Effects of ownership concentration on firm performance: Pakistani evidence

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Abstract
Purpose – This paper aims to present an analysis of the association between five categories of concentrated ownership and firm performance in Pakistan. The connection between high ownership concentration and firm performance has attracted much attention, especially in emerging market, yet yielded many inconsistent empirical results.

Design/methodology/approach – Karachi Stock Exchange (KSE)-100 Indexed companies listed in KSE from 2007 to 2011 were selected as the sample, and correlation coefficient and regression model were used to inspect the relationship between ownership concentration degree and corporate performance.

Findings – It was found that there is no significant association with ownership concentration and accounting-based performance, market-based performance measures and economic profit, in general.

Originality/value – The first demonstration that the shareholding proportion of the single largest shareholder is the only variable having positive association with market-based performance measures.

Keywords Ownership, Agency theory

1. Introduction

The relationship between ownership structure and corporation performance is one that has received considerable attention in finance literature (Jiang, 2004). For a few decades, considerable energy has been devoted to trying to explain differing corporate ownership structures in different countries and its effect on financial performance. La Porta et al. (1998) find that the quality of legal protection of shareholders helps to determine ownership concentration, in countries with relatively poor legal protection of investors; publicly listed companies are likely to have large blockholders. Roe (2000) put a counter argument to explain ownership differences in terms of politics. In particular, those publicly listed companies in social democracies are more likely to have concentrated ownership than their counterparts in the USA. Bebchuk (1999) develops a model which predicts that the proportion of a country’s publicly listed firms having a controlling shareholder depends on the size of private benefits of control in the corporate sector. In particular, he demonstrates that, when private benefits of control are large, a founder is very unlikely to relinquish control after the initial public offer (IPO). Therefore, in those countries where private benefits of control are comparatively large, large blockholdings should be relatively prevalent in publicly listed companies.