



The Impact of Ownership Structure on Firm Performance: Evidence from Jordan

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Abstract: This study is an attempt to achieve the main objective by examining the association between ownership structure and firm performance of the Jordanian firms. This study used OLS regression to test the relationship between independent variable and dependent variable as discussed in the section explaining the study method. The data comprised of 228 firms industrial and services. As this study Jordan attempts to bridge the gap in the existing literature by investigating the association between ownership structure and firm performance in the emerging market of Jordan. The findings indicated a significantly positive relationship between ownership structure (family and foreign) and firm performance. Finally, this study provides recommendations for future research.

Keywords: Ownership Structure, Firm Performance, Amman Stock Exchange

1. Introduction

Ownership structure is recognized as having the most significant impact on CG systems [1], as well as firm performance. Previous studies have defined the ownership structure as the distribution of shares amongst owners [2]. This study has new variables which are related to firm ownership structure namely, family ownership, foreign ownership. Institutional, managerial, and foreign ownership is an additional dimension because of its importance to an emerging market. Family ownership is added to the analysis to review an important aspect of ownership structure in Jordan's cultural environment [3].

Majority of the studies investigating the effect of ownership structure on firm performance has been dominated by the developed countries [4]. To the knowledge of the researcher, there is limited research dealing with firm performance in the Middle Eastern countries, especially Jordan. Thus, Jordan provides an excellent case to investigate the relationship between ownership structure and firm performance due to the diversity in the ownership structures of Jordanian firms. In addition, the existence proportion of ownership concentration, might lead to the CG and weakness in the policies that protect investors' rights in Jordan [5].

Corporate governance now has become a norm in Jordan,

where the first CG Code was published in 2009 as mentioned by [6]. Yet, Jordan capital market and its economic situation are still weak, as revealed by The World Bank that non-financial sector represented by service and industrial firms faced a drop in Gross Domestic Product (GDP) in the last few years.

The conflict of interests between principals and agents in modern corporations has intrigued economists for a long time. To mitigate this problem, classic works in agency theory such as [7], propose use of equity holdings of the firm instead of cash compensation to better align the interests between managers and shareholders. Despite the theoretical and practical importance, convincing empirical evidence has been elusive and consequently there is a lack of consensus on whether ownership structure matters for firm performance [4].

Nevertheless, still the relative studies in developing countries, particularly in Jordan on the influence of ownership structure are little, scarce and rare [8]. Jordan as an emerging market is increasingly shifting from controlled to market-based economy with market privatization of all firms listed at Amman Stock Exchange [9].

Based on the above explanation, the contribution of the current study lies in selecting industrial and service sectors in Jordan that faced and contributed to two kinds of decline; one

is in the performance of its firms and the other in the Jordanian economy in general as mentioned by The World Bank (2014). Thus, the current study aims at testing the impact of ownership structure on firm performance in one of the emerging markets, namely Jordan. Furthermore, the significant role made by the current study is considered as an attempt to fill a gap in the previous studies by exploring the relationship between important mechanisms of corporate governance with accounting-based measurement (ROA). There is a scarcity in testing ownership structure in the Jordanian context.

However, to the knowledge of the researcher, similar studies in the context of Jordan's economy are very rare and it need to do it in this country [10]. The data used in the current study is based on the recent two years, 2015 and 2016 for the firms belonging to industrial and service sectors and belonging to non-financial sector listed in Amman Stock Exchange (ASE) [11] in Jordan.

According to the above, the main objective of this study is to detect the role of ownership structure as one of the mechanisms of corporate governance on firm performance among some listed firms in Amman Stock Exchange. In this context, we discuss whether there is a significant relationship between the ownership structure and firm performance or not.

2. Literature Review and Hypotheses

Previous studies have revealed findings that ownership structure in the firm is an important issue that decreases agency problems and pushes managers to promote firm performance. In Jordan context, a study conducted by [12], shows that there is a positive relationship between ownership structure and firm performance.

Family Ownership

A Majority of the Jordanian listed firms have the status of controlled by family. Whereby, the percentage of family ownership more than 46%; hence, it is common for the family members to possess considerable power in the management of the firm. This may be achieved through chairmanship or being a member of the board, and also by means of the control of senior management positions [13]. It may result in conflicts of interest between the controlling family and minority stakeholders [14].

In theory, family owners will have a greater influence on the firm than non-family executives. This is due to the family's long-term and sustainable existence in the firm, as well as to safeguard their family members, of which those who have more senior shares in the firm. Furthermore, families are more probable to forgo the short-term benefits from earnings management because of the motivation to hand down their own business to their next of kin and to protect the reputation of their family name. Accordingly, family ownership is less likely to employ their power in the practices of opportunistic behavior in earnings as it could possibly harm the reputation of their family, wealth, as well as long-term performance of the firm [15]. Therefore, family

firms have more incentives than non-family firms in terms of reporting higher quality earnings. In short, family firms prefer high level of earning quality [16].

Family ownership is relatively easy to track in Jordan and there are, potentially, fewer biases in the measurement and determination of family ownership than may be the case in other settings. This is because in family businesses in Jordan it is relatively easy to identify the names of members of the family. This arises because the whole family have the same family name whether they are males or females, before or after marriage. Islamic law in Jordan gives the right for a woman to keep the name of her father after marriage. Therefore, the names of second generation owners in family firms will be clear and easy to identify [17].

H1: Family ownership will be positively associated with firm performance.

Foreign Ownership

The foreign ownership is a type of ownership whereby the firms have certain percentage of foreign investors that invest in the domestic market. The foreign investors, who are likely to be less informed investor and coming from more transparent regimes may demand for high disclosure of financial information as compared to the local investor who are more informed and may be able to access the financial information that they need. However, [18] and [19], found that foreign investors tend to become part of insider shareholders when they have control over the firm and react like other local investors which result in improve the firm performance [20].

The Jordanian firms generally have low level of foreign ownership as stated by ASE (2017) [11] that foreign shareholdings comprise of 14% in Jordanian listed firms. Hence, these foreign investors are expected to react more alike the minority shareholders concerning the firm performance, in which they prefer firms to provide high performance in turn to protect their investments. Recent empirical studies [21], have shown that foreign ownership and firm performance relationship is a highly debatable topic. It is argued that foreign involvement in the ownership of firms might have different effects on the relationship with firm performance. According to [22], they conducted a research to study the relationship between foreign ownership with firm performance in the Gulf Cooperation Council (GCC) countries. They found that the involvement of foreign investors in the ownership structure of a firm improves the performance of the firm.

[23], argue that foreign ownership performs an effective monitoring function of the firm management. Foreign ownership influence on the firm performance due to several reasons. Among them are strong monitoring of managers and reduce agency costs [24], providing a wealth of experience in dealing with managerial opportunism, and mitigating agency conflicts in different national and cultural settings which makes them better and more experienced monitors, allowing firms to easily access superior technical, managerial talents, and financial resources and obtaining various investment benefits from the government [25]. Moreover, [22], reported

that there is a positive relationship between the level of dividends and the level of foreign ownership of shares, which at the same time may influence the performance of the firm.

H2: Foreign ownership will be positively associated with firm performance.

3. Research Design

The current study sample comprises of 228 companies for the years 2015 and 2016 and excluded financial firms as

they differ in structure, methods and accounting practices from the sample. Data of the firms is obtained from their annual reports compiled in Amman Stock Exchange (ASE) [11]. The firm performance was measured by accounting-based measurement, (ROA). It is a forward-looking measurement reflecting the shareholder expectations regarding future performance of the firm, which is based on past or current performance [26]. As a traditional measure, (ROA) measures the expected firm long-run performance [27].

Table 1. Summary of variables measurement.

N0	Variables	Operationalization
Dependent variables (DV)		
1	Return on Asset	Earnings (before tax) divided by total assets of the firm
Independent Variables (IV)		
2	Family Ownership	measured by the percentage of shares held by families to the total number of firm's shares.
3	foreign Ownership	measured by the percentage of shares owned by foreigners to the total number of shares issued.

The ownership structure variable namely, family and foreign was studied. Table 1 offers the variable measurement summary. In sum, the relationship between ownership structure was studied by using the following model.”

$$ROA = \beta_0 + \beta_1FAWit + \beta_2FOWit + \varepsilon it$$

In both equations, each independent variables are calculated for each firm ‘i’ and each year ‘t’, with ‘ β_0 ’ as the intercept, ‘ ε ’ as the error term, and β_1 , β_2 as the coefficients.

4. Data Analysis and Results

4.1. Descriptive Statistic

The continuous variables’ descriptive statistics included the mean, standard deviation, and minimum. and maximum, which are obtained with the help of SPSS, version 22.

Table 2. Descriptive statistics of variables.

	N	Minimum	Maximum	Mean
Family	228	0.00	99.75	23.86
Foreign	228	0.00	98.70	7.57
ROA	228	-29.90	13.92	3.34

4.2. Regression Results of Model (Based on Accounting Measure)

The finding suggests the ownership structure are associated. with higher performance. Thus, hypothesis H1 is supported. This finding is consistent with previous studies that found a positive relationship between family ownership and firm performance such as [17]. As for the hypothesis H2, the finding is consistent with [28] and [29], that found a positive relationship between foreign ownership and firm performance. One probable clarification for the positive significant association between ownership structure and firm performance is that this result is supported by Agency Theory, which postulates that the board has to be stricter when it comes to monitoring of management to ensure financial performance.

Table 3. Regression results of model (Dependent= ROA).

Variables	Standardized Coefficients Beta	t-value	Sig.
(Constant)		1.541	0.125
Family	.146	2.142	.033
Foreign	.118	1.725	.086

5. Conclusion

This study is considered to have achieved. its main target, which is to test the relationship between the ownership structure and firm performance among Jordanian firms.

The present study employed several. assumptions to examine the association between independent variable and dependent. variable as discussed in the research. methodology section. The data used for this study. comprised of 228 firms and according to the findings, a significant positive relationship between ownership structure (family and foreign) and firm performance in Jordanian listed firms.

This study has many recommendations. for future studies. Firstly, this study examined the direct relationship between ownership structure and firm performance but there is a lack. of previous research examining the moderating or mediating effect of other. variables on the relation between ownership structure and firm performance such as, culture, regulation, among others that will lead to help. in improving performance. Secondly, future authors should investigate the relationship between ownership structure and firm performance in- depth, by adding new variables such as managerial, institutional. Finally, future authors should extend proxy of firm performance and integrate between accounting and marketing measurement as this may lead to effective performance in both the short- and long-term. Finally, based on the previous studies, there is a paucity. of existing literature that examined the association. between ownership structure and firm performance in the emerging countries like Middle East.

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