

The Impact of Ownership Structure on Firm Performance of Financial Firms: Evidence from Pakistan

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ABSTRACT

Purpose-The present study examines the impact of ownership structure on firm financial performance.

Study Design/Methodology/Approach - Primary data was collected through questionnaires distributed in Lahore and Islamabad stock exchanges. The sample included 613 investors, and data analysis was conducted using AMOS. The study analyzed the complete sample and further examined the two CSR dimensions for robustness across genders, distinguishing between male and female investors.

Findings- We find government ownership (GO) has a highly significant and positive impact on return on assets (ROA) as well as return on equity (ROE). Institutional ownership (IO) also has a positive and significant effect on ROE. Similarly, foreign ownership showed one of the most robust and strongest associations with Tobin's Q and Market-to-Book Ratio, with a highly significant positive relation with both ratios, reflecting its influence on market valuation and growth potential. Our study finds no significant relationship of family ownership with any accounting and market-based variable.

Practical Implications- The findings of this study provide useful insights for investors, corporate managers, and the government sector about the ownership structure's impact on a firm's performance. This research suggests an increase in Government and Foreign Ownership can significantly improve the performance of financial firms.

Originality/Novelty- Our study contributes to the existing literature of ownership structures and focus its impact on financial firms' performance in context of emerging market like Pakistan.

Keywords: Ownership structure, foreign ownership, Ownership concentration, Firm performance, corporate governance.

1 | INTRODUCTION

1.1 | Background of the Study

The ownership structure is one of the critical governance elements due to having a severe impact on firm performance. The nature of ownership structure is one of the core issues in literature. Within the organization, due to different types of ownership structures, the organization faces different types of issues and problems. Due to several financial crises that have occurred in the past, there is a solid need for a strong ownership

structural mechanism at the firm level, especially for the financial and banking sectors. Not only Pakistan may face these types of financial crises, but in fact, these crises were felt across the globe due to globalization and in the world of the internet era. Everyone is connected even though they belong to different countries. From the firm's perspective, ownership structure determines the firm's profitability, attained and exercised by different stakeholders. By following the best ownership structure, one might reduce the agency costs associated with the separation of ownership and management, which might be useful for protecting the property rights of the firm. It might be suggested sometimes that the effectiveness and efficiency of a firm's performance in emerging markets vary or differ from that of developed markets. Due to a lack of resources, political instability, trained and skilled labor force, ownership, and financial infrastructure in emerging markets, the results from both markets may vary. For the sake of this study, we use to conduct this research in the context of emerging markets like Pakistan. In today's world, more and more businesses come into the market which adheres to the firm's performance of existing businesses.

A firm's performance depends upon the careful design strategies that take part in decision-making on the side of the entrepreneur or the top-level management. The composition and other various types of ownership structure play a vital role in ensuring a strong financial position of a firm. For example, the traditional theory holds that concentrated ownership is better than dispersed ownership because it gives full control to the shareholding to monitor the management of the company, and also it would prevent them from making self-serving decisions Fama and Jensen (1983). In contrast, more concentrated ownership will cause a conflict of interest among the majority and minority shareholders. Evidence from previous research papers suggested that the effectiveness of firm performance in emerging markets is different from that of developed markets. Some common studies in this regard of ownership structure include managerial ownership, foreign ownership, insider ownership, family ownership, and government ownership suggesting different results in the existing literature. The relationship of various types of ownership to firm performance and firm value has a mixed type of interpretation and has mixed findings. For example, regarding institutional ownership's impact on firm performance, some find a positive relationship (Din et al 2021) while others find a negative relationship (Wang et al., 2019). Similarly, some found a positive relationship between managerial ownership on a firm's performance (Kumar, 2004; Severin, 2001) while others found a negative relationship between managerial ownership and firm performance (Demsetz & Villalonga, 2001; Lang & So, 2002; Rowe & Davidson, 2002).

The different outcomes of such studies can be associated with the different types of markets these studies have been conducted. Some are developed markets where there are laws proper rules, and regulations in contrast with developing and emerging markets, where these factors are not as strong. In most developing countries such as Pakistan, family or state-owned firms, and firms held by corporations and large institutions have the power to dominate the economic landscape of a country. A large proportion (59 percent) of firms in capital markets are family owned. The major share in these types of firms is held by owners and managers. In this type of ownership structure, many shareholders make all the necessary decisions but do not bear any losses or full cost.

There are a lot of studies conducted on Ownership Structure in developed countries. In developing countries like Pakistan, studies that were often conducted on ownership structure mostly focus on non-financial sectors. In this context, to the best of our knowledge, there is no literature available on the financial

sector of Pakistan that discusses the impact of Ownership Structure on Firm Performance. The study will try to fill the gap in the literature by examining Ownership Structure on Firm Performance within the Banking Sector of Pakistan.

2 | LITERATURE REVIEW

2.1 | Agency Theory

Our study is aligned with Agency theory and suggests the best and optimal Ownership Structure which if opted by firms, helps them to reduce agency costs and conflict of interests. This theory suggests that there is a conflict of interest among the firm's stakeholders, between shareholders and managers. The theory considered that this conflict of interest, as Jensen and Meckling (1976) asserted, will possibly generate agency costs for the firm. As a result, firm performance decreases as there are increase in agency costs (Hariem & Turgut 2022). The ownership structure is one of the most important factors affecting the firm's performance. According to the agency theory, separation of ownership and management causes cost to the firm which negatively influences the optimal performance and maximizes the shareholder value, which is the main purpose of firms. Thus, the type of ownership structure has a significant impact on the firm's performance. This may affect the mechanisms that attempt to align with the management's interests to the owner's interests. The right combination of these two may enhance the chances of healthier financial performance and implementation of good corporate governance. The firm's performance is a result of the firm's operations on which all interest groups (internal and external shareholders) in a firm have an impact. The main objective of any successful firm's stakeholders (owners, management, employees, suppliers, distributors, customers, local community, government bodies, and others) is to increase the firm's performance and profit maximization. The separation of management and ownership could create a conflict of interest between them (Salehi & Moghadam, 2019). To avoid this problem and reduce agency costs, agency theory suggests a Corporate Governance (CG) strategy to overcome the conflict that occurs between managers and shareholders. Suman and Singh (2021) state that the key objective of the CG system is to overcome or decrease the conflict of interest among the possible stakeholders in the firm, i.e., to decrease the cost associated with the agency problem.

2.2 | Empirical Evidence from Pakistan

Existing literature that explores ownership structure in the context of Pakistan is based on the non-financial sector. Previous studies highlighted a positive relationship between ownership concentration and firm performance in the non-financial sector. Similarly, the study shows a positive relationship between family, foreign, and direct ownership with firm performance. Din et al. (2021) find that institutional ownership exerts a significant positive impact on ROE and MBR. Similarly, they found a significant positive association of government shareholdings with ROA, and ROE was also found when they performed studies on 146 manufacturing firms in Pakistan. Waheed and Qaisar (2019) determined the relationship between ownership concentration and firm performance. They concluded by saying that the presence of concentrated ownership moderates and helps to overcome the agency's problems.

2.3 | Institutional Ownership and Firm's Performance

Investing huge amounts of money in a corporation's stock is what it means by institutional ownership. They invest and handle a lot of money, so they want profit in return. As a result, they are trying their best to minimize transaction costs and other expenditures. The main aim of institutional ownership is to maximize the investor's wealth by making suitable and sensible portfolios that give maximum profit on a predefined risk. Some studies suggest institutional shareholders can be more active in monitoring corporate innovation decisions unlike other types of shareholders since they have efficient resources, incentives, and opportunities. Previous studies have shown that institutional ownership has a significant effect on a firm's performance. Lewellen and Lewellen (2022) find the presence of institutional investors has a positive impact on value creation by US acquiring firms. Drobetz et al. (2021) also find that the higher the institutional ownership, the higher the firm's performance. There is a negative relationship between institutional ownership and firm performance in China as well (Cao et al., 2020). Ahmadpour and Javan (2015) and Kamyabi and Parhizgar (2016) found a significant negative relationship between institutional ownership and efficiency in Iran. Tsouknidis (2019) finds a negative and significant relationship between institutional ownership and performance in US shipping firms.

H1: *Institutional Ownership has a significant impact on firm performance in the banking sector.*

2.4 | Family Ownership and Firm's Performance

Family Ownership has several theoretical advantages. First, they have management skills, they know how to operate a company's day-to-day activities. As they were family members, they understand each other and ultimately this will enhance their investment decisions and help them foster their firm performance as they are foresighted. Most of the family owners are risk takers and they take risks that help them earn more profit. Second, family ownership can reduce the notorious principal-agent problems which are discussed by Berle and Means (1932) and Jensen and Meckling (1976). Several studies by Minh Ha et al. (2022) and Muntahanah et al. (2021) found a positive impact of family ownership on firm performance. However, there is also a downside and potential costs of family ownership. Burkart et al., (2003) argue that those firms which were managed by family owners may be potentially less efficient and thus entail loss to the firm when compared to those which were managed by professional managers.

H2: *Family Ownership has a significant impact on the firm's performance in the banking sector.*

2.5 | Foreign Ownership and Firm's Performance

The portion of foreign ownership can significantly increase profitability and encourage better governance in developing countries. Foreign owners may be helpful in bank management to adapt more transparent, competitive, and efficient operating strategies. Foreign investors can provide advanced foreign technology and sophisticated managerial know-how while helping the firm they control to have access to the foreign market. An increase in foreign ownership and foreign inward investment, particularly in emerging economies, is positively associated with successful industrial growth through the active involvement of MNCs. Foreign

ownership can help the firm to raise funds for different types of operations and the foreign management can help the firm expand the market within which they compete and improve management within that organization. In the Russian market, companies with foreign ownership are more productive than domestic companies (Iwasaki et al., 2022). In Germany, an obvious positive correlation exists between the company's value and ownership concentration (Gorton & Schmid, 2000). In the Swedish market, a positive correlation exists between company performance and foreign institutional investors' shareholdings (Lindemanis et al., 2022). In Bangladesh, the concentration of foreign and director shareholdings of listed companies has a significant positive impact on corporate performance (Rashid, 2020). Iwasaki et al. (2022) investigate the effects of foreign ownership on the productivity of Russian firms and find that foreign firms are more productive than domestic firms. Despite many studies showing a positive correlation, some studies also show that there is a positive relationship between foreign ownership and firm performance but up to some extent, beyond which it does not lead to an increase in profit for financial Institutions. When considering the impact of the ownership structure on the operation of firms in Malaysia, these studies showed that ROE did not correlate with foreign ownership. In Vietnam, the study by Nguyen and Ngo (2017) produced negative results about this relationship in real estate firms.

H3: *Foreign Ownership has a significant impact on the firm's performance in the banking sector.*

2.6 | Government Ownership and Firm's Performance

Government influence present in corporate operations and decision making has been criticized for its detrimental role in the value creation of an organization. The dominance of state ownership may result in a divergence in the allocation of capital resources for non-profit uses, such as maintaining a high employment rate. Many studies conducted to examine the relationship between state ownership and firm performance but in many cases, there is a negative relationship between firm performance and governmental ownership when we talk about emerging markets and developing countries. Qayyum, A. et al., (2018) determined that state-owned banks are less profitable and less efficient than private banks. Ting and Lean (2015) determined that the involvement of the government negatively affected the performance of publicly listed companies in Malaysia. Khaksari and Tehranian (2010) claimed that state-owned banks generally operate with less profitability hold less core capital and have higher rates of credit risk than any private bank. Similarly, Qian et al. (2019) found a negative relationship between government ownership and firm performance while conducting a study on Malaysian publicly listed firms from 2010 to 2015. However, Jiang et al. (2008) found a significant positive relationship between Government Ownership and Firm Performance.

H4: *Government Ownership has a significant impact on firm performance in the banking sector.*

2.7 | Ownership Concentration and Firm's Performance

Ownership Concentration is one of the key determinants of corporate governance and firm performance which also influences the decision making in an organization. Different Studies have been conducted and they have different results. Berle and Means's (1932) study has also spurred ongoing debate about the impact of

ownership on firm performance. The impact of ownership type on the financial performance of a firm has already been investigated, but the result is inconsistent. Some studies show an insignificant relationship between ownership concentration and profitability of a firm, others indicate a significant impact on performance. Omran et al. (2008) point out that the relationship between ownership concentration and firm performance is significantly positive (Abdallah and Ismail 2017; Aktan et al. 2018; Al-Smadi 2013).

On the other hand, Fama and Jensen (1983) argue that if the ownership concentration increases to such a level that it entrenches the management and prevents takeovers, then firm performance falls. In addition to this, large shareholders who are forced into voting with the management and find it beneficial to collaborate with the management might cause poor firm performance due to less effective monitoring and opens the door for risk exposure. Some authors from their empirical studies reported a significant negative relationship between ownership concentration and firm performance (e.g., Guluma 2021; Chen et al., 2021; Din, 2022).

H5: *Ownership Concentration has a significant impact on the firm performance of the banking sector.*

2.8 | Board Size and Firm Performance

The number of board members is one of the important factors which affects the firm's performance. But there is no such optimal size for the board of directors. Jensen (1983) suggests that a board should have a maximum of seven or eight members to function most effectively and efficiently. Others suggest that smaller board size enhances communication and coordination which makes firms more profitable, and monitoring becomes more effective. This proposition is backed by the empirical evidence from the literature, that shows smaller board size is associated with higher firm value shown in the studies (Ben Fatma & Chouaibi, 2023). Conversely, agency theory and resource dependency theory could also support the proposition that a larger board member size gives a firm greater value. There are several studies investigating whether board member size has an impact on the firm performance of an organization. Almashhadani and Almashhadani (2022) find that complex firms that tend to have larger boards, those firms are more likely to increase their performance.

2.9 | Board Composition and Firm Performance

Board Composition reflects the number of independent directors, non-executive directors, and executive directors, among the board of directors. Board composition is one of the important factors affecting firm financial performance and financial decisions. There are several previous studies available on the relationship between board compositions and firm performance. Goel et al. (2022), and Benvolio and Ironkwe (2022) find that board composition is positively related to the firm's financial performance. Meanwhile, Eisenberg, Sundgren, and Wells (1998), Garg (2007), and Rose (2007) find that board composition may deteriorate the value of the firm because large board composition has high coordination costs which reduces the effectiveness of the firm.

2.10 | Board Diversity and Firm Performance

Board Diversity includes gender diversity, age diversity, ethnicity, experience, etc. Our study employs gender diversity as a primary measure of Board Diversity. EmadEldeen et al. (2021) examine the relationship between board diversity and firm value for UK firms from their empirical studies they find a statistically

significant positive relationship between the fraction of women or minorities on the board and firm value. Similarly, Jurkus, Park, and Woodard (2008) investigate gender diversity in the top management of Fortune 500 firms and find that gender diversity is positively related to both the performance and stock valuation of the firm. Brahma (2021) provides empirical evidence to support the view that increased gender diversity has a positive relationship with firm value. Females may have a better understanding of consumer behavior, the needs of customers, and opportunities for companies to meet those needs (Pandey et al., 2023). Most banks in Pakistan have a 10% quota for females, which means that 1 out of 10 boards of directors will be female.

3 | METHODOLOGY & DESIGN

3.1 | Overall Approach

Data is collected from the company's annual reports and the financial statements of the companies. Similarly, we also use the State Bank of Pakistan (SBP) Balance Sheet Analysis (BSA) for collecting the data. Our data consists of all financial firms between 2013 to 2023, that have more than 4 years of consecutive financial statements data, which result in 218 firm-year observations. Financial performance and market-based variables are winterized at 1%. Details of all variables and their estimations are briefly explained in Appendix, Table A1. Descriptive statistics for observing the Mean and median. Standard Deviation, Skewness, and Kurtosis are reported in Table 1. Similarly, we also used the Correlation Matrix for understanding the association of independent variables with dependent variables as shown in Table 2. We also used Generalized Linear Regression to determine the impact of Ownership Structure on Bank Performance as shown in Tables 3 and 4. To improve the effectiveness of our results, we employed firm-fixed effect and year-fixed effect, and all reported standard errors are clustered at firm and year levels for robust measures.

3.2 | Empirical Model

The empirical models employed in this study are given by the following model specifications:

$$ROA_{it} = \alpha_0 + \beta_1 IO_{it} + \beta_2 FMO_{it} + \beta_3 FRO_{it} + \beta_4 GO_{it} + \beta_5 OC_{it} + \beta_6 Age + \beta_7 BS_{it} + \beta_8 BC_{it} + \beta_9 BD_{it} + \varepsilon_{it} \quad (i)$$

$$ROE_{it} = \alpha_0 + \beta_1 IO_{it} + \beta_2 FMO_{it} + \beta_3 FRO_{it} + \beta_4 GO_{it} + \beta_5 OC_{it} + \beta_6 Age + \beta_7 BS_{it} + \beta_8 BC_{it} + \beta_9 BD_{it} + \varepsilon_{it} \quad (ii)$$

$$TQ_{it} = \alpha_0 + \beta_1 IO_{it} + \beta_2 FMO_{it} + \beta_3 FRO_{it} + \beta_4 GO_{it} + \beta_5 OC_{it} + \beta_6 Age + \beta_7 BS_{it} + \beta_8 BC_{it} + \beta_9 BD_{it} + \varepsilon_{it} \quad (iii)$$

$$MBR_{it} = \alpha_0 + \beta_1 IO_{it} + \beta_2 FMO_{it} + \beta_3 FRO_{it} + \beta_4 GO_{it} + \beta_5 OC_{it} + \beta_6 Age + \beta_7 BS_{it} + \beta_8 BC_{it} + \beta_9 BD_{it} + \varepsilon_{it} \quad (iv)$$

4 | RESULTS AND DISCUSSION

Table 2 provides descriptive statistics of variables used in the study. Summary statistics of Institutional Ownership (IO), Family Ownership (FMO), Foreign Ownership (FRO), Government Ownership (GO), and Ownership Concentration (OC) are provided along with profitability ratios including Return on Asset (ROA),

Return on Equity (ROE), Tobin's Q (TQ), Market-to-Book ratio (MBR), as well as Firm Age (Age), Board Size (BS), Board Composition (BC), and Board Diversity (BD).

Institutional Ownership (IO) has a mean of 0.588, a median of 0.719, and a standard deviation of 0.327 which is highest among mean, median, and standard deviation values of Family Ownership (0.053, 0.002, 0.109), Foreign Ownership (0.114, 0.020, 0.195) and Government Ownership (0.105, 0.000, 0.246) respectively. Family Ownership (FMO) has the highest skewness and kurtosis values of 3.15 and 15.231 among ownership measures, reflecting positively skewed highly concentrated data. Institutional Ownership has less skewness than Foreign Ownership and Family Ownership. Ownership Concentration has a mean of 0.806, median of 0.870, standard deviation of 0.156, and skewness of -0.833.

Table 1

Descriptive Statistics

	N	Mean	Median	SD	Skewness	Kurtosis
Institutional Ownership (IO)	218	0.588	0.719	0.327	-0.508	1.802
Family Ownership (FMO)	218	0.053	0.002	0.109	3.150	15.231
Foreign Ownership (FRO)	218	0.114	0.020	0.195	1.919	5.404
Government Ownership (GO)	218	0.105	0.000	0.246	1.992	5.101
Ownership Concentration	218	0.806	0.870	0.156	-0.833	2.968
Return on Assets (ROA)	218	0.010	0.009	0.019	1.776	17.136
Return on Equity (ROE)	218	0.139	0.144	0.120	-0.406	6.383
Tobin's Q (TQ)	218	0.063	0.050	0.062	3.751	18.370
Market-to-book ratio (MBR)	218	0.822	0.711	0.559	1.741	7.609
Bank Age	218	41.08	28.00	34.60	1.799	6.351
Board Size	218	9.183	8.000	2.325	1.083	3.341
Board Composition	218	0.369	0.333	0.139	0.573	3.201
Board Diversity	218	0.075	0.083	0.081	1.485	6.472

ROA has the smallest mean of 0.010, median of 0.009, and standard deviation of 0.019 among performance measures, with skewness of 1.776. Similarly, ROE has a mean of 0.139, a median of 0.144, a standard deviation of 0.120, and a skewness of -0.406. Tobin's Q (TQ) has a mean of 0.063, median of 0.050, standard deviation of 0.062, and skewness of 3.751. Similarly, MBR has a mean of 0.822, a median of 0.711, a highest standard deviation of 0.599 among performance measures, and a skewness of 1.741. Banks in our sample have an average age of 41.1 years with a median age of 28 years and standard deviation of 34.6, and a skewness of 1.799. Board Size has a mean of 9.183, median of 8.00, standard deviation of 2.325, and skewness of 1.083. Similarly, Board Composition has a mean of 0.369, median of 0.333, standard deviation of 0.139, and skewness of 0.573, whereas Board Diversity has a mean of 0.075, median of 0.083, standard deviation of 0.081, and skewness of 1.485.

Table 2 shows the correlation matrix of variables. There is a significant negative relationship between Institutional ownership and family, foreign, and government ownership. Government ownership also has a significant negative relationship with family and foreign ownership as well. However, a significant positive relationship exists between family and foreign ownership. Among firm performance variables, ROA and ROE are mostly insignificant, except for the ownership concentration, which is positively related to ROA and

negatively related to ROE. It indicates that with the change in 1 unit of ownership concentration, there is a 0.139 percent change in the ROA and a -0.113 percent change in ROE. Similarly, with the increase of 1 unit of Foreign Ownership, there is a significant positive change of 0.241 and 0.305 in Tobin's Q and MBR respectively. Government ownership shows a negative relation with Tobin's Q and MBR, indicating a 1 unit increase in government ownership resulting 0.148 percent and 0.133 percent decrease in Tobin's Q and MBR respectively. The ownership structure is positively correlated with ROA while showing a less significant relationship with ROE and Tobin's Q. Increase of 1 unit in ownership concentration results in a 0.139 percent increase in ROA, a 0.133 percent decrease in ROE, and a 0.133 percent increase in Tobin's Q.

Table 2

Correlation Matrix

	IO	FMO	FRO	GO	OC	ROA	ROE	TQ	MBR	Age	BS	BC	BD
IO	1												
FMO	-0.405***	1											
FRO	-0.583***	0.338***	1										
GO	-0.590***	-0.202***	-0.149**	1									
OC	0.173**	-0.0661	-0.295***	0.0902	1								
ROA	0.0127	-0.0176	0.004	0.0695	0.139**	1							
ROE	-0.001	-0.0230	-0.004	0.0219	-0.113*	0.193***	1						
TQ	-0.008	0.0523	0.241***	-0.148**	0.113*	0.111	0.0448	1					
MBR	-0.048	0.0805	0.305***	-0.133*	0.0391	0.137**	0.130*	0.429***	1				
AGE	0.086	-0.0474	0.045	0.0141	0.227***	0.288***	0.202***	0.0568	0.0664	1			
BS	-0.044	0.252***	0.231***	-0.239***	0.292***	0.0863	0.0407	0.162**	0.286***	0.301***	1		
BC	-0.264***	0.041	-0.008	0.363***	0.243***	-0.0807	-0.0590	-0.187***	-0.244***	0.309***	0.160**	1	
BD	0.339***	-0.129*	-0.129*	-0.198***	0.207***	0.0042	0.151**	-0.0872	-0.133*	0.522***	0.348***	.390***	1

Coefficient with *, **, and *** indicate significance at the 10%, 5%, and 1% level

4.1 | Regression Analysis

In this section, we investigate the role of ownership on the performance of firms. We design cross-sectional analysis to estimate firm performance by regressing return on assets, ROA, return on equity, ROE, and Tobin's Q while controlling for other factors that can impact firm performance, as well as firm and year fixed effect. Table 3 presents the firm-level results of panel regression based on Eq. (i), (ii), and (iii). The coefficient of each regression is presented in the first column with *, **, and *** to show their respective significance at 10%, 5%, and 1% levels, followed by robust standard errors in the second column which are corrected for firm-level clustering, and associated t-statistics are reported in the third column.

Section (1) analyzes the relationship using Return on Asset (ROA) as a dependent variable. Results indicate that except for Government ownership, all other ownership measures show an insignificant relationship with ROA. The coefficient of Government ownership is positively significant at a 5% level with a value of 0.017, implying two standard deviations change in the firm's government ownership level is associated with a 1.7% change in the firm's return on assets. The significant negative relation between Foreign Ownership (reported by Nguyen and Ngo, 2017) and Institutional ownership (reported by Jong et al., 2005, Aljifri and Moustafa, 2007, and Wang et al., 2019) on the performance of firms are not evident by our research.

Table 3*Return On Assets (ROA)*

	ROA			ROE			Tobin's Q		
	(1)			(2)			(3)		
	Coef.	Std. Err	t-Stat	Coef.	Std. Err	t-Stat	Coef.	Std. Err	t-Stat
Institutional Ownership (IO)	0.007	0.006	1.240	0.183* *	0.086	2.140	0.024	0.039	0.620
Family Ownership (FMO)	0.011	0.008	1.310	0.220	0.151	1.450	-0.007	0.039	-0.190
Foreign Ownership (FRO)	0.006	0.007	0.910	0.157	0.091	1.720	0.108* **	0.022	4.790
Government Ownership (GO)	0.017* *	0.007	2.390	0.257* *	0.117	2.210	0.007	0.035	0.200
Ownership Concentration	0.008	0.013	0.670	- 0.090*	0.088	-1.820	0.073	0.051	1.430
Bank Age	.0002* **	0.000	2.900	0.000	0.001	0.970	0.000	0.000	0.570
Board Size	0.000	0.001	0.200	0.007	0.008	0.850	0.002	0.002	0.650
Board Composition	- 0.033* *	0.012	-2.680	-0.138	0.126	-1.090	-0.097	0.079	-1.230
Board Diversity	-0.024	0.027	-0.910	0.195	0.328	0.590	-0.082	0.072	-1.140
Number of Obs.	218			218			218		
Adjusted R-square	0.188			0.580			0.581		
Prob(F-statistic)	0.000			0.000			0.000		

Coefficient with *, **, and *** indicate significance at the 10%, 5%, and 1% level

Section 2 examines the effect of ownership on Return on Equity (ROE) as a dependent variable. Institutional ownership and Government Ownership have significantly positive effects on ROE. Family Ownership also shows an insignificant relationship when measured using Return on Equity (ROE). There exists an insignificant relationship between Family Ownership and Foreign Ownership. Family and Foreign Ownership shows an insignificant relationship on Return on Equity. Similarly, Ownership Concentration (OC), also has a negative but less significant relationship with Return on Equity. A negative relationship is in support with Fama and Jensen (1983) who argue that if the ownership concentration increases to such a level that it entrenches the management and prevents takeovers, then firm performance falls.

Section 3 uses Tobin's Q as a dependent variable to measure a firm's performance. Foreign ownership shows a highly significant positive coefficient, with a value of 0.108, implying one standard deviation change in foreign ownership level is associated with a 10.8% change in the firm's Tobin's Q.

Similarly, our results show that there exists an insignificant relationship between Family Ownership (FMO) and Tobin's Q. Hermalin and Weisbach (1991) find no significant relationship between board composition and firm performance. Our findings support above mentioned study. Similarly, there is an insignificant relationship between Board Size (BS) and Tobin's Q (TQ). Our results also indicate no significant relationship between Board Diversity (BD) and firm performance, which is similar to Rose (2007), who found no association between board diversity and the performance of Danish firms.

To further investigate the role of ownership on the performance of firms, we also employed market-based measures. Table 4 presents a cross-sectional analysis to estimate firm performance by regressing the Market-to-Book ratio on ownership measures, while controlling for other factors that can impact firm performance, as well as firm and year fixed effect, based on Eq. (iv). Regression coefficients are presented in the first column with *, **, and *** to show their respective significance at 10%, 5%, and 1% levels, followed by robust standard errors in the second column which are corrected for firm-level clustering, while associated t-statistics and p-values are reported in the third and fourth column.

Table 4

Market to Book Ratio (MBR)

	Market-to-Book Ratio (MBR)			
	Coefficient	Std. Error	t-Statistic	Prob.
Institutional Ownership (IO)	0.6417	0.4204	1.5300	0.1430
Family Ownership (FMO)	0.2930	0.4089	0.7200	0.4820
Foreign Ownership (FRO)	1.3051***	0.2780	4.6900	0.0000
Government Ownership (GO)	0.6727	0.4405	1.5300	0.1430
Ownership Concentration	0.0889	0.4505	0.2000	0.8460
Bank Age	0.0015	0.0028	0.5400	0.5940
Board Size	0.0666	0.0416	1.6000	0.1250
Board Composition	-1.1729	0.6870	-1.7100	0.1040
Board Diversity	-1.2744	1.1041	-1.1500	0.2630
Number of Obs.	218			
Adjusted R-square	0.766			
Prob(F-statistic)	0.000			

Coefficient with *, **, and *** indicate significance at the 10%, 5%, and 1% level

Results in Table 4 show highly significant and positive coefficient values of foreign ownership, indicating strong evidence of value investing and growth potential by foreign investment. The coefficient of foreign ownership is positively significant at the 1% level with a value of 1.305, implying one standard deviation change in foreign ownership level is associated with a 13.05% change in the firm's Market-to-Book Ratio. Bonin et al. (2004) argue that over the second half of the 1990s, foreign shareholdings in the banking sectors of transition countries increased drastically and the performance of foreign-owned banks was significantly higher than domestically owned banks. Yudaeva et al. (2003) determined the effects of foreign ownership on the productivity of Russian firms and found that foreign firms are more productive than domestic firms. Our results support above mentioned studies.

Institutional Ownership, Ownership Concentration (OC), and Family Ownership show an insignificant relationship with the Market Book Ratio (MBR). Similarly, there exists an insignificant relationship between Board Composition (BC) and market-to-book ratio (MBR). Hermalin and Weisbach (1991) find no significant relationship between board composition and financial performance of the firm. Our findings support above mentioned study.

5 | CONCLUSION

The purpose of this study is to examine the relationship between ownership structure with firm performance. We choose the financial sector, especially banks, for our research purposes. Our findings show that to increase the performance of the firm, Foreign Ownership should be higher, and Government Ownership must be more than 50 percent of the Shareholdings. Ownership Concentration must be diversified among shareholders and must be low to evaluate maximum performance. For market-measured variables, Foreign Ownership is the best one and it must be more than 50 percent. The managerial Implication for this research is that Banks must increase the percentage of Government Ownership and Foreign Ownership to improve financial performance. Similarly, it is the responsibility of top managers to have a standard and optimal board size. An increase in board size results in a decrease in firm performance. We have found a positive but weak relationship between institutional ownership and firm performance, suggesting that institutional investors improve a firm's performance through monitoring.

Our study suggests some future recommendations which are as follows; our research is solely based on the financial sector and in the financial sector it is based on the banking sector. Studies in the non-financial banking sector may have different results. Similarly, our research used only twenty banks, and increasing the number of banks can further strengthen the findings of this study. Our data is solely based on the banking sector, incorporating insurance companies, investment banks, and other financial sector institutions would greatly enhance our understanding. Our study is restricted to developing countries like Pakistan only and studying these relationships in developed countries and result in different findings and thus may contrast with our result. We use Ownership Concentration, Foreign Ownership, Government Ownership, Family Ownership, and Institutional Ownership. Adding managerial ownership may affect the findings of this research. Similarly, we choose four dependent variables. We didn't use leverage ratios, Degree of Operating Leverage, firm size, Asset turnover ratio, Dividend Payout Ratio, Growth, and other banking ratios as our controlling variables. Including these variables may cause a difference in results and may contrast with our findings. Future researchers can take into consideration above mentioned recommendations to expand the scope and dimension of the existing study.

There are some limitations to this study. Our study is restricted to the number of Ownership Structure variables. This study analyzes the banking sector of Pakistan, including twenty banks under consideration, and further research can expand the scope of this study on other sectors, as well as examine other developing countries. Other board structures such as auditor remuneration, nomination committees, and board meetings may also be associated with firm performance. Our study includes accounting-based and market-based measured variables only. Finally, our study mainly uses secondary data and future studies may improve our findings by conducting in-depth interviews, questionnaires, or case studies to gain insights into corporate governance practices and their relationship with firm performance.

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