EFFECTS OF OWNERSHIP STRUCTURE ON THE PERFORMANCE OF LISTED COMPANIES ON THE GHANA STOCK EXCHANGE

BY

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DECLARATION

I, Ibrahim Raji, hereby declare that this thesis is the result of my research and that except for references to other related works which had been properly acknowledged, the work has neither in part nor in whole been presented elsewhere for the award of another degree.

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ABSTRACT

Every business organisation has an important decision of making returns. This decision also affects its capital base and the decision of either going for equity financing or debt financing. The stock markets are widely viewed as important, if not essential, for the functioning of modern capitalist economies. In Ghana, a huge gap exists in literature on the impact of ownership structure and a firm performance as well as the measure of ownership structure and whether or not the endogeneity of ownership structure affect performances of firms. This study therefore sought to determine the relationship between the ownership structure of listed firms and performance on Stock Market. The study made used of secondary data and the data were analyzed using Pearson's Product Moment Correlation and Logistic Regression. The first finding indicates that there is a significant negative relationship between ownership concentration and firm performance. The second finding shows a positive relationship between insider ownership and firm performance. The study recommends that there is dire need to reasonably diversify shareholding as a way of attracting more skills and competencies among the shareholders that can be tapped to improve firm performance. At the same time, the managers should be protected from unnecessary direct interference by the shareholders.

DEDICATION

I dedicate this work firstly to the almighty Allah, then to my wife Fauzia Abubakar but not forgetting my parents, Alhaji Raji Mohammed (Allah bless his soul) and Hajia Hajara Abdul-Rashid and all siblings, especially Tunde, Hajia Kelola and Hajia Kudiratu.

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LIST OF ABBREVIATION

BRVM	Bourse Regionale des Valeurs Mobilieres
CAT	Continuous Auction Trading system
GSE	Ghana Stock Exchange
ROA	Return on Assets
ROE	Return on Equity
DY	Dividend Yield

CHAPTER ONE

INTRODUCTION

1.1 Background of the study

Every firm has several ways of building its ownership. Normally the type of ownership structure a firm decides to adopt is engineered by the vision of the company. According to Kumar (2003) corporate governance is an important effort to ensure accountability and responsibility and a set of principles, which should be incorporated into every part of the organization.

The ownership structure is defined by the distribution of equity with regard to votes and capital as well as the identity of the equity owners. These structures are of major importance in corporate governance because they determine the incentives of managers and thereby the economic efficiency of the corporations they manage (Jensen and Meckling, 1976). The corporate governance framework according to Imam and Malik (2007) is the widest control mechanism (both internal and external) since it encourages the efficient use of corporate resources and ensures accountability for the stewardship of those resources utilised. Lins (2002) further contend that corporate governance could help to align the interests of individuals, corporations and society through a fundamental ethical basis and it will fulfil the long-term strategic goal of the owners, building shareholder value and establishing a dominant market share.

According to Stulz (1999), ownership can also be formed through capitalization which can be obtained through retained earnings, loans from banks, venture capital or going public. Each of these possibilities has its own advantages and disadvantages. In finance, capital structure refers to the way a corporation finances its assets through some combination of equity, debt, or hybrid securities (www.wikipedia.com; accessed 12/01/2012). A firm's capital structure is then the composition or 'structure' of its liabilities and assets. The capital structure of a firm is actually a specific mixture of debt and equity a firm employs in financing its operation Gorton and Schmid (1996).

Every business organisation has an important decision of making returns. This decision is important since the ability of a firm to make returns in this competitive environment determines to a larger extend its ability to survive in the future. This decision also affects its capital base and the decision of either going for equity financing or debt financing. In debt financing, companies borrow money or capital and resources from external sources that are to be repaid over a period of time, usually with interest. Other factors identified by Stulz (1999) with regard to firms ownership structure included volatility in earnings, asset tangibility, dividend payout ratio and profitability are determinants of corporate capital structure decisions on the GSE.

More equity ownership by the manager may increase corporate performance because it means better alignment of the monetary incentives between the manager and other equity owners (Jensen and Meckling, 1999). More equity ownership by the manager may increase corporate performance because the managers are more capable of opposing a takeover threat from the market for corporate control and as a result, the raiders in this market will have to pay higher takeover premiums (Stulz 2001). On the other hand, Fama and Jensen (2000) content that increased ownership concentration (any kind of owner) decreases financial performance because it raises the firm's cost of capital as a result of decreased market liquidity or decreased diversification opportunities on behalf of the investor.

In Ghana, the Ghana Stock Exchange (GSE) is one major open market where ownership structure of companies is determined. The history behind the GSE is that, in 1971, the Stock Exchange Act was enacted, a year later the Accra Stock Exchange company was incorporated but never operated. In February 1989, the issue of establishing a stock exchange moved to a higher gear when a 10 member National Committee, under the Chairmanship of Dr. G.K. Agama, the then Governor of the Bank of Ghana, was set up by the Government (*www.gse.com.gh)*. The work of the committee was to consolidate all previous work connected to the Stock Exchange project and to fashion out modalities towards the actual establishment of the Exchange. As a result of the work of the committee, the Stock Exchange was established in July 1989 as a private company limited by guarantee under the Companies Code of 1963. It was given recognition as an authorized Stock Exchange under the Stock Exchange Act of 1971 (Act 384) in October 1990. The Council of the Exchange was inaugurated on November 12, 1990 and trading commenced on its floor the same day. In November, the Council of the Exchange adopted operational regulations namely, GSE Membership Regulations L.I. 1510, Listing Regulations L.I 1509 and Trading and Settlement Regulations. The GSE it must be noted, was set up to provide a platform for the purchase and sale of bonds, stocks, shares and other securities of every kind and for the investment of money. It is also to control the granting of quotations on the securities market in respect of bonds, shares and other securities of any company, corporation, government, municipality, local authority or other body corporate. It was also set up to cooperate with associations of stockbrokers and stock Exchanges in other countries and to obtain and make available to members information and facilities likely to be useful to them or their clients (*www.gse.com.gh)*. The GSE was started with 11 equities but has risen from 22 in 2000 to 33 as at 2011.

Over the few years of existence (GSE), the market has provided enough playing ground for investors and companies. The central issue most investors, researchers and stakeholders would like to investigate is to determine how the changed in ownership structure as a result of a decision to be listed on the market has on performance in returns, profitability and growth in capitalization. This study therefore makes an attempt to find out the effect of ownership structure on listed companies.

1.2 Statement of the Problem

Stock markets are widely viewed as important, if not essential, for the functioning of modern capitalist economies. The Stock Market of Ghana (GSE) is fairly new, established in 1990. However, it is one of the best performing stock market in Africa. It is one of the seven stock markets which trade automatically in Africa and one of the best four African performing stock markets (www.databankgroup.com.gh). Additionally, listing on a Stock exchange presents many opportunities for company's values addition.

The connection between ownership structure and performance is an ongoing debate in the corporate finance literature. Whilst authors like Berle and Means (2002) suggests an inverse correlation between shareholdings and firm performance, Demsetz (2001) indicated that the ownership structure of a corporation should be thought of as an endogenous outcome of decisions that reflect the influence of shareholders and of trading on the market for shares. The ownership structure whether concentrated or diffuse influences the profit-maximizing interests of shareholders and the performance of company.

A huge gap exists in literature on the impact of ownership structure and a firm performance. The measure of ownership structure and whether or not the endogeneity of ownership structure affect performances of firms have not been adequately treated (Demsetz and Villalonga, 2001) hence the importance of this study. This study therefore investigates the pattern and variation of ownership structure of listed companies and to document empirically the relationship between firm performance and corporate governance through ownership structure.

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1.3 Objectives of the study

The main objective of the research is to determine the effect of Ownership Structure on the Performance of Listed Companies on the Ghana Stock Exchange.

To achieve this objective therefore the following specific objectives have been designed.

I. To find out the relationship between the ownership structure of listed firms and performance on Stock Market.

II. To determine how the patterns of ownership of firms on the Stock Market affect performance

III. To provide policy recommendations from the findings of the study

1.4 Research Questions

The following questions were therefore necessary to enable the researcher achieve the set objectives:

I. What is the relationship between the ownership structure of listed firms and performance on Stock Market?

II. How does the pattern of ownership of firms on the Stock Market affect performance?

III. What policy recommendation can be made from that finding of the study?

1.5 Research Hypothesis

The study seeks to test these hypotheses:

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

Hypothesis H_{2a}: Manager (Insider) Ownership has a positive effect on firm performance.

Hypothesis H_{2b}: Government ownership has a negative effect on firm performance.

Hypothesis H_{2c}: Ownership by Corporations has a positive effect on firm performance.

Hypothesis H_{2d}: Diffuse (Diverse) ownership has a negative effect on firm performance.

Hypothesis H_{2e}: Foreign Ownership has a positive effect on firm performance.

1.6 Significance of the study

Throughout the search for both empirical as well as theoretical literature on the study, there was no direct empirical literature that investigates the effect of ownership structure on the performance of listed companies on the Ghana stock exchange. Hence this study is the first in the Ghanaian content that tries to do that.

Additionally, although there are lots of theoretical literatures on the study, there is not much empirical evidence concerning the study (Mateiciuc, 2009). This study is therefore very relevant since it will contribute to existing knowledge on the subject. The finding of this study will form an empirical background for all researchers who are interested in investigating how the ownership structure of a firm affects its performance.

Finally, the findings of the study is expected to equip policy makers with the relevant information on the right ownership structure that will ensure higher performance for the design and implementation of appropriate economic policies that will result in higher and sustainable growth rates for the country.

1.7 Scope and Limitation of the study

The broad nature of the study demands that there is the need to have a scope and limit to which the study will be undertaken. The study is therefore delimited to only financial institutions listed on the Ghana stock exchange. The financial institutions were selected because it was easy to get the much needed information from the Ghana stock exchange about their ownership structures as well as their performance. Additionally, financial institutions were chosen because of the readiness of the companies to give out information on their performance which was usually published in their annual budget statement. The main limitations of this study are constraints of resources, access to vital information, and time. The finance and material resource needed for a larger sample size for this study is inadequate. This is another reason only financial institutions listed on the Ghana stock exchange was selected out of the total of thirty five (35) companies listed on the stock exchange.

1.8 Organisation of the study

The study proceeds as follows: chapter two discusses some of the published theoretical and empirical literature relevant to the study. Chapter three presents the methodology. In that same chapter the research design, approach and the data analysis technique is described. Chapter four presents the empirical results gotten from the analyses, and plausible explanations of the findings whilst the last chapter concludes and summarises the major findings of the study, comes out with policy recommendation and the direction for future research.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introductions

This chapter reviews relevant theoretical and empirical literature relating to ownership structure of a firm and how it affects the performance of the various firms. The chapter is presented on the various thematic areas.

- History and evolution of the stock market
- Theoretical literature
- Assumptions on ownership structure and performance of firms
- Relationship of the various ownership structure and performances
- The empirical literature
- Conclusion of the chapter

2.1.1 Definition and Evolution of the Stock market

The term stock market is widely used in both academia and in the working circles. The term stock market is an abstract term used for a place where trading of a company's stock takes place. It is also used to describe the totality of all stocks, especially within a country. Importantly, there is the need to distinguish between stock market and stock exchange. A stock exchange is an entity or a corporation or a mutual organisation that brings buyers and sellers of stock together.

The history of the stock market begun in the 12th century France, where the courratier de change was concerned with managing and regulating the debts of agricultural communities on behalf of banks. Since these men traders with debts, they could be called the first brokers.

In the early 13th century Bruges commodities traders gathered inside the house of a man called Van der Beurse, and in 1309, they institutionalized this, but until then informal meetings were organised. After the institutionalization the house where trading was done became known as the Brugse Beurse. This idea was quickly propagated around Flanders and neighbouring countries and Beurzen and soon opened in Ghent and Amsterdam.

In the middle of the 13th century, Venetian bankers began to trade in government securities. In 1351, the Venetian government outlawed spreading rumours intended to lower the price of government funds. Bankers in Pisa, Verona, Genoa and Florence also began trading in government securities during the 14th century. This was only possible because these were independent city state not ruled by a duke but a council of influential citizens.

The Dutch later started joint stock companies, which let shareholders invest in business ventures and get a share of their profits or losses. In 1602, the Dutch East India Company issued the first share on the Amsterdam stock exchange. It was the first company to issue stocks and bonds.

The first stock exchange to trade continuously was the Amsterdam Beurs, in the early 17th century. The Dutch pioneered short selling, opting trading debt-equity swaps, merchant banking, unit trusts and the other speculative instruments, much as we know them.

Now, there are stock markets in virtually every developed country and most developing countries, with the world's biggest market in the United State, UK, Germany, France and Japan.

2.1.2 Capital markets in Africa

Over the last two decades (1990 – 2007), most African economies have adopted the liberalization and privatization as a development strategy for the development of their economies. According to Kibuthu (2005), the changing attitudes towards the role of the private sector in the development of African economies have facilitated the development of the capital markets. As early as the 1990's most African countries set up stock exchanges as a precondition for the introduction of market economies under the structural adjustment programs propagated by the international monetary institutions and to facilitate the privatization of state owned enterprises (Rwelamira, 1993). As at 2002, there were eighteen securities exchanges in Africa, eleven of which began operations in the 1990s. The growth in market capitalization in Africa has been described as remarkable as more countries outside of the more advanced economies of the Maghreb region (Northern Africa) and South Africa venture into the development of their capital markets (Sheehan and Zavala 2005).

The statistical data on African Stock markets excluding South Africa as presented by Sunil Benimadhu (2004) is reproduced in this study.

Table 2.1 Statistical Data on African Stock Markets (excluding South Africa)

	1988	1997	2002
No of Stock Exchanges	6	14	18
Market Capitalization of African Stock Markets (US$ Billion)	5.5	49	66
Value traded (US$ Billion)	0.16	8.6	6.5
No of listed companies	788	1180	1760

The above information showed that the number of stock exchanges increase from six (6) to fourteen (14) between 1988 and 1997 then to eighteen (18) by 2002. Additionally, the Valued of traded in Billions of US dollars increase from 0.16 to 8.6 from 1988 to 1997 but dipped to 6.5 by 2002.

Furthermore data obtained from the United Nations Development Program (2003), issue of the African Stock is also reproduced beneath.

Table 2.2 Market capitalization of stock exchanges in Africa at the end of 2002

	Country	Name of Stock Exchange	Stock Market Capitalization for the end of Dec. 2002 (USD. Millions)
1	South Africa	JSE Securities Exchange	182,616
2	Egypt	Cairo and Alexandria Stock Exchange	26,245
3	Zimbabwe	Zimbabwe Stock Exchange	11,689
4	Morocco	Bourse de Casablanca	8,319
5	Nigeria	Nigeria Stock Exchange	5,989
6	Tunisia	Bourse de Tunis	1,810
7	Botswana	Botswana Stock Exchange	1,717
8	Kenya	Nairobi Stock Exchange	1,676
9	Cote d'ivore	Bourse Re'gionale Des Valeurs Mobilieres S.A.	1,329
10	Mauritius	Stock Exchange of Mauritius	1,324
11	Tanzania	Dar-es-Salaam Stock Exchange	695
12	Ghana	Ghana Stock Exchange	382
13	Zambia	Lusaka Stock Exchange	231
14	Namibia	Namibia Stock Exchange	201
15	Swaziland	Swaziland Stock Exchange	146
16	Algeria	Bourse d'Alger	145
17	Malawi	Malawi Stock Exchange	107
18	Uganda	Uganda Securities Exchange Ltd.	52

The growth has not only been in market capitalization, but also in innovation such as is characterized by the integration of regional markets in the francophone countries of West Africa. Eight (8) French-speaking members of the West African Economic and Monetary Union (UEMOA), namely, Benin, Burkina Faso, Côte d'Ivoire, Guinea Bissau, Mali, Niger, Senegal and Togo created the world's first regional exchange, the Bourse Regionale des Valeurs Mobilieres (BRVM) (http://www.mbendi.co.za/exch/25/p0005.htm). The argument for setting up this integration according to the site was to consolidate the value of developing a common hub for capital market development in the geographical zone where these countries are located. The BRVM Regional Stock Exchange has been innovative in using the most modern electronic and satellite communications equipment, which has enabled it to maintain performance despite the under-developed communications infrastructure in the individual countries comprising the exchange (Sheehan and Zavala, 2005). Yet another regional integration is that of some East African Countries. This integration comprises of countries like Kenya, Uganda and Tanzania.

The majority of the countries establishing new exchanges in Africa have established new legal and regulatory regimes. International financial institutions such as the International Finance Corporation of the World Bank and various bodies of experts belonging to national securities exchanges of industrialized countries have provided important assistance with a view to building the legislative, regulatory, and accounting basis for the proper running of African securities exchanges (Ibid).

2.1.3 History of the Ghana Stock exchange

The Ghana Stock Exchange (GSE) is the principal stock exchange of Ghana. The exchange was incorporated in July 1989 as a private company limited by guarantee under Ghana’s Companies Code, 1963 (Act 179). The Exchange was given recognition as an authorized Stock Exchange under the Stock Exchange Act of 1971 (act 384) in October 1990, and trading on the floor of the Exchange commenced in November 1990. In April 1994, it converted into a public company limited by guarantee. The GSE is located in Accra and currently has around 35 listed companies and 2 corporate bonds (*www.gse.com.gh)*. All types of securities can be listed. The Exchange is governed by a Council with representation from Licensed Dealing Members, Listed Companies, the banks, Insurance Companies, Money Market and the general public. The Managing Director of the Exchange is an ex-officio member. The council sets the policies of the Exchange and its functions include preventing fraud and malpractices, maintaining good order among members, regulating stock market business and granting listing.

In 1993, the GSE was the 6th best index performing emerging stock market, with a capital appreciation of 116%. In 1994 it was the best index performing stock market among all the emerging markets, gaining 124.3% in its index level but the 1995's index growth was a disappointing 6.3%, partly because of high inflation and interest rates (www.wikipedia.com). The growth of the Index for 1997 was 42%, and at the end of 1998 it was 868.35 (*www.gse.com.gh).* As of October 2006 the market capitalization of the Ghana Stock Exchange was about ($11.5bil) 111,500bil cedis and by December 31 2007, the GSE's market capitalization was 131,633.22bil cedis. In 2007 the index appreciated by 31.84% (*www.gse.com.gh).*

The manufacturing and brewing sectors currently dominate the exchange. A distant third is the banking sector while other listed companies fall into the insurance, mining and petroleum sectors. Most of the listed companies on the GSE are Ghanaian but there are some multinationals (www.wikipedia.com).Trading is carried on the Floor of the

Exchange under the Continuous Auction Trading system (CAT). Over the counter trading is however allowed in Ashanti Goldfields Company's shares (http://www.ibrokerghana.com/index.php).

Although non resident investors can deal in securities listed on the exchange without obtaining prior exchange control permission, there are some restrictions on portfolio investors not resident in Ghana. The current limits on all types of non-resident investor holdings (be they institutional or individual) are as follows: a single investor (i.e. one who is not a Ghanaian and who lives outside the country) is allowed to hold up to 10% of every equity. Secondly, for every equity, foreign investors may hold up to a cumulative total of 74%.The limits also exclude trade in Ashanti Goldfields shares (www.wikipedia.com).

These restrictions have been abolished by the Foreign Exchange Act, 2006 (Act723). There is an 8% withholding tax on dividend income for all investors. Capital gains on securities listed on the exchange will remain exempt from tax until 2015. The exemption of capital gains applies to all investors on the Exchange. There are no exchange control regulations on the remittance of original investment capital, capital gains, dividends, interest payments, returns and other related earnings (www.wikipedia.com).

2.1.4 Challenges of developing stock markets in Africa

The political and economic decisions that were translated into legal framework for the establishment and operation of the stock exchanges were rushed in many African countries. Therefore, the exchanges have not been successful in attracting a large number of other market transactions in addition to the privatized public enterprises (Asea, 2003). Most Africa's stock exchanges have remained small, underdeveloped and illiquid operating in isolation from other markets and also having low trading volumes. Additionally, most of these stock exchanges in developing countries like Ghana have and still continue to enjoy some governmental protection. This has prevented competition by national regulations and face barriers to capital mobility because of high costs of travel and communications (Asea, 2003).

The exchanges on the continent are usually highly concentrated with the best shares being held by local pension funds, banks and insurance firms that do not want to sell because they have few alternative assets to buy with sales proceeds. Infrastructure is another big problem of the stock markets in Africa, with most of the market infrastructure being underdeveloped particularly with regard to trading, settlement and delivery as manual systems and processes dominate their operations. Furthermore, the bond markets are also relatively underdeveloped in Africa's capital markets, yet they have the potential of mobilizing significant amounts of capital. They can also give African stock exchanges a tremendous boost in turnover as bonds are usually more attractive to investors than stocks. A well integrated and customized financial information service that provides timely and accurate information service to individuals and corporate institutions is necessary for the development of bond markets (, 2007 NSE Handbook).

Stringent eligibility requirements have discouraged local entrepreneurs and indigenous enterprises that wish to raise funds from capital markets. The eligibility requirements have created high barriers to potential entrants to the stock exchanges such as the numerous family owned businesses in Africa. Thus, the stock exchanges tend to operate like closed membership organizations. Limited presence of institutional investors is constraining equity demand. In addition, lack of an active role in the distribution of securities to the public by other financial institutions such as banks, venture capital funds, pension funds, building societies and insurance companies is constraining supply of equity (Asea, 2003).

Some African stock exchanges have limited institutional capacity to police and enforce rules. Most of the smaller African exchanges lack the trained manpower and experience to adequately police the modern regulatory regimes they have adopted. Consequently, enforcement actions are rare and abuses are not uncommon (Sheehan and Zavala, 2005). In addition, investors, particularly minority shareholders, lack confidence in the market as some listed companies continue to operate under poor corporate governance structures. In some stock markets, participants are subject to multiple regulators thereby causing regulatory complexities, uncertainties and increased costs of compliance with different regulatory regimes (Asea, 2003).

Low savings rate in many African countries has constrained demand and supply of equity in stock markets. Poverty, war, political unrest and disease have resulted in a large portion of the African population living on less than a dollar a day thereby constraining savings. Most of the new African exchanges, apart from Johannesburg, Casablanca and Cairo securities exchanges, lack attractive and diverse types of securities to offer foreign investors. Generally, there may be only two or three corporations of interest to foreign investors and most of these may either be subsidiaries of major multinational corporations or recently privatized companies. Consequently fund managers choose the safer course and invest in parent companies listed nearer to home (Ibid).

2.2 Theoretical literature

There is no well-established tradition of selecting specific measures for the analysis of ownership structure performance relationship. The measure adopted by various researchers is based on the availability of information and the appropriateness of the method for the research questions. Most studies that looked at the impact of ownership concentration on performance have employed the Herfindahl index or the equity stake of several largest investors, typically the top five shareholders (Demsetz and Lehn, 1985). Most studies on developing countries, where data are limited, the equity stake of the largest shareholder (Kapelyushnikov, 2000) have been extensively used. Additionally, a survey literature shows that ownership structure and performance has been extensively measured using ownership concentration and ownership identity. By definition ownership concentration refers to the percentage of shares held by an owner relative to the total shareholding of the firm contrarily to ownership identity which refers to the actual names of major shareholders. The deficiency of using any of the methods according to Kuznetsov et al. (2001) is that, none of the approach can claim to have exhaustively analyzed the relationship between ownership structure and firm performance. The strength of ownership concentration is that it pays more attention to the ability of the owners to monitor and control managerial discretion, whilst its weakness is that it fails to take into consideration the investment preferences of the owner(s) and how they affect the priorities and strategies of the firm. Additionally, studies using ownership identity addresses the issues of risk aversion, wealth creation and shareholder value but dismally fail to pay attention to the powers to control and monitor management that are conferred by actual shareholding (Cubbin and Leech, 1983).

2.2.1 Ownership Concentration and Corporate Performance

The first attempt to study the effect of ownership concentration on company profitability was done by Berle and Means (1932). Since then there has been several studies and according to Cubbin and Leech (1983) such studies comparing profitability of manager– and owner–controlled companies are often categorized by the share of the largest owner. Findings of these studies usually showed a higher rate of return in companies with concentrated ownership (Cubbin and Leech, 1983) but lacked a theoretical foundation. They neither used nor provided a theory of ownership structure and seemed to imply that shareholders could profit by rearranging their portfolios. Theoretically the ownership structure of the firm is an endogenous outcome of the competitive selection in which various cost advantages and disadvantages are balanced to arrive at an equilibrium organization of the firm (Demsetz, 1983). Traditionally, concentrated ownership has been thought to provide better monitoring incentives, and lead to superior performance (Leech and Leahy, 1991). Maher and Andersson (1999) indicated that the ownership concentration lead to extraction of private benefits by the controlling shareholders at the expense of the minority shareholders. The argument put across is that if owner-controlled firms are more profitable than manager-controlled firms, it would seem that concentrated ownership provides better monitoring which leads to better performance.

2.2.2 Ownership Identity and firm performance

Quiet a significant amount of literature on firm performance has paid much attention to the issue of shareholder identity (Shleifer and Vishny, 1997; Welch, 2000). Most sampled literature indicates that the objective functions and the costs of exercising control over managers vary substantially for different types of owners. This implies that, it is not only important to know how much equity a shareholder owns, but rather who this shareholder is. The reason for this is because investors differ in terms of wealth, risk aversion and the priority they attach to shareholder value relative to other goals. This is because owner preferences and investment choices are influenced by shareholder interests (Nickel, 1997; Hansmann, 1996). Additionally, conflicts of interest may arise since owners have their economic relations with the firm. For instance, a bank may play a dual role of as lenders and owners, government as regulators and owners (Thomsen and Pedersen, 1997). For each of these stakeholders, preferences regarding company strategy will involve a trade-off between the pursuit of shareholder value and other goals (Thomsen and Pedersen, 1997).

Managerial ownership seems to be the most controversial ownership form as it has ambivalent effects on firm performance and considered a tool for alignment of managerial interests with those of shareholders, while on the other hand, it promotes entrenchment of managers, which is especially costly when they do not act in the interest of shareholders (Mork et al., 1988; Stulz, 1988). Thomsen and Pedersen (2000) posit that the relationship between ownership concentration (as a proxy for shareholder control over managers) and firm performance depends on the identity of the large (controlling) shareholders.

The general impact of managerial ownership on corporate performance depends on the relative strengths of the incentive alignment and entrenchment effects whilst state ownership has been regarded as inefficient and bureaucratic. Vickers and Yarrow (1988) consider the lack of incentives as the major argument against state ownership. Shapiro and Willig (1990) indicated that price policy whilst Shleifer and Vishny (1994) stated political intervention and human capital problems as some of the challenges state ownership structure influences performance. Notwithstanding these challenges state ownership of firms is not without some benefits to the society. Public enterprises help cure market failures and state control seems to be more economically desirable as a way of restoring the purchasing power of the citizenry (Atkinson and Stiglitz, 1980). Aside these benefit state firms have been empirically seen to be highly inefficient and performed poorly as compared to private ones (Megginson et al., 1994), even in pursuing public interests.

The effect of foreign ownership on firm performance has been an issue of interest to both academics and policy makers. As posited by Gorg and Greenaway (2004), the main challenging question in the international business strategy is the outcome gained from foreign ownership of firms. It is duly accepted that foreign ownership plays a crucial role in firm performance, particularly in developing and transitional economies, researchers such as Aydin et al. (2007) have concluded that, on average, multi-national enterprises have performed better than the domestically owned firms. It is therefore, not surprising that the last two decades have witnessed increased levels of foreign direct investments in the developing economies.

2.3 Various ownership structure and firm performance

2.3.1. State Ownership structure

The ownership structure is defined by the distribution of equity with regard to votes and capital but also by the identity of the equity owners (Jensen and Meckling, 1976). This structure plays an important role in corporate governance because it determines the incentives of managers and therefore it builds up the economic efficiency of the corporations. According to Demsetz (1983) since there are many successful public companies with diverse share-ownership, then there must be offsetting benefits. Omran, Bolbolc and Fatheldinc (2007) indicated in their study of Egypt that private companies have better performance than the state-owned firms whilst La Porta, Lopezde-Silanes, Shleifer (1998) stated that Italian corporate governance regime exhibits low legal protection for investors and poor legal enforcement. Because of these institutional characteristics, private benefits of control are high (Zingales, Luigi, 1994), and minority shareholders are usually expropriated and Grygorenko (2001) show that private companies create a better firm performance than state owned firms.

2.3.2. The majority shareholders

By majority shareholder the study refers to a single shareholder who controls more than half of a corporation's shares, or sometimes, one of a small group of shareholders who collectively control more than half of a corporation's outstanding shares. Nickel, Nicolistsas and Dryden (1997) posited that firm performance is positively related to the majority shareholder. This is because firm performance and majority shareholder are substitutable. This is contrarily to Januszeski et al (1999) who indicated that a majority shareholder has a negative influence on firm performance. Their reasons being that firms have single ultimate owner, which operate under strong ownership, experience higher productivity growth. Moreover, this effect is grown up by stronger product market competition (Januszewski et al., 2000). This competition lead to a positive effect which affect productivity growth rate by majority shareholder, but this result was economically weak.

2.3.3. Manager ownership

Morck, Shleifer and Vishny, (1998) studied and analyzed the relationship between the managers' percentage shares and corporate financial performance. They gave a positive relationship for holding within three ranges, from 0% to 5%, beyond 25%, but negative one between 5% and 25%. From his thesis, Ngoc (2007) showed that the relationship between manager ownership and firm performance was inverse U-shape and Tobin's Q, with the inflection point is from 40% to 50%. There was a positive relationship in holding between non-banking financial institution and firm performance (McConnell and Servaes, 1995). Short and Keasy (1999) conducted in Great Britain for 1998 to 1992 and used two measure methods: accounting measure (return on shareholder's equity) and market measure (like Tobin's Q). They found that a positive relationship between managerial ownership and firm performance from 0% to 16% (0% to 13% in market measure), beyond 42% and is negative from 16% to 42 % (from 13% to 42% in market measure). From all the research, it can be seen that the positive relationship between Tobin's Q and larger managers' shareholdings, better applied to small than to large firms.

2.4 Assumptions on Ownership Structure and Performance of Firms

In most studies, ownership structure and corporate governance are used intertwine hence this study also follows similar line of argument. It is usually assumed that corporate governance significantly influences corporate performance. Even though corporate performance in general is less extreme, the effect of firm ownership and control on the firm's performance has been widely discussed since Berle and Means (1932) first used it. Performance is an economic and empirical term widely used in business making literature abound. Literature on firm performance and ownership structure used for this study are classified into:

2.4.1 Neutrality

According to Demsetz (1983) corporate performance depends on environmental constraints; it has nothing to do with the ownership structure. For Demsetz (1983) all structures are equal. So performance has no relationship with the ownership structure and it is dependent on internal and external environment. The assumption that ownership structure has no influence over a firm's performance is referred to as the "neutrality assumption".

2.4.2 Convergence in interest

Under this assumption, the greater the managerial ownership, the less inclined the managers are to divert resources away from value maximization. In other words, higher ownership by managers aligns the interest of the managers with that of the company. In other words, the greater the managerial ownership (i.e. larger the percentage of shares held by the directors of the company), the better will be the company's performance.

2.4.3 Entrenchment

According to this assumption, the greater the percentage of shares held by the managers, the lesser the other shareholders can compel them to manage the firm in their (other stakeholders') interests. The managers may seek entrenchment by weakening the mechanisms able to control or replace them (Charreaux, 1997). Numerous empirical studies have tried to highlight the relationship between ownership structure and corporate performance. The results are sometimes contradictory. Some works showed a linear relation (Cole and Mehran, 1998) whereas other studies highlighted a non-linear relation (Morck et al., 1988; McConnell and Servaes, 1990; 1995; Kole, 1995; Short and Keasey, 1999). For a study of this nature to have a firm foundation, it is necessary to choose variables that are quantifiable and comparable. This study has therefore chosen four variables of performance that meet these two qualifications. The chosen variables are Tobin's Q, Maris Ratio, Return on Equity (ROE), and Return on investment (ROI).

2.4.3.1 Tobin's Q

Morck et al. (1988) used Tobin's Q as a measurement of performance and the percentage of shares owned by the Board of Directors as a measure of ownership. Furthermore, McConnell and Servaes (1990) used Tobin's Q against managerial ownership and managerial ownership squared and found that the coefficient of management ownership was statistically significant and positive while the coefficient of managerial ownership squared was statistically significant and negative. In addition McConnell and Servaes (1995) replicated their earlier study over a later time period and reported the same results. Eric (2001) also being in line with these authors used the same variable as one of the performance indicator. With the current state of capital markets in emerging economies, the researcher believes Tobin's Q is a very pertinent and expressive variable for measurement of firm performance. The Tobin's Q is a measure of the ratio of market value of assets to replacement value of assets and is traditionally used in the financial literature (Denis, Denis and Sarin, 1994) to measure performance. Denis, Denis and Sarin (1994) justify the utilisation of Tobin's Q as measurement of growth opportunities. They show that a Tobin's Q above 1 is a necessary condition for a firm to be at a level of investment that maximises its value and that a Tobin's Q below 1 characterises a firm with no growth opportunities.

2.4.3.2 Marris ratio

The Marris ratio is an indicator of growth opportunities. As specified by Hirigoyen and Caby (1997, pp. 18-19), the Marris ratio "is a permanent valuation indicator of choices of the firm, of the management and of strategic perspectives". When this ratio is higher than one, the firm is said to be capable of creating value; otherwise it shows a declining trend in firm's value.

2.4.3.3 Return on equity and return on investment

These are basic ratios used for measuring the performance of a firm with wide validity and relevance to our study. These are as effective a measure of firm's performance in developing economies as they are in the developed countries. By taking these variables the researcher will test the theories regarding ownership structure and performance of firms. The ROE shows how well a company uses investment funds to generate earnings growth. ROEs between 15% and 20% are considered desirable

2.5 Empirical Literature

As already indicated, empirical studies about the relation between ownership structure and performances of firm listed on stock exchanges have yielded contradictory results. In their pioneering work, Demsetz and Lehn (1985) provided evidence of the endogeneity of large US firm's ownership structure using a linear regression of an accounting measure of profit. In that model, the accounting measure of profit rate was assumed as a fraction of shares owned by the five largest shareholding interests and on a set of control variables in which ownership structure is treated as an endogenous variable. Their empirical study found no evidence of the relationship between profit rate and ownership concentration.

Morck et al. (1988) ignore the endogeneity issue altogether and re-examine the relation between corporate ownership structure and performance using Tobin's Q and accounting profit rate as alternative measures of performance.. They found no significant relation in the linear regressions they estimated.

Shleifer and Vishny (1988) also show in the context of managerial ownership that high managerial ownership may entrench managers, as they are increasingly less subject to governance by board of directors and to discipline by the market for corporate control. Additionally, using the standard agency theory Shleifer and Vishny (1997) indicated that the choice of a privately optimal ownership structure involves a tradeoff between risk and incentive efficiency. Other factors held constant, larger owners will have a stronger incentive to monitor managers and more power to enforce their interests and this should increase the inclination of managers to maximize shareholder value.

Lehmann and Weigand (2000) using 361 German corporations over the time period 1991 to 1996 documented that the presence of large shareholders does not necessarily enhance profitability and the high degree of ownership concentration seems to be a sub-optimal choice for many of the tightly held German corporations. This implies that the ownership concentration affect profitability significantly negatively. The negative effect of ownership concentration can be traced back to family- or foreign-owned non-quoted firms as well as quoted firms with different large shareholders.

Thomsen and Pederson (2000) in a research titled "Ownership Structure And Economic Performance In The Largest European Companies" found that there is a significant positive relationship between concentrated ownership and economic performance, Although, this relation was non-linear and concentration of ownership over a certain level has reverse and negative effects on performance. They also concluded that, unlike the concentrated ownership, when there is distributed ownership, the other shareholders cannot participate in the corporate policy, and this weakness is related to corporate governance mechanism can lead to reduction of optimal performance. It should be noted that the economic criteria related to this research was Tobin's Q (Thomsen and Pederson, 2000).

Demsetz and Villanonga (2001) in a research titled "Ownership Structure and Firm Performance," examine the relationship between ownership structure of shareholders and firm performance in a sample including 233 companies. Demsetz and Villanonga with the hypothesis that the ownership is considered as multidimensional and as an endogenous variable, found no meaningful statistical relation between the ownership structure and performance of the firm. As it is said by these researchers, the results of this research conform to this point of view that, while the unfocused ownership may lead to aggravate the agency problem but it has benefits which may solve too much problems (Demsetz and Villanonga, 2001).

Lins (2002) also investigated whether management ownership structures and large non-management block holders are related to firm value across a sample of 1433 firms from 18 emerging markets. He finds that large non-management control rights block holdings (having more control rights) are positively related to firm value measured by Tobin’s Q. He also provides evidence that large non-management block holders can mitigate the valuation discounts associated with the expected agency problem.

Lemmon and Lins (2003) used a sample of 800 firms in eight East Asian countries to study the effect of ownership structure on value during the region's financial crisis. The crisis negatively impacted firm's investment opportunities, raising the incentives of controlling shareholders to expropriate minority investors. The evidence is consistent with the view that ownership structure plays an important role in determining whether insiders expropriate minority shareholders.

Brown and caylor (2004) in a research entitled "Corporate governance and corporate performance" analyzed the relationship between corporate governance and corporate performance. The criteria for performance in their research, was Tobin's Q. They placed 51 effecting factors in corporate governance in 8 categories including accounting, the board of directors, legislating, teaching directors, directors' remuneration, shareholders, developing operations, and tendency for partnership. The results indicate that proper corporate governance has more influence on the yield of the firm in respect of the director's remuneration. Nevertheless, other aspects also have direct influence on the yield of the firm. The number of companies that is used in this research was 2327 firm. Their research showed that the weakest executive aspect of corporate governance was in the existence of a specific policy for replacement of the auditor, while, the most relevant aspect that more than ninety-eight percent of companies have it, was a reward Committee (Brown and caylor, 2004).

Additionally, using a sample of 144 Israeli firms, Lauterbach and Tolkowsky (2004) find that Tobin's Q is maximized when control group vote reaches 67%. This evidence is strong when ownership structure is treated as exogenous and weak when it is considered endogenous.

Kaserer and Moldenhauer (2005) address the question whether there is any empirical relationship between corporate performance and insider ownership. Using a data set of 245 Germen firms for the year 2003 they find evidence for a positive and significant relationship between corporate performance, as measured by stock price performance as well as by Tobin's Q, and insider ownership.

Mueller and Spitz (2006), analyze the relationship between managerial ownership and performance of German SMEs with motivational hypothesis testing, in their research. They use a sample of 356 firms in services sector that are associated with business in their research, for the years 1997 to 2000. The findings show that performance of companies with managerial ownership percentage, above 40 percent, is being improved (Mueller and spitz, 2006).

Cornett et al (2007) in a research titled "the impact of institutional ownership on corporate operating performance" analyzed the relationship between institutional shareholders as one of the mechanisms of corporate governance and operational yield of large companies. They found a significant and positive relationship between the ratio of operating cash flow to sales as a measure of performance and the number and percentage of institutional shareholders as corporate governance mechanism (Cornett et al, 2007).

Karami (2008) in the research entitled "Relationship between institutional owners and informational content of profit" collected evidences in connection with the supervisory role of institutional investors from the perspective that whether institutional ownership has effect on the informational content of reported profit? In this research, the different attitudes (i.e. the active monitoring hypothesis and the self-interest hypothesis) were examined about institutional investors. To test the relationship between informational content of corporate profit and institutional ownership two models of multiple linear regression used. Based on the results of this research, the number of institutional ownership does not increase informational content of profit and may also degrade it, while the level of institutional ownership structure does not reduce the informational content of profit, but it is also possible to increase it (Karamu, 2008).

Numazu and Kerman (2008) analyzed the "impact of ownership structure on corporate performance of listed companies in Tehran Stock Exchange". The main hypothesis of this research emphasized the existence of a significant relationship between ownership structure and performance. Research's sample included 66 companies during 1382 and 1386. Statistical method used to test hypotheses in this research was "panel data". In this research, the ownership structure is divided into two institutional and private ownership categories that the private ownership also is divided into three categories including corporate, management and external shareholders. The findings of the research indicate that there is a negative and meaningful relation between institutional ownership and firm performance and a positive and meaningful relation between the corporate ownership and firm performance. Management ownership has a negative meaningful influence on the performance and in the case of private ownership, no information indicating the ownership of external investors was observed in sample statistical companies. In the private ownership it is also better that the main part of ownership is hold by corporate investors. In general, there is a meaningful relation between the ownership structure and performance of the companies (Namazi and Kermani, 2008).

Ahmadpour and Krdtbar (2008) in a research entitled " Investigating the relationship between non- duty members of board of directors and institutional investors with the behaviour of corporate earnings management" analyzed the role of monitoring tools of corporate governance in behaviour of corporate earnings management. Findings showed that non- duty managers and major institutional investors have a weak role in reduction of abnormally of unusual contractual items (Daryai, 2009).

Sadeghi Sharif and Bahadori (2009) in a research titled "Investigating the effects of ownership structure on Dividend Pay-out Ratio of listed companies in Tehran Stock Exchange" investigate the effect of shareholders structure on corporate DPR in Tehran Stock Exchange. The results show that the amount of the ownership of the greatest shareholder and also the amount of ownership of five greatest shareholders has a positive influence on the Dividend Pay-out Ratio (DPR) of the firm, i.e. the companies whose more ownership of them is held by a shareholder or by its five greater shareholders, have a more DPR, proportional to the companies whose ownership is more unfocused and focusing in ownership leads to increase the firm's DPR. The influence of being institutional of shareholders on firm's DPR was confirmed, i.e. if the institutional shareholders ownership in a firm be greater, the DPR increase during time. On the other hand, if the individual shareholders ownership in a firm be greater, the DPR decrease (Sadeghi Sharif and Bahadori, 2009).

Ezazi et al (2011) in a research titled "The effect of ownership structure on share price volatility of listed firm in Tehran Stock Exchange" examine the relation between them. The results of this research indicate that the price of shares of the companies whose more percentage of shares are held by their greatest shareholders may have more volatility and the share price volatility of the companies that the more percentage of their shares is hold by individual shareholders is lower. It should be noted that the measure of ownership of five greater shareholders and institutional shareholders and members of the board of directors might not show any solution for investors interested in share price volatility.

Conclusion

The results of researches were expressed in above show that there is a significant relationship between ownership structure and performance of companies.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter describes the method adopted for this study. The chapter also discusses the research design, sampling techniques, the estimated model and the sources of data for this study. Additionally, the various variables used for the study are defined and the expected sign or outcomes are also presented in this same chapter.

3.1 Research Design

This research is an ex-post facto design in the sense that the researcher does not have direct control over the independent variables because their manifestations have already occurred or because they are inherently not manipulable. Ex Post Facto design provides an alternative to investigate how independent variables affect dependant variables and enables the researcher observe the independent variables after the event.

3.2 Sample Technique and Sample Size

The study adopted the purposive sampling technique. Purposive sampling which is also called deliberate sampling or judgment sampling (Gupata, 1993). According to Marlow (2001) purposive sampling allows the researcher to handpick the sample according to the nature of the research problem and the phenomenon under study. Whilst Shaughnessy and Zechmeiserter (1990) further commented that purposive method is adopted when the respondents are selected or judged to have certain characteristics or more commonly those who are likely to provide the most useful information for the purpose for which the study is being done. The sample of the study involved only financial institutions listed on the GSE.

3.3 Population and sample size

The target population for the study comprised of all companies listed on the Ghana stock exchange. Out of this sample, only financial companies listed on the Ghana stock exchange are used for this study. This sample is made up of Cal Bank, HFC, Ecobank Ghana Limited, Ghana Commercial Bank, SG-SSB, Standard Chartered Bank.

3.4 Model

The relationship between ownership structure and firm performance was conceptualized based on pertinent literature on corporate governance. Ownership Structure was conceptualized as comprising ownership concentration and ownership identity. Ownership concentration (shareholding above 30%) was determined using Herfindahl Index, or the equity stake of several largest investors, typically the top five shareholders (Demsetz and Lehn, 1985). Four ownership categories were identified, namely: foreign; institutional; government; and diverse. Each of these ownership identities has different risk-taking orientations, which in effect impact investment decisions and firm performance differently. The data in this study were analyzed using Pearson's Product Moment Correlation and Logistic Regression. The results were presented in two categories: 1) ownership concentration and firm performance, and 2) ownership identity and firm performance.

In this research, in order to recognize the relation between independent and dependent variables, the regression was used and an equation was formed through it the influence of the independent variable on the dependent variable was evaluated.

The general form of the models used was:

FIRM PERFORMANCE = b_1OWNCONC + b_2CORPOWN + b_3FORENOWN + b_4INSTOWN + b_5GOVOWN + b_6DIVOWN+ b_7 MANOWN + b_8 MANDISC

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.

3.5 Measuring Corporate Performance

This study used Return on Assets (ROA), Return on Equity (ROE), and Dividend Yield (DY) to measure firm performance. These measures of firm performance have been used extensively in research in corporate governance (Xu and Wang, 1997; Milgrom and Roberts, 2000; Kennon, 2005).

3.6 Definition of Variables

3.6.1 Return on Assets (ROA)

ROA measures how much profits a firm can achieve using one unit of assets. It helps to evaluate the result of managerial decisions on the use of assets which have been entrusted to them.

3.6.2 Return on Equity (ROE)

ROE measures the earnings generated by shareholders' equity of a period of time, usually one year. It encompasses three main levers which management can utilize to ensure health of the firm: profitability; asset management; and financial leverage.

3.6.3 Dividend Yield (DY)

DY refers to the annual dividend per share divided by current stock price. DY is an easy way to compare relative attractiveness of various dividend-paying stocks.

3.7. Reliability Analysis

Reliability analysis was used to assess internal consistency (degree of homogeneity among the items). Cronbach's Alpha coefficients were computed for the different items under board effectiveness and managerial discretion, and the overall assessment was 0.87. According to Nunnally (1978), a data collection instrument with a good internal consistency should have Cronbach's Alpha coefficients that are higher than 0.7. The items were therefore, found to be highly homogeneous.

3.8 Data Source

The main aim of the study is to measure how the ownership structure affects the performance of companies listed on the Ghana stock exchange. Annual data (calendar year) was used in the estimations of the model. To measure this performance data was source from two main sources. The balance sheet and income statement information was gotten from the various annual reports of the various financial companies used for the study. Information about ownership and control were gotten from the Ghana stock exchanges.

3.9. Type of Data

The study made used of secondary data. According to the type of data and available statistical analysis methods, In this research, the "panel data" method was used. This is because in order to investigate the relationship between ownership structure and corporate performance, dependent and independent variables investigated from two different aspects. On one hand, these variables are testing among the different companies and on the other hand, in the period of 2005 to 2009.

3.10 Data Analysis Tool

To enable the researcher perform a good analysis, the Statistical Package for Social Science (SPSS) was extensively used for this study. This help summarised the findings as well as present the finding in tables and figures.

CHAPTER FOUR

RESULTS AND DISCUSSION

4.0 Introduction

This chapter is a build up from chapter three. It presents the analysis of the data gathered from the field. As already indicated the data used for the study is secondary in nature and was a summary of the data gathered from both the Ghana Stock Exchange and the annual financial statements of the various financial institutions sampled for this study. The chapter begins with the descriptive statistics of the data gathered from the field.

4.1 Descriptive Statistics of Data

Table 4.1 Descriptive statistics

	ROI	ROE	Q	MARRIS
Mean	0.07	0.09	1.88	4.18
Median	0.08	0.14	1.74	2.86
Kurtosis	12.545	128.974	4.624	121.174
Skewness	–2.394	–10.510	2.098	9.961
SE of mean	0.003	0.037	0.041	0.217

Table 4.1 gives some important results to comment. First of all, the results indicate that the Marris measure of performance and ownership structure was the highest among all the variables used to measure performance and ownership. Since the Marris ratio which is a permanent valuation indicator of the firm is greater than one (1) it shows that capable of

creating value both present and in the future. Additionally since the data is skewed to the right (that is it is positive), it means that there is a positive growth potential of the institutions used for the study. Additionally, the Tobin Q ratio which is also a measure of performance indicates that the firm has growth opportunities and that the level of investment maximises the value and performances of the firm. The mean ROE for the financial institution used for the study is less than 15% that is, it is around 9% which shows that the company does not efficiently utilised investment funds well to generate earnings growth.

4.2 Linear and Logistic Regression of the various Measures of performances

The estimated model used for this study is presented below:

$$
\begin{aligned}
&firm\ performance \\
&\qquad = \alpha + \beta_1 ownconc + \beta_2 Corpown + \beta_3 forenown + \beta_4 instown + \beta_5 govown \\
&\qquad + \beta_6 divown + \beta_7 Manown + \beta_8 mandisc
\end{aligned}
$$

As indicated earlier on performance used for the study was measured using three main indicators, return on asset (ROA), return on equity (ROE) and dividend yield (DY). The result of the model is presented in table 4.2 below

Table 4.2: Linear Regression Results for the effects of Predictor Variables on Firm Performance

Indicator Variable	**ROA**	**ROE**	**DY**
Predictor Variable	**Parameter Estimates (β)**	**Parameter Estimates (β)**	**Parameter Estimates (β)**
Ownership Concentration			
Ownership concentration	-.761	-.645	-.888
Ownership Identity			
Foreign ownership	1.598*	1.218*	1.592*
Institution ownership	1.012*	.775	.826
Government ownership	- 0.798	-0.616	-0.483
Diverse ownership	.946*	.789*	.723
Board Effectiveness			
Board effectiveness	-.557*	-.237*	-.111
Manager Ownership			
Manager/insider ownership	1.003	.792	.241

*p<0.05

From the table above linear regression results shows that the dependent variable Return on Assets had a co-efficient (β) of -0.761 and was significant at 5% significance level; Return on Equity recorded a co-efficient (β) of -0.645 and was significant at 5% and Dividend Yield showed a co-efficient (β) of -0.888 and a 0.05 significant level. The results of the Linear Regression presented in table 2 generally shows that, ownership concentration was negatively and significantly related to all the three indicators of performance measure (ROA, ROE and DY) which was manifested from the beta coefficients and levels of significance of the relationships. This means that all the dependent variables recorded significant negative correlations with ownership concentration.

Additionally, in the ownership identity, government ownership recorded negative co-efficient (β) in all the dependent variables. The negative dependent variables shows that ROA (-0.798) was the highest followed by ROE (-0.616) and DY (-0.483). The entire government ownership variables were significant at 5% significant level.

Table 4.3: Logistic Regression Results for the effects of Predictor Variables on Firm Performance (Above Market Average)

Indicator Variable	**Column 1 ROA Above Market Average**	**Column 2 ROE Above Market Average**	**Column 3 DY Above Market Average**
Predictor Variable	Parameter Estimates (β)	Parameter Estimates (β)	Parameter Estimates (β)
Ownership Concentration	-.360*	-.085	-.102*
Foreign ownership	6.436*	3.810	6.579
Institution ownership	4.888	2.595	3.120
Government ownership	-15.794	-17.778	-17.021
Diverse ownership	6.041*	5.038	3.718
Board effectiveness	-.033	-.042	-.035
Manager/ insider ownership	5.013	4.049	5.162

*p<0.05

In testing the first hypothesis that there is a positive relationship between ownership concentration and firm performance the Logistic Regression test was carried out. The result as indicated in table 3 shows that that there is a negative and significant correlation between ownership concentration and Return on Assets (β=-0.360, $p<0.05$) as well as Return on Equity (β = -.085, $p<0.05$). The results for Dividend Yield (β = -.102, $p<0.05$) were also negative but not significant. This meant that the first hypothesis should be rejected.

In measuring the second hypothesis that Manager (Insider) Ownership has a positive effect on firm performance a Linear Regression test was ran. In that model the Pearson correlation on Return on asset yielded a co-efficient of 0.026 and was significant at 5%; the returned on equity has yielded a correlation of co-efficient of 0.038 and was significant at 5%; and DY's correlation was 0.041 and was also significant at 5%. Additionally, the Logistic Regression results for the three measure of performance indicate that the ROA had a co-efficient of 5.013, ROE was 4.409, and DY's co-efficient was 5.162. All the measures were significant at 0.05. From the above therefore the study accept the second hypothesis that there is positive and significant relationship between Manager (Insider) Ownership has a positive effect on firm performance

The third hypothesis that "Government ownership has a negative effect on firm performance" was accepted. The reason for accepting the hypothesis is because the co-efficient of all the Logistic Regression results showed a negative co-efficient (ROA: β=-15.794; ROE: β=-17.778; and DY (β) =17.021). The relationship was negative and significant hence the acceptance of the hypothesis.

In measuring the fourth hypothesis, the linear regression yielded the following results: the ROA had a Pearson correlation co-efficient of 0.016, ROE was -0.014 and DY -0.029 and were all less than the 5% probability. Additionally, the Logistic Regression as indicated in table 3 shows that ROE (β=2.595, $p<0.05$), ROA (β=4.888, $p<0.05$), and DY (β=3.120, $p<0.05$).The above Logistic Regression are positive and significant hence the acceptance of the hypothesis "Ownership by Corporations has a positive effect on firm performance".

In assessing the hypothesis that diverse ownership has a negative effect on firm performance, the return on asset had a co-efficient (β) of 6.041, the return on equity also had a co-efficient (β) of 5.038 and the dividend yield co-efficient (β) was 3.718. These co-efficient were all measured at 5% significant level. Since the co-efficient were all positives the study rejected the hypothesis diverse ownership has a negative effect on firm performance.

Finally, the hypothesis Foreign Ownership has a positive effect on firm performance was accepted. This is because the Logistic Regression results were ROA (β=6.436, p<0.05), ROE (β=3.810, p<0.05; DY (β=6.579, p<0.05) while that Linear Regression results were ROA (r=0.044, p<0.05), ROE (r=.037, p<0.05); DY (r=.041, p<0.05).

Additionally, the study estimated the impact of diffused ownership without ownership concentration on performance using the linear equation presented below:

$$\begin{aligned} Firm\ performance \\ &= \alpha + \beta_1 Corpown + \beta_2 forenown + \beta_3 instown + \beta_4 govown + \beta_5 divown \\ &+ \beta_6 Manown \end{aligned}$$

The result of the above estimation is presented in the table below. From the table it can be conclude that corporate ownership, foreign ownership and diverse ownership recorded all positive and significant impact on the three dimensions or measurement of performances. These variables were significant at 1 percent. Additionally, institutional ownership was significant in ROA and ROE whilst DY was rather insignificant. In addition to the above, the government ownership and manager ownership were all insignificant.

Table 4.3: Linear Regression Results for Diffused ownership on Firm Performance

Indicator Variable	***ROA***	***ROE***	***DY***
Predictor Variable	***Parameter Estimates (β)***	***Parameter Estimates (β)***	***Parameter Estimates (β)***
Corporate ownership	*11.849****	*10.807****	*11.705****
Foreign ownership	11.481***	10.459***	14.101***
Institution ownership	0.148*	0.204*	0.001
Government ownership	0.288	1.380	6.011
Diverse ownership	0.130***	0.142***	0.104***
Manager/insider ownership	0.428	0.528	0.008

*, ** and *** indicate significance at 1%, 5% and 10% respectively

4.3 Discussion and implications of the findings

The first findings show that there is a significant negative relationship between ownership concentration and firm performance. This is because according to some school of thoughts the free-rider problems associated with diffuse ownership do not arise with concentrated ownership, since the majority shareholder captures most of the benefits associated with this monitoring (Ongore, 2011). The study found the opposite to be the case for financial institutions listed on the Ghana stock exchange. The reason for the above is because more than 25 per cent of shares are concentrated on a few hands (i.e. five shareholders or less), hence the tendency for the shareholders to be rabid in their monitoring, controlling and ratification roles. This stifles managers' creativity and innovation, and ultimately affects firm performance adversely. It is even worse when the shareholders lack specific and general knowledge about the business of the firm (Ongore, 2011).

The second hypothesis indicates a positive relationship between insider ownership and firm performance. It has been argued by Namazi and Kermani (2008) and Short and Keasy (1999), that when managers own shares in their company, they become more committed to the organization since they have a stake in the residual income of the firm, and are likely to bear the cost of mismanagement. This commitment translates to higher performance. The study confirmed this position for listed financial companies in Ghana.

Additionally, government ownership has been roundly criticized for contributing to generally poor performance of firms, due to excessive bureaucracy, tribalism, nepotism, poor human resource policies, political expediency in appointments and lack of respect for laws and regulations of the country (Shapiro and Willig, 1990); Shleifer and Vishny, 1994). This study reaffirms this long-held position hence a significant negative relationship between government ownership and firm performance.

There is a positive relationship between ownership by corporations and firm performance. This is one of the most controversial hypotheses mainly due to the differences in investment preferences and shareholders' goals (Mork et al., 1988; Stulz, 1988). This means that performance is attributable to the investment choices and orientation of the parent companies, and not necessarily the ability of managers.

There is a positive relationship between diffuse ownership and firm performance. The global trend toward diverse ownership has been confused by many researchers, because it undermines the popular belief that managers are inherently self-seeking and can easily wreck the organization if left without close monitoring. The findings have brought a new dimension that emphasizes managerial discretion for creativity and innovation, and less monitoring by shareholders. Thus, diffuse ownership of firms provides a good environment for excellent policies to be developed and implemented by managers (Ongore, 2011).

The positive and significant relationship between foreign ownership and firm performance appears to have gained universal acceptance across the globe due to a number of factors (Aydin et al., 2007). First, foreign owned companies have access to management systems whose efficacy has been tested in many contexts. The massive resource base and bail-out plans for fledgling affiliates are other factors that enhance performance of foreign owned firms (Gorg and Greenaway, 2004). However, the ability of these companies to re-organize their global operations to be able to assign more costs to harsh tax regimes and profits to tax havens in a bid to reduce their overall tax liability, is the most damning feature of foreign ownership (Ongore, 2011).

CHAPTER FIVE

SUMMARY AND CONCLUSIONS

5.0 Introduction

This chapter is the concluding chapter of the study; it presents the summary and conclusion of the study. Additionally, it presents the recommendations and area for further studies for future researchers.

5.1 Summary

Previous researchers have found significant relationship between ownership structure and firm performance. Most studies on ownership concentration and firm performance have often found a higher rate of return in companies with concentrated ownership. Fewer studies have found that not only the amount of equity held by shareholders matter when studying firm performance but also the identity of the shareholder. The findings of this study therefore, appeared to contradict the position held by proponents of ownership concentration (Moldoveanu & Martin, 2001; Kuznetsov & Murvyev, 2001; Jensen & Murphy, 1990; Fama & Jensen, 1983; Jensen & Meckling, 1976; Berle & Mean, 1932) who argue that ownership concentration affords the shareholders the motivation and ability to monitor and control management decisions. This, they posit, ensures that managers make decisions that support the wealth creation motivation of the shareholders.

Managerial ownership is seen as the most controversial where its overall effect depends on the relative strengths of the incentive alignment and entrenchment effects (Cho, *et al*, 1998).

Diffusely owned firms have been shown in previous studies to be poor performers in part due to the fact that diverse/diffuse shareholders lack the wherewithal and motivation to monitor, control and ratify management decisions. The apologists of strict monitoring and control however, fail to clearly appreciate the fact that ultimately, the shareholders rely on the managers' creativity and innovation to deliver the desired superior corporate performance, and inordinate interference of shareholders in the management processes will certainly undermine corporate outcomes. The latter position is supported by Bergloef and Von Thadden (1999) who posit that concentrated ownership curtails the managers' creativity to a great extent, and therefore force managers to adhere to only those strategies that are favored by shareholders, even if they genuinely doubt the efficacy of those strategies.

The results of this study appeared to vindicate the latter position, which essentially means that ownership concentration tends to place inordinate monitoring and ratification powers on shareholders, many of whom may not necessarily understand the business well, thereby undermining firm performance.

5.2 Conclusion

The conclusion that may be drawn from the study findings is that in Ghana, ownership concentration is inimical to manager creativity and innovation, and curtails firm performance.

The typical agency problems that are very likely to arise in situations where professional managers control the assets of a corporation in which they are not shareholders are adverse selection (miscalculations) and moral hazard (failures of managerial integrity). It has been argued that these problems often arise because managers lack the requisite motivation to ensure prudence since they do not have a stake in the residual income of the firm (Moldoveanu & Martin, 2001; Fama &Jensen, 1983). According to Mork and colleagues (1988) and Stulz (1988), managerial ownership is the most controversial and ambivalent form of firm ownership, and has mixed effects on performance.

Whereas ownership by managers may be seen as a system of aligning the interests of managers with those of the shareholders in a way that enhances corporate performance, this form of ownership can also lead to entrenchment of managers, which is costly when they chose to pursue their self interests. It has been argued that the overall impact of managerial ownership on firm performance depends on how well the entrenchment effects and incentive alignment are balanced (Cubbin and Leech, 1982; Nickel, 1997 Hill and Jones, 1982; Hansmann, 1988, 1996). The findings of this study agreed to a significant extent with the argument that managerial ownership enhances corporate performance. In Ghana, manager ownership of firms has been actualized through executive share options. The findings therefore, suggest that when managers also double up as shareholders, they are motivated to work towards realization of the wealth creation objective of the shareholders of whom they are part. On the other hand, managers who are not shareholders are more likely to engage in insider dealings as a way of enhancing their personal wealth and prestige.

There is near convergence that Government ownership of firms leads to bureaucracy and inefficiency that negatively impacts firm performance (Nickel, 1997). Many researchers (De Alessi, 1980, 1982; Vickers and Yarrow, 1988; Shapiro and Willig, 1990; Shleifer and Vishny, 1997) have argued that state-owned enterprises are political firms with citizens as the shareholders, but these citizens have no direct claim to the residual income of those firms. The citizens thus cede their ownership rights to the bureaucracy which does not have clear incentives to improve performance of the corporations. Others (Nickel *et al*, 1997) have attributed the prevalent poor performance of Government owned firms to the tendency of those firms not to strictly adhere to government statutory requirements and regulations. Political manipulation and poor human resource policies are other factors that have been blamed for the general poor performance of state-owned enterprises (Shapiro *et al*, 1990).

Since the early 1990's, the Ghana Government has pursued a deliberate policy of divestiture, aimed at reducing state ownership of corporations with a view to attracting private sector participation in management of the fledgling state corporations. It was envisaged that this policy would infuse modern management styles into the public sector that would ultimately improve performance of these companies. The fact that Government ownership of firms was found to still impact firm performance negatively is perhaps an indication that the divestiture program in Ghana is yet to reach a critical level where its value can begin to reflect on corporate performance.

Pertinent literature regarding the relationship between ownership by corporations and firm performance emphasizes that investors differ in the degree to which they are prepared to take risks (Shleifer & Vishny, 1997; Welch, 2000; Xu & Wang, 1997). Firm owners make investment choices that are influenced by their interests and preferences.

When a firm acquires shares in another firm, the shareholders of the first firm extend their investment preferences, interests and risk taking behaviour to that new firm. The interesting thing about firm ownership by other firms in Ghana is that the holding firms are typically large corporations with the ability to reorganize their branch/affiliate operations to bail out non-performing affiliates. Most of these holding firms have also reported good performance during the period of study. The good performance of the firms they own is therefore, consistent with the documented practice by firms to extend their investment preferences and risk-taking behaviours to the firms they acquire.

Regarding the impact of diverse ownership on firm performance, the findings of this study appear to contradict those of previous researchers (Fama and Jensen, 1983; Jensen and Meckling 1976; Berle and Mean, 1932) who have argued that agency problems are more severe in diffusely held firms due to lack of capacity to collectively monitor the activities of managers, a situation that gives managers unlimited leeway to run the affairs of the corporation in their own self interest. This argument, however fails to appreciate that shareholder-managers will almost invariably demonstrate more commitment to the firm than will their counterparts who are not shareholders since the latter have no stake in the residual income of the firm.

Although some researchers have tended to favour concentrated ownership over diverse ownership, the reality is that the agency costs incurred in monitoring managers (especially if they are not shareholders) are huge, and may undermine firm performance.

Thus, it is a lot cheaper for managers to be able to make independent decisions that support shareholder objectives than have shareholders to impose imprudent ideas on them. The import of the study findings is that in Ghana, managers work better in an environment where they are afforded an opportunity to own shares of the firm, then allowed freehand to exercise their professional judgment without undue influence from shareholders. This arrangement works best in a diffusely held firm. It can also be argued that the high performing blue chip companies have high likelihood to attract more individual investors to buy their shares, thereby diversifying shareholdings. The hypothesis H_{2d} is therefore, rejected on the basis of the study findings.

The most definitive results were on the relationship between foreign ownership and firm performance. The significant positive relationships have vindicated the long-held belief that on average, foreign owned companies perform better than their counterparts with dominant local ownership. Thomsen and Pedersen (1997) posit that preferences regarding company strategies will often involve a trade-off between the pursuit of shareholder values, orientation and other goals. Successful companies with an international presence tend to be large, with well-established management systems that are replicated (with minimal customization) in all their branches and affiliates abroad.

5.3 Recommendation

From the summary of the findings and the conclusion drawn it is very important to recommend that:

I. There is dire need to reasonably diversify shareholding as a way of attracting more skills and competencies among the shareholders that can be tapped to improve firm performance. At the same time, the managers should be protected from unnecessary direct interference by the shareholders.

II. There is a need for government to infuse private sector-like management systems and progress the divestiture program to attract more private individuals and institutions to co-own the state corporations (financial Institution).

4.4 Further research

Base on the findings of this study and the limitation identified by the researcher it is recommended future researchers interested in this study are should:

I. Research on the critical level of shareholding, beyond which there would be, accelerated firm performance arising from commitment of managers.

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