The Effect of Banks Ownership on Firm Performance in Listed Companies in Tehran Stock Exchange (TSE)

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Abstract: The purpose of this study is review the effect of bank ownership on firm performance in listed companies in Tehran exchange stock. This study is the application type of listed companies is in Tehran stock exchange that according to the research purpose, 85 companies placed in the statistical sample. The period of study is 2007 to 2011. The statistical method for testing hypotheses in this study is multiple regression. Research findings indicates that there is a significant positive relationship between bank's ownership in firms and central bank indicator of these companies. Also, there is a significant positive relationship between bank's ownership in firms and the financial performance of firms. The result of this study show the role of banks in financial provide and provide land escapes for investors to have a better choice when investing.

Keywords: Bank Ownership, Financial Performance, Central Bank Indicator, Listed Companies in Tehran Stock Exchanges.

INTRODUCTION

In the past economists assume that all groups relevant to stock company work for a common goal. But over the past three decades, discuss the conflict of interest between groups and how firm faced with these contradictions by economists. Estenmazi and Kermani are the investors of main actors in financial markets. The study of firm ownership structure shows that a significant proportion of corporate share in financial institutions own. In Iran, banks are the main financial institutions, and they play an important role in the economy. Comparing the result of research conducted in different countries show that cannot be achieved to same result about ownership combination, but this subject related to main economic, cultural and social conditions of countries and each country has its own conditions. In other words conditions are unique for each country. That can determine the positive or negative effects of the ownership structure and control on the efficiency and firms value. The question is: the time that the banks invest in listed companies in Tehran stock exchange, do invest only...
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in firms with particular conditions do banks have reviewer role in the firms and have positive effect on firm's performance? Can achieve to answer of this question to improving performance, take appropriate measures, and decision makers and investors in order to achieve to optimum.

Performance for economics entities, will attention to firms owner combination, so it's essential that review the effect of bank ownership on firms performance. For better and more accurate assessment for users. The significance of this research is to experimentally demonstrate that banks ownership on the financial performance is effective. Theoretical study, research methodology, findings discussion and results will be presented in the next section.

**Theoretical study and research history:**

A standard classification is divided shareholders into two main groups:

- **Shareholders** (directors, employees, common individuals)
- **Institutional shareholders** (government agencies, industrial firms, insurance companies, institutions, person funds, financial institutions, banks).

Out of the four main categories are often stock block holders:

- Big companies, Institutions, Individuals and government.

Often, the relationship between block ownership and company value depends on who holds stock block.

Institutional shareholders, big shareholders are insurance companies, banks, investments companies, person institution. Become institutional shareholders possess a significant percentage of firm's shares as well as professional investment, have the ability and incentive to monitor. In fact, Banks are stakeholders be aware by mechanisms which they invest in the companies and control companies actions. Factors related to the banks can be divided in to two categories: First, the banks have played multiple roles, seconds the rules of property help banks.

We are summarized in bellow the multiple roles of banks: providers of credit: has significant informational benefits for Bank, Mark Investment in non-financial institutions; in many cases, especially in environments with high ownership concentration, the banks are largest shareholders.

Stake Holders representative; other shareholders allow to banks vote in their place. Banks have main role in countries that their financial markets wasn't developed. Authorizes the banks as holder of the stock block. Is to avoid issues such as markets dominance on company and suppression of minority rights.

Inspectors board member or board of directors: then they can easily access to the information. For this reason banks are willing to long term trade. This issue is more common in countries with high ownership concentration.

Often, banks have a special relationship with their customers.

This relationship introduced as banking relationship and noted that these relationships beyond financial transactions. According to institutions credit ability to gather information about their customers, if the number of investors is low, there is the possibility of a strong relationship of banking relationship.
relationship of bank-customer and bank-company can continue 7 to 30 years on average.

*Advice or Guidance on assessment of credit, underwriting or investment; this cause to bank access to customer's information and bands have interference motivation in firm mechanisms.

*Provide varied financial services form firms, the reason of banks want to monitor is that they in this way can improve companies performance that they have stock in it.

Banks are in firms as creditor as well as the shareholder.

Banks, especially in underdeveloped countries, offer short term loans and often are owner of company stock. However EU economy is more dependent on the stock market. Now this question is that is useful this role?

Research conducted in this field is briefly presented below:

Perlitez and Seger proposed banks central negative effect and their degrees were bank's influence reduces the profitability. If banks take control of companies with poor performance, this outcome can be achieved. This issue conforms reverse causality hypothesis related to company's performance and ownership structure that was proposed.

Helwig turned to bank role as the owner of the stock block and board of directors member, these roles have a negative effect on minority rights.

According to him, a band as a big investor is disadvantageous in the firm. But when the second largest shareholder is a bank, it has fewer adverse effects. Gorton and Eshmid studied the shareholding effect and voting rights of German banks, market value in the ratio of firm's stock value, they examined 54 companies in 1975 and 42 companies in 1986. Their findings suggest that by ownership concentration and direct control, has improved firm performance, and this effect in firms that banks are large shareholders is stronger than firms that have non-bank block owners.

Degryse and Anjela show a negative correlation between bank's relationship and profitability in the listed companies in Norway stock. One reason for these issues leak to competitors, which reduces profitability, in these conditions, it is useful to have special relations with banks.

Thomsen examines the effect of institutional ownership on economic performance of big companies in 12 European countries, they found that, Banks ownership ratio to market value to firm's stock value has a positive effect and this effect is more in the bank-centered economies.

Chirinko and Elston reported that benefits from banks control to inflated cost their services. This is a major weakness, due to several bank weaknesses in the control of firms around the world have questioned the role of bank as monitors.
Degryse examined the bank role in firm governance and stated that bank supervision is increasing the value and can be replaced by appropriate firm governance. Also, banks can gain power over the majority of stock by the data channel.

Vanronel and Beret followed a complex approach to determine the banks ownership effects on firm's performance in Europe. They use simultaneous equation system for estimate ownership determinant of bank and its ultimate effect on firm performance. They found, the bank ownership has a negative effect on short-term and long-term performance. These results were obtained when they logged in financial leverage as endogenous factors. So, experimental research is important on the effect of bank ownership on company's financial performance.

**MATERIALS AND METHODS**

This study follows to examine the relationship between bank ownership and financial performance. So, this study examines two main hypotheses:

**The first main Hypothesis:** In the bank-centered financial system
Banks are more prominent in company's financial providence. (There is a significant relationship between the bank-central activity index and stock value belongs to bank).

**The second main Hypothesis:**
Bank's ownership in firms is effective on their performance, secondary hypothesis related to this hypothesis are as follows:

**Sub-Hypothesis 2-1:** there is a significant relationship bank's ownership in firms and the cost amount each share to profit.

**Sub-Hypothesis 2-2:** there is a significant relationship between bank's ownership in firms and the efficiency of wealth.

**Statistic and statistical sample:**
Statistic in this research is all listed companies in Tehran stock exchange. Statistical data and information related to listed companies in statistical samples gather in 2007 to 2011. Statistical sample of this study have included all companies have the following Conditions:

1- Companies listed before 2007 in stock and to 2011 continue their membership.
2- banks are one of the shareholders of the company.
3- company's financial statement is available in the period between 2007 to 2011.

After the restrictions noted, 85 companies from the listed companies in Tehran stock exchange with shareholder feature of banks in which have been selected as statistical sample.

**Research methodology:**
This research is the application type and point of view methodology is Correction research and is events with the use of the approach.
**Method of data analysis:**

Because the data in this study are quantitative data, the method of analysis is quantitative; correlation analysis is a statistical tool for determining the type and degree of relationship a quantitative variable to other quantitative variable. Correlation coefficient is one of the criteria used in determining correlation between two variables. In order to test the relationships, between variables and significant relationships in assessed models, used ordinary least squares method (ols) for this purpose, estimate multiple regression models using Eviews statistical software, and then the regression model significant has been tested at 95% level of confidence. To determine the first hypothesis regression was used the following equation:

\[
\text{Bank} = \alpha + \beta_1 \text{PERFORMANCE} + \beta_2 \text{CONCENTRATION} + \beta_3 \text{DEBT} + \beta_4 \text{BANK\_ORIENTED\_INDEX} + \epsilon
\]

And to determine the second hypothesis regression was used the following equation:

\[
\text{PERFORMANCE} = \alpha + \beta_1 \text{BANK} + \beta_2 \text{CONCENTRATION} + \beta_3 \text{DEBT} + \beta_4 \text{BANK\_ORIENTED\_INDEX} + \epsilon
\]

In the variable relationships:

- **Bank**: is bank's ownership value, it is achieved the ratio stock belong to bank to owner's total equity.

- **Performance**: it is financial performance in sub-hypothesis is one of the following three indexes as financial performance.
  - **ROA**: Rate Of finance efficiency is equal to the ratio of net income to total assets.
  - **ROE**: Rate of asset efficiency is equal to the ratio of net income to total incomes of shareholders.
  - **P/E**: the ratio of cost of each share to interest of share.

**A**: wide of origin

**Bi**: the independent variables coefficient of regression equation is determined by statistical software.
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Concentration: the largest share of shareholder and is achieved the ratio of stock belong to the largest shareholder to total equity of shareholder.

DEBT: the ratio of total debt to total finance of firm.

Bank-Oriented Index: Bank oriented activity of index each company is achieved the ratio of debt rate to bank to GPD.

\( \varepsilon_0 \): The surplus variable

The following cases were studied in regression equation:
1. Autocorrellation
2. The measure of determine coefficient
3. Signify model audit's coefficients.

In order to examine whether in a model of regression error terms are autocorrelation or not, was used camera-watson. The coefficient of determine is a measure is explained the strength of relationship between the independent variable and the dependent variable. Coefficient indicate the fact that a few percent of the variability of dependent variable is explained by the independent variable, it is note that should be performed testing prior to using regression model so as to rely the model and it's result. Using the F circumstantial evidence signifies regression equation. After testing of signify regression, examine to signify each coefficient of test. For testing hypothesis use "T" circumstantial evidence. Assumption test use of regression model that include of examine to normality of the errors, testing autocorrelation and testing normality of data.

RESULTS

In order to examine the first hypothesis, three models defined and estimated to base on each of in depend variable, the efficiency of total finance (ROA) and shareholder's income efficiency and ratio of the cost of share to interest of each share (P/E) used to evaluation each performance. Then according to the result of three, hypothesis was investigated and noted the general result of hypothesis.

<table>
<thead>
<tr>
<th>Dependent variable bank</th>
<th>The linear VIF</th>
<th>Significance level</th>
<th>T-statistics</th>
<th>Coefficients</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mnghyr research</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Constant factor</td>
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<td>0.00</td>
<td>13.54</td>
<td>19.75</td>
</tr>
<tr>
<td>P/E</td>
<td>1.29</td>
<td>0.00</td>
<td>5.81</td>
<td>0.158</td>
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<td>CONCENTRATION</td>
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<td>-0.3065</td>
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<td></td>
<td>1.03</td>
<td>0.00</td>
<td>1.267</td>
<td>0.840</td>
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<td></td>
<td>1.39</td>
<td>0.00</td>
<td>7.92</td>
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<td>1.8`37</td>
<td>Watson statistic camera</td>
<td>0.553</td>
<td></td>
</tr>
<tr>
<td></td>
<td>0.00</td>
<td>Significance level of F</td>
<td>130.26</td>
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</table>
According to the rate of determine coefficient and positive of independent variable coefficient of bank-oriented index in models can say bank-oriented index in the companies is higher (more), the bank’s ownership in this companies is higher. In fact, bank invest in companies that provide own financial, themselves are doing so, hypothesis confirmed.

In order to examine the sub-hypothesis of the second hypothesis, three models defined and estimated to base on each of in depend variable, the efficiency of total finance (ROA) and shareholder’s income efficiency and ratio of the cost of share to interest of each share(P/E) used to evaluation each Performance. Then according to the results of each model, hypothesis was investigated and noted the general result of hypothesis.

**Testing the first sub-hypothesis:**

To testing this hypothesis, is used multiple regression model. This model is as follows:

**Table 2. ROA variable performance hypothesis testing**

<table>
<thead>
<tr>
<th>Dependent variable bank</th>
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<th>Coefficients</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mnghyr research</td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Constant factor</td>
<td>---</td>
<td>0.00</td>
<td>10.88</td>
<td>17.63</td>
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<tr>
<td>ROA</td>
<td>1.33</td>
<td>0.00</td>
<td>5.27</td>
<td>0.189</td>
</tr>
<tr>
<td>CONCENTRATION</td>
<td>1.25</td>
<td>0.00</td>
<td>-11.86</td>
<td>-0.3058</td>
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<tr>
<td>DEBT</td>
<td>1.23</td>
<td>0.0001</td>
<td>4.024</td>
<td>2.954</td>
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<tr>
<td>BANK-ORIENTED</td>
<td>1.22</td>
<td>0.00</td>
<td>10.025</td>
<td>3050.06</td>
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<tr>
<td>The coefficient of determination</td>
<td>1.8161</td>
<td>Watson statistic camera</td>
<td>0.547</td>
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<tr>
<td>F-statistic</td>
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<td>Significance level of F</td>
<td>127.186</td>
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**Table 3. ROE variable performance hypothesis testing**

<table>
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<th>Significance level</th>
<th>T-statistics</th>
<th>Coefficients</th>
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<tr>
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<td>0.00</td>
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<td>20.351</td>
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<tr>
<td>ROE</td>
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<td>0.0044</td>
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<td>0.00</td>
<td>-11.54</td>
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<td>DEBT</td>
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<td>0.0562</td>
<td>1.91</td>
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<td>The coefficient of determination</td>
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<td>Watson statistic camera</td>
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<td>F-statistic</td>
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<td>Significance level of F</td>
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The Effect of Banks Ownership on Firm Performance

<table>
<thead>
<tr>
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<tr>
<td><strong>Mnghyr research</strong></td>
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<td>Constant factor</td>
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<td>0.342</td>
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<td>0.0011</td>
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<tr>
<td>DEBT</td>
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<td>BANK-ORIENTED</td>
<td>1.07</td>
<td>0.0003</td>
<td>3.67</td>
<td>958698</td>
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</tbody>
</table>

The coefficient of determination: 1.91

F-statistic: 0.00

According to determination coefficient seem independent variables cannot shows all variations of dependent variable and should have enter other variable to model. The variable coefficient measure rate of bank's ownership rate and the ratio of cost of share to interest each of shares. So the first sub-hypothesis confirmed.

**Testing the second sub-hypothesis:**

To testing this hypothesis, is used multiple regression model. This model is as follows:

<table>
<thead>
<tr>
<th>Dependent variable</th>
<th>The linear VIF</th>
<th>Significance level</th>
<th>T-statistics</th>
<th>Coefficients</th>
</tr>
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<tbody>
<tr>
<td><strong>Mnghyr research</strong></td>
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<td></td>
</tr>
<tr>
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<tr>
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</table>

The coefficient of determination: 1.93

F-statistic: 0.00

According to determination coefficient seems independent variable cannot show all variations of dependent variable and should enter other variable to model. The variable coefficient measure of bank's ownership and its positive show that there is a significant positive relationship between bank's ownership rate and total.

Finances efficient. So the second sub-hypothesis confirmed.

**The third sub-hypothesis:**

<table>
<thead>
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<th>Dependent variable</th>
<th>Coefficients</th>
<th>T-statistics</th>
<th>Significance level</th>
<th>The linear VIF</th>
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<tbody>
<tr>
<td><strong>ROE</strong></td>
<td></td>
<td></td>
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</tbody>
</table>
To testing this hypothesis, is used of multiple regression models. This model is as follows:

According to determination coefficient seems independent variables cannot show all variations of dependent variable and should enter other variable to model. The variable coefficient measure of bank's ownership and its positive show that there is a significant positive relationship between bank's ownership rate and asset efficiency, so the third sub hypothesis confirmed.

**DISCUSSION**

Based on the findings we conclude that there is a significant relationship between bank-cantered index and bank's ownership rate. In fact ‘companies debt to banks is an important factor in invest bank.

Also, there is significant and positive relationship between banks ownership rate in firms accepted in the Tehran stock exchange and company's performance. In fact' according to the results achieved of research seem banks are as one of most important institutional owners in the country, can have positive effect on firm’s performance accepted in the Tehran stock exchange.

**Research recommendations:**

A: Recommendation based on the result of research hypothesis:

1. According to the results of the first hypothesis we found that in firms, banks are present in their ownership structure ,in fact need to financial provide face to less problems, banks in this firms give loans easier. Hence, we recommend investors when invest consider company’s ownership combination.

2. According to the second hypothesis result, recommend though the investors, when invest for a profitable investment consider company's ownership combination, and invest in the companies that in their affiliate combination, the banks present as an institutional investors. Because according to the results from this hypothesis, these companies have better financial performance.

**REFERENCES**