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The Impact of Ownership Structure on the Financial Performance of Jordanian: Evidence from Amman Stock Exchange Corporations services Sector

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Abstract

This study has investigated the relationship between Ownership Structure and financial performance in Jordan Ownership concentration, family ownership, and Companies ownership are used as corporate governance variables and ROE as measures of financial performance. Data are obtained from the annual reports of 147 listed companies in the Amman Stock Exchange for the 2014-2016 financial years. Regression results indicate that family ownership is negatively associated with firm performance. This suggests that small ownership are associated with higher financial performance, possibly through closely monitored management. Moreover, the results reveal that the Ownership concentration has a significant positive relationship with the financial performance. However, directors on the board are not associated with financial Performance of the listed companies in Jordan.

1. Introduction

The modern understanding of the principal-agent relationship will be derived to the seminal work of Berle and suggests that (1932). They ascertained that in the late-19th and early twentieth centuries, ancient family possession had been supplanted because the predominant routine folks business by fashionable in public listed firms, which this had the result of separating possession from management of firms. a replacement category of managers had emerged on top of things folks companies, that means that the spread tiny shareholders were effectively powerless . This work was notably pressing within the context of the Thirties slump, as company governance and social control behaviour were key problems within the Wall Street Crash of 1929. therefore from the beginning of recent studies of company governance, it's been assumed that a latent divergence exists between the interests of shareholders and of managers, which while not correct structure capricious managers will act at the expense of principals, supported the premise that company governance essentially determines firm outcomes (Berle and suggests that, 1932).
Agency theory posits that managers square measure agents of shareholders (principals) and that they run the firm on behalf of the house owners, so participating during a principal-agent relationship. in depth literature indicates that there's Associate in Nursing intrinsic conflict of interest between shareholders and managers, as a result of the latter being engaged by the previous to serve their own objectives important maximization. it's been oftentimes determined

that managers diverge from shareholders‘ interest and cut back and/or acceptable shareholders‘ wealth for his or her own interests (Jensen and Meckling, 1976; Fama and writer, 1983; Shleifer and Vishny, 1997; La passageway et al., 1999).

Agency theory provides deeper analysis of the conflict between shareholders and managers, that provided a framework to clarify the reduction of shareowner wealth within the settings of the principal-agent relationship, whereby house owners (principals) delegate managers (agents) to run corporations on their behalf, resulting in agency issues or conflicts since each parties square measure utility maximizes in their own interests, and also the interests of managers typically diverge from their written agreement obligation of maximising shareowner returns (Jensen and Meckling, 1976). Grossman and Hart (1986) argued that once the possession structure of a firm is to a fault subtle, shareholders square measure less doubtless to watch management choices closely, as a result of they need less incentive to try and do therefore provided that the potential edges of such watching square measure outweighed by the agency prices of monitoring; clearly this example is probably going to undermine performance.

1.2 Problem of the Study

To discuss the conception of possession Structure and its impact on money performance and with the goal of making choices on shareholders, staff and customers, as this contains a direct impact on the continuity of the service sectors and maintained its market share and its money position furthermore because the interaction of activities at totally different levels of management of Jordanian service sectors with the cashing in on the services of the companies, that contains a positive impact on financial results of banks. Thus, the dearth of abstract coherence to the managers of those firms with money metrics results in not produce a balance within the use of those standards within the formulation of the company's performance. As well because the impact on the survival and therefore the continuation of the companies within the market competition, the matter of questions consisted of the subsequent elements:

1 - Does identifying the elements and principles of Ownership Structure in Jordanian corporation service sector to ease implementation and achieving results?

2 - Are they affected by the financial performance for senior management in Jordanian corporation service sector where the application of Ownership Structure?

1.3 Objective of the Study

Came to concentrate on the Impact of possession Structure it’s on money and money performance in order to spot the degree of access to and use of operational metrics by corporation managers to confirm the improvement and development of performance and repair delivery applicable for his or her customers additionally to building relations with them and with shareholders, employees, which keeps the loyalty and continuity within the delivery of services at the best to require advantage of them by its users. additionally to increasing the attention and confidence of accounting info between money and among its users.

1.4 Importance of the Study

Through Turning to additional threads very important in terms of research, however a possession Structure and its impact on financial performance of the departments of Jordanian corporation through the study of the impact on the protection of administration to the interests of connected parties of the shareholders, employees, customers and government agencies...etc. once creating for operational selections and direct reflection on the continuity of the companies within the business market and maintaining their market share and monetary position, results of operations, additionally as increase the loyalty of their staff and their customers by increasing their confidence within the services provided to them and the finance performance.

2. Literature Review

This section reviews research literature on the performance effects of Ownership Structure in service, including, Ownership concentration, family ownership, and Companies ownership.

2.1. Ownership concentration

Ownership concentration is higher in developing countries, wherever investors have less protection (La orifice et al., 1999;Shleifer and Vishny, 1997). this could imply a stronger incentive and talent of principals to watch agents, reducing social control self-interest (La orifice et al., 1999;Shleifer and Vishny, 1997).Alchian and Demsetz (1972) argued that the equity of possession has been recommended as an impact mechanism to regulate managers by shareholders to mitigate agency conflicts among the firm. They state that this control mechanism is important in deciding the shareholders wealth, firm objective and also the level of discipline of managers. In such a context, an oversized investor seems because the shareholders best thanks to management and monitor the managers.

Shleifer and Vishny (1986) argued that once the possession structure is focused, massive and dominant shareholders contribute to the mitigation of the agency issues as a result of they need the incentives, motivations and capability to watch the managers for the shared good thing about management (i.e. the mutual good thing about all shareholders, whether or not massive or small). High concentration of possession isn't essentially a drawback to firm performance. As mentioned antecedent, shareholders with bigger stakes during a company

have bigger incentive to manage and monitor managers or insiders (Holderness, 2003). This represents the positive outcome of the self-interest of enormous shareholders, called the shared advantages of management hypothesis. as an example, massive shareholders could exert influence within the appointment of freelance administrators or have consolatory option on got pay packages.

The higher than arguments and also the findings of many empirical studies counsel a positive relation between industrials performance and also the variety of Ownership concentration. supported this, the subsequent hypothesis is proposed:

Hypothesis 1: There is a positive relationship between the Ownership concentration and Jordanian Services' financial performance (ROE).

2.2. family ownership

Firms with high concentrations of possession area unit usually within the sort of individual- or family-controlled enterprises. In such companies, the high concentration of possession induces the big investor to undertake and maximise firm price because of their personal wealth interest, providing associate degree incentive to scale back agency prices (Anderson and Reeb 2003). In in public listed firms in developing countries, an outsized variety of shares area unit typically controlled by a little variety of families (Claessens et al., 2000). Even within the

US, Anderson and Reeb (2004) documented that quite third of the biggest firms area unit classified as family management companies. additionally, a quarter mile of the Western European companies area unit controlled by families (Faccio and Lang, 2002). Despite the 1997 economic shock, extremely focused possession remains common among Asian and geographical region companies. Indeed, Asian companies are found to decisively resist diffusion of possession

despite economic problem or the potential edges of less focused possession (Claessens et al., 2000).
He finished that the frequency of the meeting is a vital component of family ownership board operations, the subsequent hypothesis is proposed:
Hypothesis 2: There is a positive relationship between the family ownership and Jordanian Services' Financial performance (ROE).

2.3. Companies ownership

Koh (2007) outlined companies‘ investors as specialised cash managers with rational management over assets (i.e. mutual funds, insurance firms, bank trusts and pension funds). Koh (2007) declared that there's a positive relationship between the companies‘ possession and firm performance. Companies‘ possession permits the corporate to reap additional possibilities and to regulate and monitor the management. additionally, it'll facilitate to realize such edges within the interest of the worth of the corporate.
It is assumed that companies‘ possession play a vital role in dominant the firm consistent with the proportion that they own within the company. Therefore, it's vital to shed lightweight on their responsibility as a legal duty to watch the firm in reference to their holding (Mallin, 2001). Having massive portion of shares within the company encourage them to be additional economical in influencing the management policies and techniques to boost the firm performance (Cremers and Nair, 2005). Davis and Steil (2001) argue that firms possession show options such as: (1) risk permutations ;(2) favour for liquidity; and (3) the flexibility to regulate massive volume of transactions thanks to their massive possession of shares.
Shleifer and Vishny (1986) argue that enormous shares closely-held by company play vital role in poignant the management selections. They state that tiny shareholders, World Health Organization are typically people, favour their returns within the kind of financial gain. However, companies‘ possession, as a result of the company taxes, they may opt to receive dividends. Therefore, firms possession have the motivation to collect data related to the corporate so as to watch the management, thereby reducing agency prices and cut back agency downside and thereby increasing firm price (Grossman and Hart, 1980). However, Hart (1995b) points out that there are 2 disadvantages from owning massive shares in one company. Firstly, holding massive numbers of shares can cut back the chance to speculate outside the corporate. In different words, companies‘ possession can lose the possibility to diversify their investment among completely different investments. Secondly, companies‘ possession might alleviate the agency downside however they can't exclude it. the following hypothesis is proposed:
Hypothesis 3: There is a positive relationship between the Companies ownership and Jordanian Services' financial performance (ROE).

3. Methodology

3.1 Sample Selection

The sample is comprised of the 147 corporations listed within the Jordan exchange for the analysis style years. In line with previous studies, banks and Finance corporations are excluded from the sample owing to the actual fact that adhering to the possession Structure mechanisms is obligatory for Banking and Finance corporations whereas for different corporations it is voluntary with many obligatory rules. thus to guard the consistency of the conditions beneath that the research is dispensed corporations from Banking and Finance sector is neglected from the sample. knowledge assortment was mainly supported annual reports of the businesses within the sample. the knowledge with relation to Ownership Structure variables were obtained through the company Governance info provided in every annual report. knowledge for dependent variable like ROE were collected through the financial statements of every annual report.

3.2 The Model

The linear model used in this study (which was in line with what is mostly found in the literature) is as follows:

$OS=\alpha + \beta 1OCit+\beta 2\ CO\ it+\beta 3\ FO\ it+e.$

Where:

OS: is the measure of services' financial performance. The study employs one financial performance measures for this purpose:

a. ROE, return on equity

OC: Ownership concentration.

FO: family ownership.

CO: Companies ownership.

3.4 Empirical Results and Discussion

3.4.1. Descriptive Statistics

Table 1: Descriptive Statistics

	Mean	Median	Max	Min	SD
Dependent Variables					
ROE	0.040	0.072	1.394	-16.11	0.960
Independent Variables					
OC	7.91	8.00	14 4	1.79	0.81
CO	0.431	1.000	1.000 0	0.496	0.76
FO	0.650	0.667	1.000 0	0.241	0.61

Table one presents descriptive statistics of company Ownership Structure characteristics and firm money performance measures. the common variety of persons on the board of administrators is 7.91, with concerning 65 % of them being nonexecutive managers or freelance members. within the overall samples for this study, have 43.1% of the sample of companies has possession concentration and 56.9% has no possession concentration, which implies most of the companies appointed people to assume.

This descriptive statistics counsel that Jordan listed firms is moving towards active smart Ownership Structure mechanisms that companies has shown Associate in many increased interest yielding with combined code on company Governance 2008 that has been issued by ICASL and SEC by maintaining 2 separate persons for the roles of Ownership Structure . this type of movement by the Jordan firms towards adopting smart Ownership Structure mechanisms may well be seen as a positive trend despite the slow paced Ownership Structure reforms that had taken place in Jordan.

3.5 Conclusions

This study has examined the influence of Ownership Structure variables like Ownership concentration, Proportion of family Ownership, and corporations Ownership on a finance performance in Jordan. ROE are used as measures of firm performance. To check these hypotheses, this study use information from the CSE and knowledge from annual reports of 147 Jordan corporations, excluding Banking and Finance sector, for the 2014-2016 finance years. The regression results counsel that corporations Ownership is negatively related to finance performance. This means that tiny Ownership are related to higher finance performance, presumably through closely monitored management. Moreover, the results reveal that the Ownership concentration encompasses a vital positive relationship with the financial performance. However, the family Ownership on the Ownership don't seem to be related to financial Performance of the listed corporations in Jordan suggesting that mere presence of Ownership Structure within the corporate boards wouldn't make sure the stakeholders that the firm is running in truthful and sleek manner reducing agency conflicts between shareholders and also the management.

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