

The Effects of Concentrated Ownership on Corporate Performance- EVIDENCE FROM Palestine

"An Empirical Study of Corporate Companies listed at Palestine Exchange"

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Abstract: This study is aimed to determine the role of ownership structure on a company's performance using 31 Palestinian companies listed at Palestine Exchange during 2008-2013. The study use regression analysis method, the role of variables of ownership structure which includes: ownership concentration and institutional ownership. The results show insignificant positive relationship between ownership concentration and ROA, ROE, while there is a significant positive relationship between ownership concentration and Tobin Q. The research also found that there is insignificant positive relationship between institutional ownership and ROA, ROE, while there is a significant positive relationship between institutional ownership and Tobin Q.

Keywords: Ownership Concentration, Institutional ownership, Corporate Performance.

1. INTRODUCTION

1.1. Ownership Concentration:

It is generally accepted that ownership structure is an important component of corporate governance (Shleifer & Vishny, 1986). The relationship between ownership structure and economic performance has been a topic of great interest in strategic management literature (Oswald & John S. Jahera, 1991; Li & Simerly, 1998; Bethel & Liebeskind, 1993; Demsetz & Villalonga, 2001).

Since Berle and Means (1932) started the contemporary discussion about the relationship between ownership structure and performance, several authors have investigated the effect of ownership dispersion or concentration on different important output variables of the firm such as leverage or financial firm performance. (Ozer ,2014). Continuing this debate, other scholars have examined and generally given supporting evidences to the agency theory expectations (Jensen & Meckling, 1976) that separation between ownership and control provides managerial incentives to diversification because of the personal benefits that managers would acquire from risk reduction. Indeed, large number of shareholders cannot exercise enough power to oversee managerial performance. Consequently, managers exercise more freedom in the use of firm resources as they would in case of a single shareholder or if the ownership would have been more concentrated (Shleifer & Vishny, 1997).

The concept of Ownership structure is an important subject within the broad concept of corporate governance. In fact, Ownership structure is a mechanism of corporate governance. Corporate governance system is considered as one of the essential factors of growth and development. According to (Hasan and Butt 2009), corporate governance is a philosophy and mechanism that entails processes and structure which facilitate the creation of shareholder value through

management of the corporate affairs in such a way that ensures the protection of individual and collective interest of all the stakeholders. Sound corporate governance principles are the foundation upon which the trust of investors and lenders is built. Corporate governance is generally associated with the existence of agency problem and its root can be traced back to separation of ownership and control of the firm. Agency problems arise as a result of the relationship between shareholders and managers and are based on conflicts of interests within the firm. Researches show that there are plenty of factors such as regulations, ownership structure, cultural and economical environment which are influential to establish specific kind of corporate governance system in disparate countries. It is proved that the enhancement of corporate governance system leads to development of capital markets.

What ultimately matters for companies, policy makers and economists alike is whether ownership structure affects corporate performance, and if so, how. The fundamental insight into the issues dates back to Berle and Means (1932), who argue that the separation of ownership and control of modern companies naturally reduces management incentives to maximize corporate efficiency (Hu & Izumida, 2008).

Although the ownership-performance relation has been a hot topic for decades, scholars have not reached an agreement with it. Generally speaking, theoretical and empirical researches supplement each other. Since the ownership-performance relation is subject to controversy in theory (as will be studied in theoretical background part), empirical researches become more important to examine which of the logically possible explanations is the most probable.

In transition economies, (Claessens, 1997, and Weiss and Nikitin, 1999) find a positive relationship between concentrated ownership voucher prices and stock market prices in the Czech Republic. (Xu and Wang, 1997) find similar results for a sample of listed Chinese companies. Other studies (Barberis et al., 1996 and Earle and Estrin, 1996) find appositive relation between actual performance and ownership concentration in Russia.

A second strand of literature (Coase, 1980; Demsetz and Lehn, 1985) argues, however, that the relation is spurious. While greater ownership concentration results in stronger incentives to monitor the expected gain from active monitoring and the cost of alternative ownership structures vary across firms.

If transaction costs inhibiting investors from taking value-maximization position in firms are low, as is often the case in market economies, each firm would have the optimal ownership structure. Other proponents of this argument point to the evidence from the US stock market where large firms are widely held. Even though the ownership structure is dispersed, effective monitoring is in place since such firms are frequently in the public eye due to analysts reports. In such cases, an investors would need a relatively small share to promote changes in management or alter its behavior.

In this research we will explore the role of ownership structure as an important mechanism of corporate governance on listed firms of Palestinian Security Exchange performance.

The remainder of this paper is organized as follows.

- _ Section 2 provides literature review which includes theoretical background and previous empirical findings about the subject.
- _ Section 3 explains the hypotheses.
- _ Section 4 describes the data, variables and methodology employed during empirical work.
- _ Section 5 presents and discusses the results of the study
- _ Section 6 briefly concludes the whole discussion.

2. LITERATURE REVIEW

2.1 Theoretical background:

The review of literature of issue shows that there is no agreed definition for corporate governance. Generally the existing definitions of corporate governance are laid on a spectrum which limited and extensive standpoints could be derived from it (Hassas yeganeh, 2005).

In limited views, corporate governance is considered as relationship between firms and its shareholders. This is an old pattern which is known as Agency theory (Ibid).

Extensive views describe corporate governance as a vast network of relations not only between firm and its owners but also the large number of stakeholders like employees, customers, sellers and so on. This standpoint is known as stakeholders theory (Ibid).

The theoretical literature on corporate governance process six main different mechanisms to control the agency costs: (Fazlzadeh; Hendi &Mahboubi , 2011)

1. Ownership structure: Jensen and Meckling (1976) and Shleifer and Vishny (1986).
2. Capital structure.
3. Board structure.
4. Managerial remuneration.
5. Product market competition.
6. Takeover market.

While theoretical analyses of corporate governance deliver counteracting mechanisms of control, the empirical literature shed light on the role of these counteracting mechanisms, suggesting firm value is an outcome of these mechanisms (Kumar, 2003).

Recent studies of corporate governance suggest that geographical position, the tax system, industrial development, and cultural characteristics, along with other factors, affect ownership structure which in turn impacts on a firm's performance (Pedersen and Thompson, 1997).

Ownership concentration is a direct corporate governance mechanism. Shleifer and Vishny (1997) note that, along with legal protection, ownership concentration is one of two common approaches to corporate governance La Porta , Lepez-de-Silanes, and shleifer (1999)find high degrees of ownership concentration in many firm throughout the world , particularly in countries with relatively poor shareholder protection .

The primary benefit of ownership concentration by outsider is that the large shareholder gains the power and incentive to monitor the action of the manager (Shleifer & Vishny , 1997) . An offsetting cost is that, at some point, the outside shareholder himself gains enough power to pursue personal objectives that may not coincide with the objectives of minority shareholders.

Hence, there is an offsetting cost if outsiders are large shareholders.

External shareholdings as those held by corporate or institutions, government and individuals outside the company As externally-held shareholdings increase, the incentive to increase the monitoring effort also increases .However, the evidence tends to support the hypothesis of increased institutional shareholdings being associated with better performance . For example, for the U S and the U K data, schleifer and Vishny (1986) find a positive relationship between external shareholdings and performance.

Ownership structure is relatively varied across countries (Chen & Yu, 2012). Corporate ownership in Palestine is typically characterized as concentrated shareholding compared with the ownership structure in Western countries.

In Indonesia, Korea, Malaysia, Singapore, Philippines, and Taiwan (China), 15% to 80% of companies have managers who are family members as the controlling owners (Claessens et al., 2000). When large shareholders act as managers, the possibility of conflict between shareholders and managers would be reduced. This will help the managers make decisions that can benefit and increase their firms' value. Ownership concentration and firm performance has a significant relationship. The equity owned by corporation, government, nominee and individual eventually influenced overall firm performance (Mat Nor, Shariff and Ibrahim, 2010). According to Sulong and Mat Nor (2008), large shareholders' ownership provides the incentive for the controlling shareholders to use their influence to maximize value, to exert control, and to protect their interests in the company.

Beside concentration of ownership and managerial ownership, institutions also hold significant shares in the Palestinian listed companies. They do not need to attract potential investor and worry about funding since they can easily obtain it from local banks at lower cost. In addition, Mohd Ghazali and Weetman (2006) found that government ownership companies may be less open in disclosing information pertaining to their performance to the public to protect the real or beneficial owners.

Since ownership in Palestine varies with concentration, managerial, government, and foreign ownership, result is expected to show different effect on firm performance. Yet, there are not many empirical studies on ownership structure and firm performance in Palestine Trading and Services Sectors. Thus, based on the context of Palestine, this research contributes to the growing literature on ownership structure and firm performance.

Various aspects of potential conflict of interest between corporate manager and dispersed shareholders when managers do not have an ownership interest in the firm have been emphasized by Jensen (1986). Jensen and Meckling (1976) argued that there is an incentive for the manager to adopt investment that financing policies that benefit him, but reduce the payoff to outside stockholders. An offsetting cost, discussed by Morck, Shleifer, and Vishny (1988), is that with larger shareholdings the manager may become entrenched, and immune to other forms of discipline. A particular form of entrenchment that might be important in emerging markets is that the manager could become resistant to monitoring by a large outside shareholder.

Fauzias, Rasidah and Hendon (1994), evaluate the relationship between board ownership and financial performance as measured by Tobin Q, EPS, and PE ratios, of Malaysian public listed company. They find that in a cross-section of 79 companies, Tobin Q, EPS, and PE ratios rise for board ownership range of 0-5%, fall as ownership rises between 5%-25% (statistically significant for Tobin Q and PE Ratios), and continue to rise except for PE ratio as board ownership rises beyond 25%. The entrenchment effect dominates the convergence – of –interest for firm with ownership range of 5%-25%.

When Board of Directors are passive they have the tendency to be friendly to management. As a result, they do not perform as expected in terms of their responsibilities in disciplining and monitoring the managers. This motivates the need to employ outsiders into the board. Outside directors are those who do not have a family or business relationship with the managers of the firm. Similar to the issue of block holder ownership While some studies find that outside directors align the interests of managers and shareholders, there are also studies that advise against having more outside directors.

Outside directors may be appointed because of declining firm performance (Hermalin and Weisbach, 1988; Kaplan and Minton, 1994) find this to be more common in Japan, and future firm performance improves after the appointment of bank directors and corporate directors into the board. Their results show the importance of relationship-oriented governance systems in Japan.

2.2 Literature Review:

Mang'anyi (2011) has examined the effects of ownership structure over institution management and performance in the sample of some selected banks operated in Kenya and revealed that there is a significant relationship between ownership structure and financial performance. The writer defends that banks that have foreign investor, in comparison with banks that have domestic investor, display a better performance. In the study (Uddin and Suzuki, 2011) aimed at the banks operated in Bangladesh between the years 2001 and 2008, similar results are obtained.

Warrad et al (2013) examined the relationship between ownership concentration and business performance via the data of nonfinancial businesses that are listed on the stock exchange of Jordan between the years 1994 and 2005. In the study, two different group assessment criteria are determined as for accounting and market. According to accounting criteria it is concluded that ownership structure doesn't have a significant effect on business performance, however according to market criteria it is determined that ownership structure affects business performance significantly.

Demsetz and Lehn, K. (1985) claimed that as the studies carried out in literature don't consider capital owners' benefit differentiations, they don't present enough information about capital structure and defended that capital structure is an endogenous variable. So as to scrutinize the conflict of interest, the writers gathered the capital structure in two dimensions as the shares that are owned by the administration and the shares kept by five block holders.

The researchers, who used the financial profit as a performance criterion and as for control variable; annual marketing expenditure / sales, machinery and equipment / annual sales and annual average debt / total assets, couldn't obtain a significant relationship between ownership structure and firm performance.

Gomes and Novaes (2001) also examine bargaining among multiple controlling shareholders and show theoretically that disagreements may diminish or enhance firm value; depending on the firm's characteristics.⁴ Empirical studies of blockholder interaction and firm performance are even less common. A recent study of Spanish firms by Gutierrez and Tribo (2002) finds that return on assets is slightly increased when the "control group" has more than one member (although their point estimates also suggest it is reduced when membership is greater than two). In related work, Faccio, Lang, and Young (2001) find reduced dividends associated with multiple owners in Asian economies and a positive impact for some dividend measures in Europe, but their regressions do not control for the size of the largest and additional blockholders' shareholdings. Both of these studies involve cross-section data only, and there is clearly a need for much more evidence.

One possible reason for the lack of attention to the effects of block holder interaction on firm performance could be an empirical belief that multiple block holdings are rare, but even in the United States cases of multiple large owners seem to be rather common. Shleifer and Vishny (1986) report, for example, a mean of 1.4 blocks (defined as 5 percent or greater) among Fortune 500 companies, suggesting that a significant minority of large firms may have such an ownership structure, and Gomes and Novaes (2001) report that 57.2 percent of the small businesses in their sample have multiple large shareholders. In the rest of the world, moreover, the coexistence of multiple blocks appears to be still less unusual. An analysis of the 20 largest firms in each of 27 countries by La Porta, Lopez-de-Silanes, and Shleifer (1999), for instance, finds that the percentage of firms with a 20 percent or greater block that have at least one additional 10 percent or greater block is 40 percent in Denmark and Germany, 37 percent in France and Israel, 50 percent in New Zealand, 57 percent in Sweden, and 75 percent in Ireland. ⁵ Finally, a recent study of the largest 100 traded companies in Turkey (Demirag and Serter, 2003) finds an average stake of 45.1 percent for the largest owner and 64.5 for the largest five, again implying that multiple blockholding is an empirically significant phenomenon. Our results in this paper suggest that the interactions among these owners may also be economically significant in their effects on corporate performance.

Hill and Snell (1988) found that, there is positive relationship between ownership structure and firm performance, as measured by profitability. This resulted from firm strategic choice. Concentrated firms encourage innovation as strategy linked to increasing the value of the firms. Meanwhile, they discourage diversification strategy due to this strategy would tied manager and interest objective together. However, Arosa et al. (2010) showed that concentrated in non-listed Spanish firms either family or non-family not related to firm performance. But, the author do finds the relationship towards performance in family firms is based on which generation manages the firms. The positive relationship can be seen in first generation at low level of control right due to monitoring hypothesis and negatively related at high level of ownership as result of expropriation hypothesis. When the subsequent generation has joined, the ownership disperses.

Family ownership creates value for all the firm's shareholders only when the founder is still active in the firm either as the CEO or as a Chairperson with a hired CEO (Villalonga & Amit, 2006). When family firms are run by descendent-CEO, minority shareholders, those firms would be worse off than they would be in nonfamily firms in which they would be exposed to the classic agency conflict with managers. There is negative impact on company performance when the control is passed to the next generation of the family (Cucculelli & Micucci, 2008; Arosa et al., 2010).

According to Alimehmeti and Paletta (2012), an Italian listed firm shows the positive relationship between ownership concentration and firm value for the year 2006 to 2009 except 2008. In year 2008, the result indicate a non-linear relationship exist prove to that the financial crisis has enhanced the expropriation effects divergent the monitoring effects. Other researchers such as Barclay and Holderness (1989), McConnell and Servaes (1990), and Omran (2009) also found positive relationship between ownership concentration and firm performance

3. HYPOTHESES

This study is aimed to determine the role of the variables of ownership structure on firm performance, similar to Lee's (2008) work; we have used two aspects of ownership structure which include ownership concentration and ownership identity.

According to agency theory, ownership structure should affect the efficiency of monitoring mechanisms.

Traditionally, the theory holds that concentrated ownership should mitigate the agency problem (Lee, 2008).

Based on the traditional agency theory, the study predicts that ownership concentration positively affects firm performance. The hypotheses are as follow:

H1: Concentrated ownership has significant positive effect on firm performance.

As discussed before, institutional investors also can be effective owners, because they have the resource and ability to properly monitor management's decisions. It is assumed that firm performance improves as the share of institutional ownership grows.

H1: a) Concentrated ownership has significant positive effect on ROA.

b) Concentrated ownership has significant positive effect on ROE.

c) Concentrated ownership has significant positive effect on Tobin Q.

H2: Institutional ownership has significant positive effect on firm performance.

However, although institutional owners may improve the performance of the firm because of their expertise in investment and financial matters, it seems that when they own a large block of share of a company, or in other word when the concentration of institutional ownership in a firm is high, the managers of these firms are impressed by large institutional shareholder's power and consequently they would try to gratify their interests.

This may finally have a negative impact on firm performance:

H2: a) Institutional ownership has significant positive effect on ROA.

b) Institutional ownership has significant positive effect on ROE.

c) Institutional ownership has significant positive effect on Tobin Q.

4. DATA DESCRIPTION AND METHODOLOGY

4.1 Data Sources and Measurements:

There are two sources of data for this study. The data (31 companies) on ownership from the year 2008 through to 2013 were obtained from annual company financial reports published by the Companies listed at Palestinian Security Exchange. These years are chosen because the capital markets study requires ample number of years so as to provide reasonable duration for ownership. This period is also assumed to be long enough to handle short-term irregularities and can provide a reliable estimate of company performance.

The sectors that are interest to this study are banking and financial services sector, industrial sector, insurance sector, investment sector and service sector.

4.2 Sample and Variables:

For the purpose of this study, six measures of dependent variables considered as performance indicators are evaluated. These performance indicators are commonly used in studies on corporate governance. The six performance measures are the Return on Assets (ROA) (Mehran 1995 ; Core et al . 1999 ; Denis & Denis 1994), Return on Equity (ROE)(Abowd , 1990 ; Core et al .1999), Tobin Q (TQ)(Mehran1995; Chung & Pruitt 1994; Rathinasamy et al. 2000) ,and Market Book Value Ratio(MBR) (MBR) (Denis , & Denis 1994) .

4.3 Variables Selection:

Four ratios to measures' firms performance were calculated for both the panel data sample and matched sample, namely return on equity (ROE), return on assets (ROA) , Tobin Q , and MBVR are used to measure the market performance of firms, while the ROE and ROA are employed as measures representing accounting performance measures. The explanatory variables are ownership fractions, concentration ratios, and other control variables. The measures of concentration are the cumulative percentage of shares held by the largest five shareholders (C5), and the Herfindahl index

of ownership concentration (the sum of squared percentage of shares controlled by each top 5 shareholders). The ownership fraction (mix) is divided into the fraction owned by government (GOV), the fraction owned by the foreigner (FORG), the fraction owned by companies (INSTIT), and the fraction owned by individuals (CITIZEN). By controlling for both ownership concentration and mix, we hope to be able to distinguish which factors are more significant in poorly performing enterprises.

Factors other than ownership structure may also affect a firm's performance and health. To take them into account, we introduce a set of control variables.

Dummy variables for industries are used to control the difference between sectors, DUM_i, $i = 1, 2, \dots, 5$, for Banks Sector, Industry Sector, Investment Sector, Insurance Sector, and Service Sector.

Also, firm size (SIZE) firms age (AGE), capital structure variable (DEBT),

Which is defined as total debt to total assets (TDTA) or total debt to total equity (TDTE), long-term debt to total assets (LTDTA) Growth opportunity (GROW) is defined as growth in sales (GROW1), or net income to capitalization (NICAP).

In the previous work, the value of total assets is used to control size effect (see e.g. Morck et al., 1988 and McConnell and Servaes, 1990). Other studies used sales to control for size (see e.g. Xu and Wang, 1997). The logarithm of total sales is used in this research. It has lower explanatory power than assets, and its inclusion in regressions of ROA and ROE makes the results not significant.

5. RESULTS

5.1 Descriptive Analysis:

Table 1 illustrates the descriptive analysis for 31 firms that met the necessary data for years of 2008-2013.

The summary statistics for selected corporation characteristics are provided in Table 1. include average ownership concentration is 58.6% with a standard deviation of 20.79%. . Palestinian corporations are profitable with the average ROA of 4%. The ratio of return on equity 6.68%. The average ratio of Tobin Q is 0.6142, whereas the average ratio of retained the log of total assets is 17.458. Moreover, we find that the ratio of market value to book value of equity averages 1.10.

The descriptive statistics reported that the average value of institutional ownership (INST) was 30.8%. This value was compared with the results in other countries. For example, Ramalingegowda and Yu (2012) who examined U.S firms reported a mean institutional ownership of 60.9% while Alfaraih, , and Almujaed (2012) who examine Kuwaiti firms found an average of 55%. The agency theory reported that the higher the percentage of institutional investors or greater concentrated ownership, the greater the monitoring function of these investors, and thus the greater the opportunity for better financial performance (Alkhalwaldeh, 2012). On the other hand, the average of family ownership (FAM) in the current study is 49.9%. This result is higher than result of Bt Fadzil and Abdullah (2014) who found that 27.7% as an average of family owners in Jordanian firms.

Table 2 shows the matrix of Pearson correlation for the relationship between dependent and independent variables. As described in Table 2, the correlations among the dependent variables ROA and ROE is significantly correlated (+0.873) as expected, In addition, family ownership positively significantly correlated (+0.122) with ROA . Concentration ratio (CR) is has a positive significantly correlated (+0.601) with TQ and correlated (0.274) with return on assets and significant associated with accruals at 5% level of significant. On the other hand, family ownership, are not significantly correlated with (CR) at both level of significant. The Multicollinearity test was conducted to check the high correlation coefficient between all independent variables if they exist; Table 2 shows that the correlation coefficients among independent variables are low which indicating no Multicollinearity issue in this study.

5.2 Correlation Analysis:

In addition that ownership concentration could affect the operating performance, the listed company asset size(The log of total assets), MBVAR and TD/PE will have an impact on performance. In order to ensure the validity of research

findings, drawing on previous research results, this paper selects the asset-liability ratio DEBT and asset size SIZE (natural logarithm of total assets) as a controlled variable.

Based on the interpretation of the dependent variable in the process variables and controlled variable from a total of six, and explain the extent of five variables on the dependent variable is not the same, and therefore prior to regression analysis, it is necessary to conduct a simple correlation analysis. With the software SPSS 20.0, Spearman test variables were analyzed.

Multivariable regression analysis on panel data which are employed to test the hypothesis for total 31 firms are as follow:

Model(1)

$$ROA = \beta_0 + \beta_1 CR + \beta_2 C5 + \beta_3 insiti. + \beta_4 citizen + \beta_5 SIZE it + \beta_6 DEBT it + \beta_3 MBVAR + \epsilon it \dots\dots\dots(1)$$

Model (2)

$$ROE = \beta_0 + \beta_1 CR + \beta_2 C5 + \beta_3 insiti. + \beta_4 citizen + \beta_5 SIZE it + \beta_6 DEBT it + \beta_3 MBVAR + \epsilon it \dots\dots\dots(2)$$

Model (3)

$$TOBIN Q = \beta_0 + \beta_1 CR + \beta_2 C5 + \beta_3 insiti. + \beta_4 citizen + \beta_5 SIZE it + \beta_6 DEBT it + \beta_3 MBVAR + \epsilon it \dots\dots\dots(3)$$

6. DATA AND RESULTS

Multiple regression is performed for both models in each year (Table 3 and Table 4). We check for possible correlations between variables .From Hypothesis 1, the variables representing ownership concentration are expected has positive effect on firm performance. Forth variables are used, CR , C5 , INSTIT and family concentration.

Estimating model (1)

Using the accurate method of estimating is the first step in analyzing panel data. . According to this test, fixed effect method is used in order to analyze data. Table 3 shows the result of the analyses for this model. As it is seen in this table, all of the coefficients except for ownership concentration are significant at 5% level of significance. Adjusted R2 coefficient is 55% which shows the proper fitting of model. The amount of Durbin-Watson-d-test is near to 2 which indicates the nonexistence of autocorrelation in residuals (error terms). Also Prob (F-statistic) shows the signification of regression model at 1% level of significance.

Table 2 shoes that insignificant correlation between ownership concentration and ROA.

Estimating model (2)

Similar to estimating model (1), for the purpose of choosing proper method of estimating,. Table 2 presents the correlation between variables. There are not significant correlation between institutional ownership and firm performance. Table 3 shows the result of estimation for model (2). Since the amount of Durbin-Watson-d-test statistic was low and the existence of correlation for residuals was possible.

Table 3 presents the coefficients of variables for model (2). The results that could be obtained from this table are similar to previous model. As it is seen the sign, variable's coefficients signification and even quantity of coefficients are very similar to model (1). R2 and Prob (F-statistic) test show the accurate fitting of model. The coefficient of ROE, and ROA variables is statistically significant which has been able to resolve auto correlation problem in the model (Durbin-Watson statistic is near to 2 which indicates the nonexistence of auto correlation in error terms) . Table 2 shoes that insignificant correlation between ownership concentration and ROE.

Estimating model (3)

According to the regression model, we can conclude that there is a significant correlation between ownership concentration and Tobin Q . Otherwise, the H_5 index and citizen variables shows a weak positive correlation. These

results can be seen that proper ownership concentration can improve the performance of the company. Table 3 shoes that $R^2 = 42\%$, adjusted $R = 55\%$ and Durbin-Watson-d-test is 2.026 .

Results in brief:

Test of hypothesis have been held in 1%, 5% or 10% level of significance. As discussed before, the hypotheses of this research are:

1. Concentrated ownership has insignificant positive effect on ROA.
2. Concentrated ownership has insignificant positive effect on ROE.
3. Concentrated ownership has significant positive impact on Tobin Q.
4. Institutional ownership has insignificant positive effect on ROA.
5. Institutional ownership has insignificant positive effect on ROE.
6. Institutional ownership has significant positive impact on Tobin Q.

Variables of ownership structure and their effects on firm performance have been summarized in table 7

7. CONCLUSION

It is generally accepted that ownership structure is an important component of corporate governance (Shleifer & Vishny, 1986). As earlier research has given contrasting theories and evidences on the relationship between ownership concentration and firm performance (Fama & Jensen, 1983; Demsetz, 1983; Chang, 2003) there is always room for further evidences.

Some theories and empirical investigations suggest that ownership structure affects firm performance, others suggest the irrelevance of the relationship between ownership structure and firm performance. Furthermore, most of the studies are conducted in developed countries and in some Asian countries

where the characteristics of ownership structure are different from Middle Eastern countries. So, implications from the theory may not be applicable to other countries. This study provides evidence from Middle Eastern countries and expands the previous studies by investigating the effect of ownership concentration on the firms performance . By this mean, our study adds further evidences on such debate as we assume a full population from Palestine in 2008-2013 .

The results confirm the positive relationship between ownership concentration and tobin q variable , but lower positive relationship between ownership concentration and ROA, confirming the agency perspective that higher concentration increases shareholder power and control aligning managers and shareholders interests, and consequently increasing firm value.

However, our results show a changing relationship function in 2008 confronting with the other years of our analysis, confirming a changing relationship compared to the other five years of observation.

Table.1: Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
C5	186	.16	.99	.5452	.20975
INST	186	.00	.91	.3088	.29348
<i>Citizen</i>	186	.00	1.00	.4994	.29014
CR	186	.11	.99	.5862	.27744
The log of total assets	186	13.91	21.42	17.4580	1.65130
MBVAR	186	.23	4.26	1.1024	.60967
TD/PE	186	.01	8.43	1.5233	2.05141
ROA	186	.00	.27	.0404	.04822
ROE	186	.00	.40	.0688	.07437
Tobin Q	186	.09	1.89	.6142	.40425
Valid N (listwise)	186				

Table.2: Pearson correlation coefficients among variables

	ROA	ROE	TQ	MBVAR	citizen	insiti.	Cr	C5
ROA	1							
ROE	0.873	1						
TQ	0.495	0.378	1					
MBVAR	0.335	0.543	0.532	1				
citizen	0.064	-0.05	0.034	-0.236	1			
insiti.	0.122	0.244	0.066	0.347	-0.598	1		
Cr	0.274	0.025	0.601	-0.237	0.277	-0.237	1	
C5	-0.058	-0.199	0.096	-0.284	0.507	-0.712	0.32	1

Table.3: Models Summary

	Tobin Q	ROE	ROA
Model	1	2	3
R Square	0.42	0.165	0.185
Adjusted R Square	0.55	0.137	0.04424
Std. Error of the Estimate	0.01378	0.04909	1.97
Durbin-Watson	2.026	1.997	1.97

Table.4: ROA

Variabls	Sig.	t	Standardized Coefficients	Unstandardized Coefficients	
			Beta	Std. Error	B
(Constant)	0.008	-2.676		0.064	-0.172
Cr	0.011	1.622	0.217	0.023	0.038
C5	0.042	0.497	0.054	0.025	0.012
insiti.	0.03	1.045	0.092	0.014	0.015
Citizen	0.004	2.887	0.325	0.019	0.054
The log of total assets	0.001	3.327	0.321	0.003	0.009
TD/PE	0.023	-2.297	-0.324	0.003	-0.008

Table.5: ROE

Variabls	Sig.	t	Standardized Coefficients	Std. Error	Unstandardized Coefficients
			Beta		B
(Constant)	0.025	-1.161		0.1	-0.117
Cr	0.036	-2.118	-0.287	0.036	-0.077
C5	0.843	-0.198	-0.022	0.039	-0.008
insiti.	0.045	0.765	0.068	0.023	0.017
Citizen	0.008	2.663	0.303	0.029	0.078
The log of total assets	0.004	2.891	0.282	0.004	0.013
TD/PE	0	-3.973	-0.568	0.005	-0.021

Table.6: Tobin q

Variabls	Sig.	t	Standardized Coefficients	Unstandardized Coefficients	
			Beta	Std. Error	B
(Constant)	0.011	-1.603		0.459	-0.735
Cr	0	5.303	0.6	0.165	0.875
C5	0.013	1.511	0.139	0.178	0.268
insiti.	0.047	-0.728	-0.055	0.105	-0.076
Citizen	0.002	3.123	0.298	0.134	0.418
The log of total assets	0.122	1.556	0.127	0.02	0.031
TD/PE	0.026	-1.122	-0.134	0.024	-0.026

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Table.7: The Effect of Explanatory Variables of Regression Models on Firm Performance for Total 31 Sample Firms

Hypothesis	Variable	Effect
(1)	a) Concentrated ownership has significant positive effect on ROA.	Insignificant Positive
	b) Concentrated ownership has significant positive effect on ROE.	Insignificant Positive
	c) Concentrated ownership has significant positive effect on Tobin Q.	Significant Positive
(2)	a) Institutional ownership has significant positive effect on ROA.	Insignificant Positive
	b) Institutional ownership has significant positive effect on ROE.	Insignificant Positive
	c) Institutional ownership has significant positive effect on Tobin Q.	Significant Positive

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