has uncertain effects on company performance and is also regarded as a mechanism for aligning managerial interest with those of the stakeholders, whilst it encourages manager entrenchment, which is usually costly when managers are not acting in the best interest of the investors (Mork et al., 1988; Stulz, 1988). As postulated by Thomsen and Pedersen (2000), the link between ownership concentration and corporate performance is determined by the identity of the larger controlling investors. Generally, the influence of managerial ownership on a firm performance relatively rest on the strengths of the incentive alignment and entrenchment effects.



The impact of foreign ownership structure on corporate performance has been a subject of interest to academics and policy makers. As propounded by Gorg and Greenaway (2004), the results achieved from foreign ownership of companies are one of the main challenging questions in the international business strategy. It has unanimously been agreed on that foreign ownership plays a pivotal part in determining organisational performance, especially in underdeveloped and emerging countries. Researchers such as Aydin et al. (2007) resolved that on average, multi-national corporations have out-performed the locally owned companies. Generally, foreign investors and institutional investors are known to have the resource and ability to properly monitor management decisions. However, it is noted without any surprise that the past two decades have borne witness to an increase in the level of Foreign Direct Investments (FDIs) in developing countries.

Two major motives have been put forward to explain the occurrence of greater performance related to foreign ownership of corporations. Firstly, foreign owners have the aptitude to control management, giving them performance-based rewards, resulting in management seriously managing the affairs of the firm, and avoiding behaviours and activities that undermine the wealth creation motivations of the firm owners. The second reason is the transfer of new technology and globally-tested management practices to the firm, which help enhance efficiency by reducing operating expenses and generating savings for the firm.

Literature on government ownership has unanimously been agreed on in the academic world. Government ownership is viewed as incompetent and rigid. According to De Alessi (1980, 1982), government owned firms are political companies with the public as mutual owners. A distinct attribute of state owned enterprises is that the general public has no direct entitlement on their residual returns and ownership rights cannot be transferred. Ownership rights are exercised by some hierarchy in the bureaucracy, which lacks a clear motive to enhance the performance of the firm. Vickers and Yarrow (1988) view the lack of incentives as the chief dispute against government ownership. Additional justifications embrace the pricing policy (Shapiro and Willig, 1990), political involvement, and human capital issues (Shleifer and Vishny, 1994).

Notwithstanding the above, government ownership also carries along with it some benefits to the society. Public firms have traditionally been called forth to provide a remedy for failures in the market. Government control becomes economically acceptable as a mechanism of reinstating the purchasing power of the public when the social costs associated with

monopoly power become visible (Atkinson and Stiglitz, 1980). ). However, recent studies proposes that public corporations are highly incompetent as compared to privately owned firms (Megginson, et al, 1994), even in pursuing public interests. There are numerous explanations for such observed poor performance of government owned organisations.

Shleifer and Vishny (1994), state that government owned companies are administered by bureaucrats or political figures who have exceptional concentrated control rights, but insignificant cash flow rights as all the revenue generated by the companies are channelled to the state's exchequer to fund the national budget. This is worsened by political objectives of bureaucrats that often diverge from judicious business ideologies (Repei, 2000). This massive ineptitude of public corporations has hastened a wave of governance turnaround of economies around the world in the past two decades through intensified privatisation of public owned corporations.

In analysing political interference on government owned company's decision making process, Boycko, Shleifer and Vishny (1996) argued that increasing managerial discretion by reallocating control rights from politicians to management improves the performance of a firm since management is more worried about company performance than are the politicians. Firms in the financial and banking sector are risk averse since they are particularly concerned with profit maximisation. A firm that is profoundly leveraged does not have the capacity to go in search of risky investments as these threaten their ability to honour their loan obligations as and when they fall due, especially in situations when the firm is making losses. It is against these backdrops that banks may seize to issue out loans to these financial distressed firms as disbursing more loans results in increased liquidity problems and perhaps insolvency (Hansmann, 1988). Contrary, publicly listed companies can shoulder further indebtedness, only if they commit on improving their firm's financial positions and investor value in the long run.

According to (Al-Najjar, 2010), institutional ownership plays a pivotal role in corporate governance. Institutional shareholders are firms and corporates who pursue investments with high returns and profitability, because these shareholders prefer to increase their wealth by investing in good projects. Thus institutional ownership play a crucial role in plummeting conflict of interest and agency problem through increased monitoring of management performances and by controlling of the firms (Maug, 1998; Huddart, 1993). Institutional

investors also play an essential role of transferring information to other stakeholders of the firm and institutional investors also reduce the need external monitoring. Additionally, institutional shareholders have much power over the decisions of the firms they would have invested in since they hold a larger percentage of shares in those firms (Brickley et al., 1988).

Institutional investors are argued to be a significant tool in corporate governance that increases the performance of a firm, since they have both the know-how and the incentive to monitor and evaluate management (Aljifri & Moustafa, 2007; Ping & Wing, 2011). Rose (2007) defends the efficiency of institutional shareholders as a corporate governance mechanism centred on the grounds that institutional shareholders may control the behaviour of managers, since the free-rider problem related to diffused ownership is made less severe. Due to institutional shareholders' ability to sway the board's resolution, absorb monitoring costs, and participate in active ownership, their presence has a positive effect on corporate performance (Shleifer & Vishny, 1997; Rose, 2007). On the other hand, Duggal and Millar (1999) presents a strong case against the capability of institutional shareholders in monitoring management effectively and improving corporate performance. Likewise, Gorton and Kahl (1999) dispute that corporate performance is not necessarily increased by institutional ownership because institutional shareholders may not significantly monitor management due to internal agency conflicts.

Based on Efficient Market Hypothesis, institutional shareholders possess the adequate skills to efficiently monitor management and lowering costs and this results in a positive relationship between firm performance and institutional ownership structure. As postulated by McConnell and Servaes (1990), Shleifer and Vishny (1997), Smith (1996), and Filatotchev et al. (2005), institutional ownership structure positively affects firm performance. According to (Barnhart and Rosenstein (1998), the conflict of interest and strategic alignment hypothesis indicate an inverse relationship between ownership structure and firm performance. Additionally, Cronqvist and Nilsson (2003) and Craswell et al. (1997) concluded that no relationship exists between institutional ownership structure and firm performance.

## **2.10 Measures of Firm Performances**

Despite the fact that firm performance is generally far from moderate, the influence of ownership structure and control on the performance of a company has widely been studied since Berle and Means (1932) first employed it. Literature on company performance

measures widely used in the study of the relationship between ownership structure and firm performance is classified into:

### **2.10.1 Tobin's Q**

Tobin's Q is arguable the most relevant and precise variable for measuring company performance. The Tobin's Q is defined as the proportion of the market value of assets to replacement value of assets and is generally used in the financial literature (Denis, Denis and Sarin, 1994) as a performance measure. The formula for calculating Tobin's Q is the firm's market value scaled by its assets, valued either at book or replacement value (Shepherd, 1990). The Q ratio is used as a proxy for the market valuation of the firm's assets. Denis and Sarin (1994) vindicate that utilising Tobin's Q can also measure growth prospects. Tobin's Q is a market-based approach that measures company performance and it is in line with the EMH in which the market valuation of a firm measures the use of existing assets and future growth potential (Christensen et al., 2010). A Tobin's Q greater than one is an essential condition for a company to be at a level of investments that increase its value and that a Tobin's Q less than one portrays a company with no growth prospects.

### **2.10.2 Marris Ratio**

The Marris ratio is assumed to indicate growth prospects. The Marris ratio "is a permanent valuation indicator of choices of the firm, of the management and of strategic perspectives" (Hirigoyen and Caby 1997, pp. 18-19), A Marris ratio above one portrays a company that has the ability to create value, or else it indicates a deteriorating trend in company's value.

### **2.10.3 Return on Equity and Return on Investment**

These are intricate ratios used for measuring a firm's performance with broad validity and significance to this study. These ratios effectively measure firm performance in underdeveloped countries as they are in the developed economies. Return on assets (ROA), which is the ratio of the net income scaled by the total assets, is used as an accounting-based measure. Core et al (2006) argue that ROA is a preferred proxy for firm performance because it is not affected by leverage, extraordinary items, and other discretionary items. By using this variable, the researcher will examine the literature concerning ownership structure and firm performance. The return on equity specifies how appropriate a firm uses investment funds to generate earnings growth. ROEs between 15% and 20% are considered desirable.

## **2.11 Determinants of Firm Performance**

Firm performance is a complex model in relation to both measuring and defining it. Generally performance is defined as the outcome of activity and the most suitable measure used to evaluate firm performance is assumed to rely on the type of the firm to be assessed, and the goals to be attained through that assessment (Hunger et al (1997)). Researchers have come up with vast methods of measuring firm performance. Nevertheless, there is no unanimity on what constitutes a valid set of performance criteria (Cameron, 1981).

According to Cameron (1986), researches on firm performance should incorporate a criterion analysis. This multidimensional opinion of performance suggests that diverse models of relationship between firm performance and its elements will materialise to illustrate the numerous arrays of the relations between the dependent and the independent variables in the estimated models (Schmidt, (1993)).

However the drivers of a firm's performance have turned out to be essential in the finance literature. One instigating advocate of the deterministic variables such as Nickell et al. (1997) has acknowledged numerous determinants of performance, such as company size, level of competition, leverage, corporate control, and corporate demographic issues.

The impact of company size on firm performance has received significant consideration in the study of firm performance. According to the common intuition, firm size has a significant role in company performance for various reasons. In a different standpoint of the researches, size is used as a proxy of company resources. The probability of default and the volatility of company's asset can also be proxied by firm size. Fama (2002) documented that less volatile companies are likely not to default.

Traditionally, rivalry in the industry is regarded to be beneficial for company productivity. Porter (1980) differentiates five forces affecting competition at the industry level, that is, competition amongst existing companies, the threat of new entrants, bargaining power of suppliers, bargaining power of customers, and threat of substitute products or services. According to Cyert et al. (1993), an industry lacking product and price competition, products, and services, and commodities, competition among organisations is through service quality, reliability of deliverance and reputation. Hall (1993), measures the effect of such intangibilities, and the rate at which they can be sustained. Hall (1993) considered know-how and reputation to be the major influences.

Three methods that influence firm performance have been put forth by Nickell (1996). For one, it is easy for shareholders to monitor management in a competitive market because of the opportunities that arise from comparisons. Secondly, the probability of bankruptcy rises because of competition and there is need to compensate managers to work hard so as to avoid this outcome. Lastly, because elasticity of demand is higher under competition, and holding all other things constant, the compensation for reducing costs is higher in a competitive market. The significance of this disagreement is a clear sign that competition moderates the propensity of free cash flows to management and encouraging a much efficient usage of resources, Cohen and (1989).

Aghion et al. (2001) denotes that competition inspires innovation, which subsequently generates opportunities for generation new cash flow. Precisely, the production of information on innovative prospects essential in the likelihood of contrast is useful both for management having to design strategies to innovative and for monitor shareholders. In the process, non-innovative organisations may be compelled out of the industry in a market that is competitive, giving management a reward to work harder to refrain from these same results. Regarding state owned corporations, studies by Nickell et al (1997), Januszewski et al (2002), Rogers (2004), indicated that competition and firm performance are positively related.

Leverage, as depicted by financial pressure may affect company performance in numerous ways Nickell et al. (1997). The cash flow argument by Jensen (1986) suggests that as debt service payment diminishes, the free cash flow amount at the disposal of managers for overinvestment, improves corporate performance. Similarly, as the level of debt rises, the probability of default also rises, (Molina, 2005). Thus management is required to put more effort so as to avoid such consequences, (Dessi and Robertson, 2003). Debt is defined by Molina (2005), as a strong influence on leverage on ex ante costs of financial distress which can compensate the advantages of debt. Therefore when companies are financially distressed, the persistent anxiety of meeting interest and principal repayments may force firms to overlook lucrative investment prospects.

A company's demographic determinant's such as firm's age and number of outlets are regarded to be drivers of firm performance by some researchers. The general belief on the number of outlets is that many outlets resemble a larger market share a firm covers. Multiple outlets on the other hand may result in managerial diseconomies, overhead costs and increased fixed costs. In the existence of economies of scale, a large number of outlets imply

better firm performance and the converse, diseconomies of scale, mean worst performance. Studies in the retail banking industry indicate that a single unit (branch) tend to perform better (Barnett et al, 1994). They argued that an organisation's prominence on market positioning impedes corporate knowledge.

A firm's age also has an effect on firm performance. All firms are subjected to the business cycle were they go through the growth phase and decline phase of the business cycle. Generally speaking, emerging firms have passionate and vibrant staffs, which increase performance. However, according to Cromie (1991), these emerging firms are faced with start-up problems which have been overcome by the established companies who boast on experience and the network of existing creditors and clients, which increase efficiency.

Birley (1990) indicate that well established companies perform better than the young companies. Regardless of the expertise and the know-how, individual possessions of the personnel in the company might as well be significant. Old people tend to have a large personal network and they work effectively. Carson et al. (1995) dedicate the whole chapter to the significance of what they term Personal Contact Networks (PCNs). Therefore the writer infers that companies with old personnel perform better. Contrary, the energy, and determination of people decline as they age, which might pose an inverse effect on performance.

## **2.12 Empirical Literature**

As previously highlighted, empirical research on the relationship between ownership structure and performances of listed companies have borne conflicting outcomes. Demsetz and Lehn (1985) delivered proof regarding endogeneity of ownership structure in United States companies using a linear regression of an accounting measure of profit. Their model employed an accounting measure of profit rate which was a percentage of the shares held by the top five shareholders and on control variables in which ownership structure was regarded as an endogenous variable. The results of the study indicated that there was significant relationship between profit rate and ownership concentration.

Firm value and performance has often been employed as a proxy for determining the governance capability of a company. However, attempts to determine the effectiveness of governance mechanisms based on these indicators have produced mixed findings. The subject on the separation of ownership and control was pioneered by Bale and Means (1932) who argued that separating the two results in conflict of interest between shareholders and

management. They concluded that the drive of managers to maximise investor value decreases when there is low managerial ownership and when shareholders are dispersed, resulting in a phenomenon where a firm's assets are misused so as to benefit management. Their results indicate that there is a meaningful link between ownership concentration and corporate governance which is linearly related to company performance. Chandler (1962) results were similar to those by Bale and Means (1932) and his results showed linear and positive impact of ownership structure on firm performance.

Franks and Mayer (1935) argued that the patterns of ownership are associated with different forms of corporate control that allow for different types of correction and as a result this tends to influence company performance. Concentrated ownership allows relations involving commitment on the part of investors to be sustained. Dispersed ownership gives management more discretionary power but permits restructuring of management largely because owners are unable to commit. Consequently, it could be expected that different forms of ownership would be suited to promoting different types of activity thereby different company performance. Franks and Mayer (1935) went on to argue that concentrated ownership is needed where investment by other stakeholders is important and cannot be promoted contractually. When little investment is required by other parties or adequate contracts can be written, dispersed ownership will be advantageous.

Jensen and Meckling (1976) suggested a different theory which they termed the agency theory. In the agent-principal theory, the objective of the principal (shareholder) is wealth maximisation and for that reason the performance of the agent (manager) is regulated and evaluated. The agency theory is also called the "Theory of Corporate Ownership Structure." This theory assumes that the managers' personal interests must be incorporated in decision making and these may conflict with the shareholders' interests of maximizing profits. According to the agency theory, ownership concentration results in effective monitoring and increased returns which subsequently increase corporate value with insider ownership, thus suggesting that ownership concentration has a positive effect on performance because it alleviates the conflict of interest between owners and managers.

The opposite view of the ownership structure directs attention towards the effects of the agency problem resulting from the combination of concentrated ownership and owner control (Fama and Jensen, 1983). They came to contradictory findings regarding the relationship



between ownership structure and performance, reporting that increased ownership concentration decreases corporate value.

Loderer and Marti (1997) took shareholding by the insiders as measure of ownership and Tobin's Q as performance measure. They found (through simultaneous equation model) that ownership does not predict performance, but performance negatively predicts ownership. The writer infers that since Q ratios measure growth opportunities already capitalised in the stock price, managers are incentivised to liquidate their own firm stock ownership and diversify wealth. Cho (1998) also found that firm performance had an effect on ownership structure (signifying percentage of shares held by directors), but not vice versa. Thus ownership may not be an effective incentive mechanism to induce managers to make value maximising investment decisions.

Morck et al. (1988) disregarded endogeneity issues completely and re-analysed the impact of corporate ownership structure on performance and the performance measure's they used were the Tobin's Q and accounting profit rate. The sample was comprised of 500 Fortune companies and using piece-wise linear regression and they found a positive relation between Tobin's Q and board ownership. They observed that Tobin's Q rises as board ownership increases from 0 to 5%, decreases between 5% and 25% and once again rises, though slowly, beyond 25%. The non-monotonic relationship explains two different phenomena of the alignment and entrenchment. As shareholding rises initially performance improves because of the alignment of monetary rewards amongst management and other shareholders. But after a certain limit managers may become complacent and thus may not try to put adequate efforts for the firm's growth. But again on higher levels, incentives effect may align their thoughts towards performance as it might multiply opportunities to appropriate corporate wealth.

Shleifer and Vishny (1988) indicate that in the perspective of managerial ownership that high managerial ownership leads to the entrenchment of managers, as they are progressively less prone to governance by board of directors and to discipline by the market for corporate control. Furthermore, Shleifer and Vishny (1997) employed the standard agency theory and the result highlighted that the choice of a privately optimal ownership structure encompasses a trade-off between risk and incentive efficiency. Holding all the other factors equal, majority investors poses a stronger incentive to observe management and more authority to impose their interests and this increases the preference of managers to maximize investor value.

Lehmann and Weigand (2000) examined 361 German firms in a period of six years (1991-1996) using Pearson's Product Moment Correlation and Logistic Regression method and came to the conclusion that the existence of a large number of investors do not necessarily maximise profitability and the high degree of ownership concentration appears to be a sub-optimal choice for most of the firmly held German firms. This infers that the ownership concentration has a significantly negative impact on the. The adverse effect of ownership concentration can be attributed to family owned or foreign owned non-listed companies as well as listed companies with different large investors.

Thomsen and Pederson (2000) found out that concentrated ownership and economic performance were positively related, even though, this relationship was non-linear, and ownership concentration above a certain level had opposite and inverse impact on performance. They came to the conclusion that when there is distributed ownership, some investors can't take part in corporate policy thereby leading to reduction of optimal firm value. The performance measure used in the study was Tobin's Q. (Thomsen and Pederson, 2000).

Demsetz and Villanonga (2001) studied 233 firms during 1976 and 1980 using average Tobin's Q for the five years to analyse the impact of shareholders ownership structure on firm value. The study was conducted considering ownership to be a multidimensional and endogenous variable and the results found no significant relationship between ownership structure and firm value.

Lins (2002) using 1433 companies from 18 emerging countries, analysed the relationship between management ownership and non-management block holders and company performance. Large non-management who controlled block holding rights were found to be positively related to performance, which was measured using the Tobin's Q. Large non-management block holders can alleviate the valuation discounts associated with the anticipated agency problem (Lins, 2002).

Lemmon and Lins (2003) examined 800 companies in 8 East Asian nations to analyse the impact of ownership structure on firm performance in the midst of the Asian financial crisis. They found out that a company's investment opportunities were negatively affected by the crisis, increasing the options of the largest investors to exploit the minority shareholders. The results are in line with the notion that ownership structure is significant, whether insiders expropriate minority shareholders.

Welch (2003), applying the model of Demsetz and Villalonga (2001), examined the relationship between ownership structure and firm performance of Australian listed companies. Her OLS results suggested that ownership of shares by the top management is significant in explaining the performance measured by accounting return but not by Tobin's Q. However, when ownership is treated as endogenous, the same is not dependent on any of the performance measures. Kapopoulous and Lazaretou (2007) tried the model of Demsetz and Villalonga (2001) on 175 Greek firms for the year 2000 and found that concentrated ownership structure leads to higher profitability.

Brown and Caylor (2004) examined the impact of corporate government on firm performance in 2327 firms using Tobin's Q as a performance measure and they placed fifty-one factors affecting corporate governance in eight categories. Their findings indicated that appropriate corporate governance is influential in determining the return of the firm with regards to the director's remuneration. Nonetheless all the other factors have a direct impact on the firms yield. The study indicated that more than ninety-eight per cent of firms had a reward Committee which is the most important characteristic of corporate governance, while, the weakest executive characteristic was on the existence of a specific replacement of the auditors policy, (Brown and Caylor, 2004).

Kaserer and Moldenhauer (2005) empirically examined the relationship between insider ownership structures on firm performance in 245 firms in Germany for the year 2003. They found a meaningful and positive link between Tobin's Q and managerial ownership

Mueller and Spitz (2006), examined the impact of managerial ownership on firm performance in Germany and 365 Small to Medium Enterprises (SMEs) in the service sector between 1997 and 2000. The results indicated that firm performance with a managerial ownership above forty per cent, was enhanced, (Mueller and Spitz, 2006).

Cornett et al (2007) analysed the influence of institutional investors as one of the tools of corporate governance and operational return of large firms. The results indicated a meaningful and positive relationship between the ratio of operating cash flow to sales as a performance measure and the percentage of institutional investors as a corporate governance tool. (Cornett et al, 2007).

Karami (2008) analysed the effect of institutional investors on the informational content of reported profit using different attitudes about the institutional investors. Two models of

multiple regressions were used to examine the link between informational content of corporate profit and institutional ownership. The findings indicate that ownership by institutions does not increase information content of returns and may otherwise reduce it, while the level of ownership by institutions does not reduce the information content of returns, but may possibly increase it (Karamu, 2008).

Numazu and Kerman (2008) examined the relationship between ownership structure and firm performance in companies listed on the Tehran Stock Exchange. The research placed much emphasis on the assumption that there exist a significant relationship between ownership structure and firm performance. Sixty-six firms were studied between 1382 and 1386 and panel data was used in this study. Two categories of ownership structure were used and these included institutional ownership and private ownership with the latter being subdivided further into corporate, management and external shareholders. The results indicated an inverse relationship between institutional ownership and performance and a linear relationship between corporate ownership and performance. Ownership by management has a negative impact on performance while information on external investors was witnessed in sample statistical firms. It was also concluded that a greater part of private ownership should better be held by corporate investors. Generally, there is a positive relationship between ownership structure and firm performance (Namazi and Kermani, 2008).

Ahmadpour and Krdtbar (2008) also analysed the role of monitoring mechanisms of corporate governance in conduct of corporate earnings management. The results indicated that non-duty managers and large institutional shareholders have a weak role in reducing abnormal and uncommon contractual matters (Daryai, 2009).

Ongore (2009) investigate the effect of corporate ownership structure in firm performance on listed companies in Kenya. The model used by Ongore (2009) to analyse the relationship between ownership structure and firm performance is as follows;

$$FIRM\ PERFORMANCE = b_1OWNCONC + b_2FORENOWN + b_3INSTOWN + b_4GOVOWN + b_5DIVOWN$$

Where:-*OWNCONC*–Ownership Concentration; *FORENOWN*–Foreign Ownership; *CORPOWN*–Ownership by Corporations; *MANOWN*–Ownership by Managers; *GOVOWN*–Ownership by Government; *DIVOWN*–Diverse Ownership; *MANDISC*–Managerial Discretion.

Using Pearson's Product Moment Correlation and Logistic Regression, the study found that ownership concentration and government ownership have significant negative relationships with firm performance. On the other hand, foreign ownership, diffuse ownership, corporation ownership, and manager ownership were found to have significant positive relationships with firm performance.

Sadeghi Sharif and Bahadori (2009) examined the impact of shareholding structure on firms Dividend Pay-out Ratio (DPR) in Tehran Stock Exchange. From the results, ownership of the five largest shareholders and ownership of the largest shareholders have a positive impact on DPR of the company, that is, firms whose shares are held by the its five largest shareholders tend to have a high DPR as compared to those firms whose ownership is not focused on the top five shareholders. The impact of institutional ownership on a company's DPR was established, that is, greater institutional ownership in a firm led to an increased DPR over time. Contrarily, greater individual ownership in a company led to a decreased DPR (Sadeghi Sharif and Bahadori, 2009).

Ezazi et al studied the relationship between ownership structure and firm performance and the outcome of his research shows that the share price of firms whose largest proportion shares are in the hands of the their largest shareholders are very volatile than the share price of the firms whose majority shares held by individual shareholders is lower. However the measure of ownership of the top five shareholders and institutional investors and board members do not necessarily show any remedies for shareholders share price instability.

### **2.13 Summary**

The chapter's focus was to give an in-depth insight on the studies and literature on the relationship between ownership structure and firm performance. The chapter gave a thorough breakdown on the various types and forms of ownership structure and concentration and their impact to firm performance. Subsequently the chapter looked at the determinants of ownership concentration and how they impact on the performance of different companies. These determinants were further broken down to the country specific and firm specific factors that affect the ownership concentration of firms. The chapter also explored the three main firm performance measures that are used in the literature of determining the relationship between ownership structure and firm performance and these measures included the Tobin's Q, the Marris Ratio and the accounting based measures (ROE an ROA). The researcher also looked at various determinants of firm performance on companies and how each factor

affects the firm performance. The empirical review also looked at researches that were done since 1932 by Berle and Means up to 2011 by Ezazi et al, the methods used and the results they preceding researches found on the link between ownership structure and firm performance. The next chapter will be reporting on methods used in carrying out the research. It will also report on how the methods were used and why the methods were selected.

## CHAPTER 3: RESEARCH METHODOLOGY

### 3.1 Introduction

This chapter highlights the steps followed by the researcher during the course of the research. It draws its guidelines mostly from the theoretical and empirical studies revealed in the previous chapter on the relationship between ownership structure and firm performance of public corporations in Zimbabwe. This chapter also discusses the research design, sampling techniques, model specification, and justification of variables, data sources of this study and characteristics and conclusion to the chapter.

### 3.2 Research Design

In order for the stated objectives to be fully achieved the explanatory research design will be used. The research design is used since it is the most appropriate to the study as it is used in studies that seek to analyse causal relationships between variables. In this study, the design is meant to establish and explain the causal relationships between ownership structure and firm performance of companies listed on the Zimbabwe stock exchange.

### 3.3 Model Specification

The researcher adopted this model from the model by Ongore (2009) who assessed the relationship between ownership structure and firm performance on companies listed on the Kenya Stock Exchange. From the model by Ongore (2009), the researcher maintains all the variables and only introduces a new variable, and states the model as follows;

$$FIRM\ PERFORMANCE = b_1DIVOWN + b_2FORENOWN + b_3INSTOWN + b_4MANOWN + u$$

Where:- *DIVOWN*–Diverse Ownership; *FORENOWN*–Foreign Ownership; *INSTOWN*–Institutional Ownership; *MANOWN*–Ownership by Managers; *u*-is the random error term

### 3.4 Justification of Variables

#### 3.4.1 Managerial (Insider) Ownership

Insider ownership (*MANOWN*) is the proportion of shares held by board members, managers and employees among the twenty largest shareholders. Managerial ownership is considered a tool for alignment of managerial interest with those of the shareholders and Meckling (1976) states that the increase of managerial ownership provides managers with monetary incentives to increase firm performance and subsequently maximise profit. Thus the researcher

expects managerial ownership to affect firm performance positively and expects to find a positive relationship between ownership structure and firm performance.

### **3.4.2 Institutional Ownership**

Institutional ownership (*INSTOWN*) is the proportion of shares held by institutional investors among the top twenty listed shareholders. Bjuggren et al (2007), states institutional shareholders influential and possess a disciplining influence on managers and performance of the corporations. Institutional investors also have the necessary tools for efficient monitoring of the management and reducing costs and thus in this study, institutional ownership is expected to affect performance positively and the researcher expects to find a positive relationship between institutional ownership structure and firm performance.

### **3.4.3 Foreign Ownership**

Foreign ownership (*FORENOWN*) is the fraction of non-citizenry investor shareholding among the top twenty investors. Foreign investors on average have a large shareholding and a higher degree commitment and long-term involvement. Foreign ownership plays an important part in firm performance in underdeveloped and emerging economies and researches by Aydin et al (2007) found out that multinational corporations have performed better than locally owned companies. Therefore in this study, foreign ownership is expected to have a positive effect on firm performance and the researcher expect a positive relationship between ownership structure and firm performance.

### **3.4.4 Diverse Ownership**

Diffused ownership (*DIVOWN*) is when a company shares are in the hands of a large number of shareholders. Berle and Means (1932) highlighted that diffused shareholding are useful from the point of view of risk reduction but discourage active participation of investors. The absence of an effective tool for legally protecting minority ownership rights in most developing economies means dispersed ownership is likely to be accompanied by weak and non-transparent corporate governance systems which are likely to have a negative effect on the performance of firms. Thus the researcher expects a negative relationship between diverse ownership structure and firm performance

## **3.5 Data Types and Sources**

Secondary data will be used to carry out the research. Secondary data has been chosen as it is more relatively more reliable than primary data since it is less subjected to intentional bias by respondents as in primary researches like interviews. It also helps provide a wide coverage of



the area under research thus it helps in matching objectives to appropriate data available. However secondary data has its own drawbacks. Secondary data is inherent in its nature, because the fact that the data were collected to answer specific research questions, particular information that the researcher would have wanted to have may not be available.

Secondary data on ownership concentration will be collected from the Zimbabwe Stock Exchange. Some of the data on ownership concentration will be collected from published journals, newspapers and the internet which all provide a source and guide to the requested data. Business reports are other secondary sources that are considered in this research.

The table below shows how each of the variables from the model is measured.

**Table 3.1** Variables, Measurement, and sources

<b>Variable</b>	<b>Measurement</b>	<b>Source</b>
Managerial (Insider)Ownership	Percentage of shares heldby board members, managers, and employees among the top twenty investors.	ZSE
Institutional Ownership	Percentage of shares held by institutions among the top twenty listed investors.	ZSE
Foreign Ownership	Percentage of non-resident investor shareholdings among the top twenty investors.	ZSE
Diffused	Portion of shares (less than 25% of equities) held by one majority investor in the firm	ZSE
Firm Performance	Return on Assets which is the ratio of the net income divided by the total assets	ZSE

**Source: Secondary Data**

### **3.6 Diagnostic Tests**

Before the model is estimated, the properties have to be evaluated. The tests that were done include the unit root test (Augmented Dickey Fuller), Autocorrelation test (Durbin Watson test). Engle Granger method and Multicollinearity test (Correlation Matrix). After the research ran the model, after carrying out the recommended practical test, the following results were obtained.

### **3.6.1 Unit Root Test**

The unit root test will be used for stationarity of the explanatory variables. It is called the Levin Lin Chu test. Each variable is tested independently for stationarity. A variable is first tested for stationarity at its own level and if it found not to be stationary, tests should proceed at first difference and if not stationary should also proceed to second difference level. Non stationary data contain a unit root and the existence of a unit root makes hypothesis test results spurious and unreliable. A non-stationary time series can be made stationary by differencing

### **3.6.2 Cointegration**

The cointegration test is carried out to test for the long-run relationship between the variables. This is done through running a unit root test on the error term. This error term is generated from the estimated parameter values in order to find the values of the residuals upon these values; a unit root test is conducted. A short run adjustment model can be constructed according to an Error Correction Mechanism (ECM) that is, taking into account deviations from long run relationships. The last step is then to construct and estimate an ECM for the first difference of cointegration

### **3.6.3 Autocorrelation**

A test for autocorrelation will also be conducted by computing Durbin Watson (DW) test. According to Gujarati (2004) autocorrelation is correlation between members of the series of observation ordered in time (as in time series data) or space (as in cross-sectional data) the DW test statistic is going to be used to test for the serial correlation among the explanatory variables. If the DW statistic obtained is approximately equal to two, there is no serial correlation. The general goodness of fit is tested using the coefficient of determination ( $R^2$ ). Comparison of DW test statistic with  $R^2$  helps the researcher to find out if the econometric model suffers from spurious regression. If  $R^2$  is greater than the DW statistic then the model may be spurious (Gujarati, 2004).

### **3.6.4 Multicollinearity**

Multicollinearity is the existence of a perfect or exact linear relationship among some explanatory variables of the regression model, (Gujarati,2004). Multicollinearity test will be carried out observing the  $R^2$  and the  $t$ -statistic results. A high  $R^2$  and few significant  $t$ -ratios show the presence of multicollinearity. When the correlation among the explanatory variables

is greater than 0.8 it indicates that there is multicollinearity and the remedial measure will be dropping a variables.

### **3.7 Summary**

The methodology outlined in this chapter will be adopted to come up with the empirical assessment of the relationship between ownership structure and firm performance of the companies listed on the Zimbabwe Stock Exchange. The chapter has specified the model that the researcher adapted from Ongore (2009). The explanatory variables, thus institutional ownership, managerial ownership, state ownership and ownership concentration were justified. Moreover, the diagnostic tests to be employed by the researcher, which include the unit root test for stationarity, multicollinearity and autocorrelation test among others, were noted. Adding on to that the chapter specified the sources and type of data used to estimate the parameters. Thus the next chapter deals with the results presentation and interpretation.

## CHAPTER 4: DATA PRESENTATION AND ANALYSIS

### 4.1 Introduction

The chapter contains the findings that were obtained during the research as guided by the research methodology outlined in the preceding chapter. The discussion of the results will be held in accordance to the objectives outlined in chapter one. The data that was collected was used to resolve and find the relationship between ownership structure and firm performance. This chapter covers the presentation of findings as well as the data interpretation and analysis.

### 4.2 Diagnostic Test Results

Before the model was estimated, the properties of data had to be evaluated. The tests done include the unit root test (Levin-Lin-Chu), multicollinearity (correlation matrix), autocorrelation. After running the model and carrying out the practical test, the following results were obtained.

#### 4.2.1 Unit Root Test

The Levin-Lin-Chu test was used to test for all regression parameters for stationarity. The hypothesis used was as follows;

$H_0$ : There is no stationarity in the variable.  $H_a$ : There is stationarity in the variable.

The outcome of the unit root test is shown in Table 4.1

**Table 4.1: Unit Root Test Results**

Variable	P-Statistic
Institutional	0.464
Diffused	0.080
Managerial	0.453
Foreign	0.431

**Source: Raw Data**

For a variable to be stationary using the Levin-Lin-Chu, the p- statistic value should be less one. From the results shown in Table 4.1 above, the researcher rejects the null hypothesis and concludes that the variables are stationary.

#### 4.2.2 Multicollinearity Results

The correlation matrix was used to detect the presence of multicollinearity. The test was carried under the null hypothesis, multicollinearity does exist  $H_0$ . The outcome is shown in Table 4.2.

**Table 4.2: Correlation Matrix**

	Performance	Foreign	Institutional	Diffused	Managerial
Performance	1.000				
Foreign	0.6440	1.0000			
Institutional	0.0793	-0.4080	1.0000		
Diffused	-0.6174	-0.4007	-0.4402	1.0000	
Managerial	0.1817	0.0812	0.1208	-0.4081	1.0000

**Source: Raw Data**

The was no problem of multicollinearity since the pair of the correlation matrix are not greater than 0.8 indicating that there is no strong or perfect relationship and in this case we do not accept the null hypothesis and conclude that there is no problem of multicollinearity. According to the correlation matrix (see Table 4.2), foreign ownership structure, and diffuse ownership structure have a relatively high correlation with firm performance, where the relationship between diffuse ownership structure and firm performance is a negative one and the relationship between foreign, institutional, and managerial ownership structure and firm performance is a positive one.

#### 4.2.3 Heteroskedasticity Results

To test for the existence of heteroskedasticity, the Breusch Pagan-Godfrey test was used. The decision rule was, do not reject,  $H_0$  if the probability of the  $F$ -statistic is above 0.05. An  $F$ -statistics value of 0.97 concludes that the model does no suffer from heteroskedasticity. The results are presented in Table 4.3.

**Table 4.3: Heteroskedasticity Results**

F-Statistic	Probability
0.97	0.3256

**Source: Raw Data**

#### 4.2.4 Model Specification Test Results

The Ramsey RESET test was used to test for the model specification. This test were carried out under the condition that if the p-value is less than 0.05, then the model is not correctly specified. However, the p-value of 0.2083 is greater than 0.05, and using the rule of thumb the researcher concluded that the model is correctly specified.

**Table 4.4: Model Specification Results**

<b>F Statistic</b>	<b>Probability</b>
1.53	0.2083

**Source: Raw Data**

#### 4.3 Regression Results

The regression results are shown in Table 4.4.

**Table 4.5: Regression Results**

<b>VARIABLE</b>	<b>COEFFICIENT</b>	<b>ST ERROR</b>	<b>T-STATISTICS</b>	<b>PROBABILITY</b>
Foreign	0.894	0.139	6.45	0.000
Institutional	0.130	0.621	2.09	0.037
Diffused	-0.123	0.045	-2.75	0.006
Managerial	-0.004	0.215	-0.18	0.536
C	0.476	0.134	3.55	0.000

**Source: Raw Data**

Number of Observations =248

$R^2$  =0.586

#### 4.4 Interpretation of Results

The model is correctly specified and the overall significance of the model is clearly identified by the  $f$  statistic. The model also has a good explanatory power as shown by a coefficient of determination,  $R^2$  of 0.586. Thus, 59% of the variations in performance (ROA) are explained by variables in the model. The remainder (41%) is explained outside the model and is captured by the error term. The coefficient of ownership of 0.894 implies that holding all other things constant, there exists a positive relationship between foreign ownership structure and company performance.

The coefficient of 0.894 of foreign ownership indicates that a 1% increase in foreign ownership will subsequently lead to 0.894% increases in return on assets. The  $t$  statistics value of 6.45 implies that foreign ownership is very significant in explaining company performance which is measured by ROA meaning to say there is a positive relationship between foreign ownership structure and firm performance in companies listed on the ZSE. The results from this study are in line with research findings by Aydin et al (2007), who found out that foreign ownership plays a significant role in determining corporate performance in underdeveloped and emerging economies because foreign investors have the resources and the ability to properly monitor managerial decisions. These results are also similar to those by Dauma et al (2003) who tested the effects foreign ownership on performance of 1005 Indian firms in 1999-2000 and came to the conclusion that foreign ownership has a positive effect on corporate performance. Kim and Lyn present contradictory results from those gotten in this study when they investigated MNEs performance operating in the US, suing 54 largest corporations and their findings point out that foreign firms operating in US are less profitable than randomly selected domestic owned US firms

There also exist a positive relationship between institutional ownership structure and firm performance as highlighted by a coefficient of 0.130. A 1% increase in institutional ownership structure offsets a 0.130% increase in ROA. At statistics value of 2.09 shows that institutional ownership is statistically significant in explaining company performance and this implies that there is a positive relationship between institutional ownership structure and firm performance. These findings also cement those of Shleiffer and Vishny (1997) and Rose (2007), who posed that the presence of institutional investors positively, affects firm performance. Their argument was based on the fact that unlike individual investors, institutional investors have the necessary tools for efficient monitoring of the management and reducing costs thus increasing firm performance. However these results differ substantial from those found by Gorton and Kahl (1999) who argue that ownership by institutional investors does not necessarily enhance firm performance because institutional investors may provide an insignificant monitoring role due to their own internal agency conflicts.

However, the results also show that there is an inverse relationship between diffused ownership structures, which is shown by a coefficient of -0.123, implying that a 1% increase in diffuse ownership structure will lead to a 0.123% decrease in firm performance. A  $t$  statistic value of -2.75 shows that diffused ownership structure is statistically significant in explaining company performance. There is a difference in these results from those found in

the literature world, specifically from the results by Mayer and Rossi (2007; page 30) who stated that “one of the best stylised facts about corporate ownership is that ownership of large listed companies is dispersed and lead to increased performance.” Their study was carried out from companies listed in the US and developed markets. Ongore (2009),who undertook his study in Kenya, denounces findings by Mayer and Rossi (2007) and argue that diffused ownership does not give adequate control of shareholders over management who may pursue other objectives that deviate from profit maximisation thus, reducing firm performance.

#### **4.5 Summary**

The chapter analysed and presented the finds from the study. Empirical evidence on the relationship between ownership structure and firm performance on companies listed on the Zimbabwe Stock Exchange. The results proved that on average, firms with foreign and institutional ownership structures tend to outperform those firms with managerial and diffuse (diluted) ownership structures in terms of ROA. From these results, best company performance is associated with foreign and institutional ownership structures. The results presents a strong case against diffuse ownership structure and the results on diffuse ownership structure differ from those of the rest world. The next chapter will consist of the summary of the research findings, conclusion on the findings and making of necessary recommendations based on findings and conclusions.



## **CHAPTER 5: SUMMARY, CONCLUSION AND RECOMMENDATION**

### **5.1 Introduction**

This chapter presents the summary of the study and the conclusions emanating analysis from the preceding chapter. Recommendations to various corporate bodies, society and its academia will be included in this chapter. Suggestions for future research will also be highlighted in this chapter.

### **5.2 Summary of the Study**

The research study was conducted to find out the relationship between ownership structure and firm performance of companies listed on the Zimbabwe Stock Exchange by analysing return on assets of different with different ownership structures. The researcher employed various ideas from different authors who studied the area before in order to make a comprehensive analysis of the study. Literature in both developed and developing markets was used to give a fairly balanced analysis of the study. Various types of ownership structures and concentration and their effects on firm performance were discussed. The study also touched on the firm specific and country specific determinants of ownership structure and how they impact the performances of different companies. The researcher discussed the various performance measures, their strength, and weakness and managed to come up with the justification of using ROA ahead of the other measures.

The study initially targeted at 67 companies listed on the ZSE, but the actual sample used was 62 companies and the remaining 5 companies were left out due to their suspension from the stock exchange. The study was conducted for a period of four years (2010-2013), using panel data and a regression model was adopted to analyse the relationship between ownership structure and firm performance. The diagnostic tests were carried out and these indicated that the model used did not suffer from multicollinearity and heteroskedasticity. Results from the study showed that there is a positive relationship between firm performance and foreign ownership and institutional ownership structures on companies listed on the ZSE. The results also showed an inverse relationship between diffuse ownership structures and firm performance on companies under study. The research findings were then used to come up with the conclusions and recommendations.

### **5.3 Conclusions**

Based on the findings discussed in the preceding chapter, the researcher managed to come up to the following conclusions.

- ❖ Ownership structure plays a crucial role in determining firm performance as seen by the different ownership structures posing different effects on firm performance.
- ❖ Institutional and foreign ownership structures are positively related to firm performance on the listed companies.
- ❖ Diffuse ownership structures was negatively related to firm performance of the companies listed on the stock exchange.

### **5.4 Recommendations**

- ❖ Corporate ownership structures should be evaluated and monitored and certain ownership structures should be promoted. In particular institutional and foreign ownership should be encouraged in order to reduce agency costs and improve performance.
- ❖ Corporate governance practices between shareholders and managers should be enhanced so as to align the objectives of the shareholders and managers and to avoid the problem of shirking among the investors themselves so as to increase firm performance.
- ❖ The researcher recommends the government to enact law that are aimed at protecting minority equity rights so as to promote diffused or dispersed ownership structure in the country resulting in even individuals being shareholders of many company.
- ❖ Greater company performance in Zimbabwe has been associated with institutional and foreign ownership structures, and due to the indigenisation laws in the country, I recommend institutional ownership structure to be targeted as it has the ability to closely and effectively monitor corporate managers (just like foreign ownership structure) and it also alleviates the free-rider problem associated with dispersed ownership structure.

### **5.5 Suggestions for Further Research**

Further research into the relationship between ownership structure and firm performance should be carried out using other factors that I had left out such as firm specific factors (firm age, size, debt) and country specific factors (legal view, political view); in order to further develop some of the insights delivered by this research.

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## APPENDICES

### APPENDIX 1: REGRESSION RESULTS

```
. xtreg firmperformance foreign diffused institutional managerial
Random-effects GLS regression           Number of obs   =       248
Group variable: company1                Number of groups =        62

R-sq:  within = 0.0001                   Obs per group:  min =        4
        between = 0.7199                  avg           =       4.0
        overall = 0.5860                  max           =        4

corr(u_i, X) = 0 (assumed)                wald chi2(4)     =       144.99
                                                Prob > chi2      =        0.0000
```

firmperfor~e	Coef.	Std. Err.	z	P> z	[95% Conf. Interval]	
foreign	.8943356	.1386845	6.45	0.000	.622519	1.166152
diffused	.1297172	.0621207	2.09	0.037	.0079628	.2514715
institutio~l	-.1227388	.0445669	-2.75	0.006	-.2100884	-.0353892
managerial	-.003886	.0214815	-0.18	0.856	-.0459889	.0382169
_cons	.4762134	.1340371	3.55	0.000	.2135056	.7389212
sigma_u	.2695421					
sigma_e	.31041411					
rho	.42987399	(fraction of variance due to u_i)				

### APPENDIX 2: MULTICOLLINEARITY

```
. corr firmperformance foreign institutional diffused managerial company1
(obs=248)
```

	firmpe~e	foreign	institut~l	diffused	manage~l	company1
firmperfor~e	1.0000					
foreign	0.6440	1.0000				
institutio~l	0.0793	-0.4080	1.0000			
diffused	-0.6174	-0.4007	-0.4402	1.0000		
managerial	0.1817	0.0812	0.1208	-0.4081	1.0000	
company1	-0.1550	0.0242	-0.0207	0.0270	0.2155	1.0000

### APPENDIX 3: MODEL SPECIFICATION

```
. ovtest
```

```
Ramsey RESET test using powers of the fitted values of firmperformance
Ho: model has no omitted variables
      F(3, 240) =      1.53
      Prob > F =      0.2083
```

## APPENDIX 4: HETEROSKEDASTICITY

```
. hettest  
  
Breusch-Pagan / Cook-Weisberg test for heteroskedasticity  
Ho: Constant variance  
Variables: fitted values of firmperformance  
  
chi2(1) = 0.97  
Prob > chi2 = 0.3256
```

## APPENDIX 5: DIFFUSE OWNERSHIP UNIT ROOT TEST

```
. xtunitroot llc diffused, noconstant lags(0)  
  
Levin-Lin-Chu unit-root test for diffused  
-----  
Ho: Panels contain unit roots          Number of panels = 62  
Ha: Panels are stationary              Number of periods = 4  
  
AR parameter: Common                  Asymptotics: root(N)/T -> 0  
Panel means: Not included  
Time trend: Not included  
  
ADF regressions: 0 lags  
LR variance: Bartlett kernel, 5.00 lags average (chosen by LLC)  
-----  
                Statistic      p-value  
-----  
Unadjusted t      -1.2247      0.1103  
Adjusted t*       -1.4040      0.0802  
-----
```

## APPENDIX 6: INSTITUTIONAL OWNERSHIP UNIT ROOT TEST

```
. xtunitroot llc institutional, noconstant demean lags(0)  
  
Levin-Lin-Chu unit-root test for institutional  
-----  
Ho: Panels contain unit roots          Number of panels = 62  
Ha: Panels are stationary              Number of periods = 4  
  
AR parameter: Common                  Asymptotics: root(N)/T -> 0  
Panel means: Not included  
Time trend: Not included              Cross-sectional means removed  
  
ADF regressions: 0 lags  
LR variance: Bartlett kernel, 5.00 lags average (chosen by LLC)  
-----  
                Statistic      p-value  
-----  
Unadjusted t      -0.0928      0.4630  
Adjusted t*       -0.0893      0.4644  
-----
```

## APPENDIX 7: MANAGERIAL OWNERSHIP UNIT ROOT TEST

```
. xtunitroot llc managerial, noconstant demean lags(0)
```

```
Levin-Lin-Chu unit-root test for managerial
```

Ho: Panels contain unit roots	Number of panels =	62
Ha: Panels are stationary	Number of periods =	4
AR parameter: Common	Asymptotics: root(N)/T ->	0
Panel means: Not included		
Time trend: Not included	Cross-sectional means removed	

```
ADF regressions: 0 lags  
LR variance: Bartlett kernel, 5.00 lags average (chosen by LLC)
```

	Statistic	p-value
Unadjusted t	-0.1219	0.4515
Adjusted t*	-0.1170	0.4534

## APPENDIX 8: FIRM PERFORMANCE UNIT ROOT TEST

```
. xtunitroot llc firmperformance
```

```
Levin-Lin-Chu unit-root test for firmperformance
```

Ho: Panels contain unit roots	Number of panels =	62
Ha: Panels are stationary	Number of periods =	4
AR parameter: Common	Asymptotics: N/T ->	0
Panel means: Included		
Time trend: Not included		

```
ADF regressions: 1 lag  
LR variance: Bartlett kernel, 5.00 lags average (chosen by LLC)
```

	Statistic	p-value
Unadjusted t	-0.4988	
Adjusted t*	7.0e+16	1.0000