THE EFFECT OF OWNERSHIP STRUCTURE ON STOCK PRICES DURING CRISIS PERIODS: CASE STUDY IN KUWAIT STOCK MARKET

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Abstract

This paper is about examining the link between the liquidity of a firm's stock with its ownership structure in the Kuwait Stock Market (KSE) during the crisis periods from 2008 till 2011. Institutional investors can influence a firm's stock liquidity in a number of ways. First, the liquidity may go down as a result of an increase in asymmetry of information. Secondly, any competition pitting the corporate investors in the firm tends to increase liquidity, which enhances price discovery. The effect of ownership structure in the Kuwait stock market is effecting on the stock prices using ROA and REO. The data that was utilized in the analysis section was obtained from the KSE's official website (www.kse.com), where the data was considered here for annual closed stock price for 2008, 2009 and 2010. The total number for companies was 157 for all selected years. The companies in Kuwait stock market is distributed into seven sectors. A linear regression model was utilized in the testing of the hypotheses formulated for this study. The results of this paper show the crucial and beneficial link between the ownership types based on ROE variable and the equally significant relationship between the ownership types based on ROA variable. The regression model shows the associations between the ownership types toward ROE and ROA. The most effective factor was family that explained the dispersions of ROE and ROA.

Key Words: Institutional Ownership, Ownership Concentration, Stock liquidity, Information Asymmetry, Bid-Ask spread.

Introduction

The Kuwait Stock Market (KSE) is the official and national stock market. The idea of an organized national stock market came into play in 1962 after the enactment of a law that stated that public companies have to be listed in the stock market. Currently, KSE is considered the largest and most active stock market in Arabian Gulf. The KSE aims to be the best stock market in the world by providing exceptional opportunities in investment and trading through unique information systems, skilful resources, and an organized marketplace. It provides a wide range of stocks and market instruments, which can be traded by domestic and foreign investors.

The KSE is divided into sectors like the banking sector, parallel market, the real estate sector, services sector (industrial and general), foreign sector, as well as the insurance sector, among others. Today the KSE has 233 listed firms with a market capitalization of KD 29,064 million in June of 2011.

Ownership Structure in KSE:

The Kuwait Stock Exchange required organizations to be more transparent after the crash of Souk of Al-Manakh, an unofficial stock market, in 1982. Organizations' disclosures of important issues relating to the organization have to be timely and done in a clear manner to ensure that the necessary people get the intended message. The law of disclosure was enforced in 1999 on all firms listed on the KSE. The law stated that companies must disclose the names of investors owning 5% or more of the firms' shares issued. The 1982 stock market crash caused the KSE to be extremely strict regarding disclosures, as 5% is considered a very stringent percentage.

The KSE keeps all the investors informed about any changes in the structure of ownership of the firms that are listed on the stock market. All information is readily available on the website: www.kuwaitse.com and through daily reports issued by the KSE. However, it should be noted that there are several large investors that deliberately do not disclose their real ownership by forming alliances with other investors, by creating mutual funds, or through agents.

In the study, we will depend on the criteria that states: If none of the firm's investors own 20% or more, then it is said to be publicly owned. Furthermore, if an individual or entity owns 20% or more, then the firm is not considered publicly owned. This 20% or more is classified as the majority of ownership. The firm is then categorized as family-owned, government owned, publicly owned, or internationally owned.

Literature Reviews:

Financial studies show that there is a link between a firm's performance and its ownership structure. Scholars argue that the relationship between the two variables is not only important, but it also determines the impact of the company's ventures. There are other scholars who disagree with this view and claim that only the day-to-day managers of a business can affect its performance. Zeitun and Tian (2007)[1] tried to simply the relationship between ownership and performance. They did this through an analysis of 59 firms for a period of 13 years. The two authors concluded that there is a significant link between ownership and performance. The study they did also showed that there is a positive relationship between ownership concentration and the accounting performance measures (ROE and ROA). It is interesting to note that they also found out that there is an unfavourable relationship between government ownership and a firm's accounting performance.

The results by Zeitun and Tian were opposed by a study done by Mollah, AlFarooque, and Karim (2007)[2]. The mentioned study found out that the major ownership concentration groups (sponsor, institution, government, and foreign) had a negative impact on a firm's financial performance, except minority shareholdings (Public). Thus, in simpler terms, dispersed ownership is the type of ownership that improves a firm's performance and reduces agency costs.

It has been explained the relationship between ownership concentration and performance. One benefit of ownership concentration is that the cost of overseeing the business is reduced considerably, thereby enhancing the firm's performance. However, large shareholders have the tendency to pursue their own interests because they have more control over the firm's affairs. This forms the foundation of the argument that a firm's stability is determined by its ownership structure.

Zeitun and Tian (2007)[1] argued that private shareholders have no motivation and means to control and influence the behaviour of the company's management. Therefore, the two authors believe that some ownership concentration is needed to raise an organization's performance. Zeitun and Tian (2007)[1] also add that government ownership affects the probability of default negatively. The scholars believe that decreasing government contribution in an organization's ownership will make some firms to default in a few years. It is advisable to put public firms in the hands of private citizens in a stepwise manner. The government should safeguard the public from the negative effects of liquidation by availing critical social security services.

The type of economy where a firm operates can have a direct influence on the firm's performance, while taking the ownership structure in consideration. Kirchmaier and Grant (2005)[3] argued that ownership had a considerable effect on a firm's performance in three of the five European countries. They found a negative relationship between corporate ownership and performance in Spain and Germany. Kirchmaier and Grant (2005)[3] believe that managers in these two countries are more concerned with growth of the business, an increase of the number of staff, and boosting the value of assets under their control than they are concerned with developing and finding ways to benefit their shareholders. Thus, it is easier to return this money to stakeholders than to be concerned with empire building. Additionally, Kirchmaier and Grant (2005)[3] realized that state, or government ownership, has a negative effect on several performance measures. They attributed this to the impact of politicians on firms' decision making. Kirchmaier and Grant (2005)[3] findings recommend that it would be useful to change large shareholders with institutional investors scholars.

Other scholars who opposed Zeitun and Tia were Fazlzadeh, Hendi and Mahboubi (2011)[4], who analysed 137 listed firms of Tehran stock exchange and found out that ownership concentration does not have any significant effect on firm performance. They supported Kirchmaier and Grant (2005)[3] recommendation, as their findings also proved that corporate owners have positive effects on a firm performance. They believed that corporate investors are effective owners, as they have the resources and abilities to monitor management's decisions effectively, thereby influencing the firm's performance positively.

There is the temptation of companies' management to try to meet the expectations of a large institutional shareholder, which comes at the cost of the other shareholders. Consequently, the firm ends up performing negatively. This effect of institutional concentration was confirmed by Fazlzadeh, Hendi and Mahboubi (2011)[4].

The authors also suggested that firm performance can be enhanced by restricting the block mode of shareholding in the hands of the institutional owners. Instead, the researchers proposed that institutional entities should own shares separately to reduce their control mechanism and avoid conflicts with other firm stakeholders.

A study by Lee and Zhang (2007)[5] in China revealed that the firm's value is affected negatively if the nationally held shares are many compared to distributive shares. A similar negative effect is felt on the firm value if the quota rate of the institutional investor is high. On the contrary, increasing the shares in the hands of other shareholders affects the ROA positively, while suppressing the Tobin's Q.

According to a study conducted by Telebnia, Valipour, and Shafie (2008)[6] about the link between the ownership of the business and its performance, Tobin's Q is a significantly influenced by the structure and ownership of the firm. This positive effect is only experienced when considering state ownership, while it becomes insignificant when considering the role of the minor shareholders.

The performance of family business was recorded as high in a study conducted by Daraghma and Alsinawi (2010)[7] in Palestine. The findings were concurrent with those of Jensen and Meckling (1976)[8], who established that financial performance is affected positively by family-owned structure of business.

Methodology

The study aims at understanding the link between the ownership of a company and its performance. The companies that will be analysed will all be listed in the KSE. A firm's performance can be evaluated by determining the ROA and ROE. The study considered publicly owned companies, multinationals, family owned firms, and government owned companies, which formed the research variables.

The study hypotheses were formulated as shown below:

H1: There is a crucial link between public ownership and the Kuwaiti listed companies' firm performance.

H2: There is an important relationship between government ownership and the Kuwaiti listed companies' firm performance.

H3: There is a significant connection between international ownership and the Kuwaiti listed companies' firm performance.

H4: There is a significant link between family ownership and the Kuwaiti listed companies' firm performance.

The firm's performance was considered to be the dependent variable. Some control variables that had a direct effect on firm performance were also considered. They included the number of years the company has been in service (since its registration), until the year 2010 and the company's capital market size.

The sample that was used in the research was retrieved from the KSE list of 2010. Some of the companies were, however, left out due to zero or negative net income. In addition, some of the companies were left out due to the lack of enough data. Therefore, out of the original 233 companies that are listed in KSE, only 157 were analysed.

Data of the Study

The data of the study was gathered from the official website of Kuwait stock market (www.kse.com), where the data was considered here for annual closed stock price for 2008, 2009 and 2010. The total number for companies was 157 for all selected years. The companies in Kuwait stock market were distributed into seven sectors as it shown in the following table and figure:

Table (): Kuwait Companies distribution by Sector

Kuwait Stock Sector	Frequency	Percent (%)
BANKING	27	5.7
FOOD	18	3.8
INDUSTRIAL	72	15.3
INSURANCE	21	4.5
INVESTMENT	99	21
REAL ESTATE	96	20.4
SERVICES	138	29.3
Total	471	100

Variables of the Study:

The main idea of this study is to measure the ROE and ROA by using some variables that would affect the main dependents variables (ROE and ROA). So, the main independents variables that are used in this study are:

Family:

Is a dummy variable that multiply by the net incomes

Government:

Is a dummy variable that multiply by the net incomes

Public:

Is a Dummy Variable that multiply by the net incomes

International:

Is a Dummy Variable that multiply by the net incomes

Net Income:

The total sum that is left after omission of profit, expenses, and dividends from a firm's gross revenue

Total Assets:

Total sum of the prices for companies' logistical things

Stock Holders' Equity:

It is the calculation realized after the omission of treasury shares from the share capital. It can also be calculated by the omission of total liabilities from the total assets. Stock Holders Equity can show the amount of money that the company has received from donors and the shares that it has given out. Below is the formula for calculating the

Stock Holders Equity:

$$\text{Stockholders' Equity} = \text{Total Assets} - \text{Total Liabilities}$$

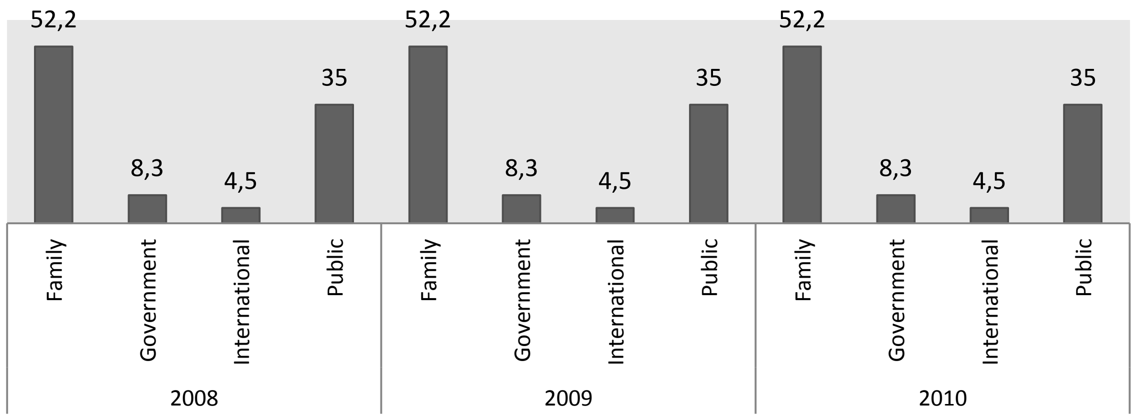
OR

$$\text{Stockholders' Equity} = \text{Share Capital} + \text{Retained Earnings} - \text{Treasury Shares}$$

Table (): Dummy Variables based on the type of ownership grouped by year

Year	Type Of Ownership	Frequency	Percent
2008	Family	82	52.2
	Government	13	8.3
	International	7	4.5
	Public	55	35
	Total	157	100
2009	Family	82	52.2
	Government	13	8.3
	International	7	4.5
	Public	55	35
	Total	157	100
2010	Family	82	52.2
	Government	13	8.3
	International	7	4.5
	Public	55	35
	Total	157	100

Figure (): Percentage of Ownership based on year (KSE)



As we can see in the above table and figure, the highest number of companies in KSE occupied by the family ownerships, with 52.2% of the total number of companies. The second is occupied by Public Ownerships with 35%, then the government ownership with 8.3%, and the lowest percentage goes for international ownership companies.

Results

This part is about applying a statistical approach to show up how is the effect of ownership structure in Kuwait stock market is effecting on the stock prices using ROA and ROE. First section is about showing up the data and the duration of the data. Second section is about showing the variables that are used for this study to prove the shape of the correlations between the variables and ROE with ROA. Third section is about describing the variables information using some statistical methods such as mean, median, variances, skewness, kurtosis and some graphs such as par chart and pie chart. Fourth section is about applying a statically method to show the correlations between the variables. Fifth section is about describing the models that gives the association between the ROE and ROA against the independent variables that described in second section of this part. Where the last section is about conclusion.

Data of the Study

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Discussion

The type of business ownership has an effect on ROE and ROA. In Kuwait, Family ownership affects the performance of businesses positively. This relationship was also confirmed in a study by Din and Javid (2011)[9] on the Pakistani Capital Market. Family owned businesses tend to invest in other projects, for instance in the expansion of the business, instead of sharing the revenue among the owners.

Firm performance is positively influenced by the fact that a firm is owned by the government. Quang and Xin (2013)[10] confirm that a firm's performance improves with an increase in the level of government structure, as established in Vietnamese firms.

Public ownership has a positive effect on firm performance, where the effect on ROA and ROE is positive. Shareholders tend to hold the directors of such firms responsible and make them work towards the improvement of the interests of the shareholders (Rahman & Reja, 2014)[11].

Foreign ownership also has a positive effect on firm performance. Modebadze (2011)[12] found that there is a positive ROE, but a negative ROA, in banks that are foreign owned in Georgia, which implies that a firm's performance is partly determined by the sector in which it operates. Foreign firms have better performance because they tend to be more cost efficient than local firms.

Conclusion

This study sought to determine the relationship between firm performance, as measured using return on equity and return on assets, and the type of business ownership in Kuwait Stock Market. The study established that a majority of the firms in Kuwait are owned by families, indicating that their performance is good. Publicly owned firms form the second largest share, while foreign owned firms make the least share of firms in the economy. Government owned firms had the third largest share. On measuring the performance of the firms using the four ownership variables, the study established that all the types of ownership examined have a positive effect on ROE and ROA, which indicates a positive effect on firm performance. However, the author is cautious in generalizing these findings, as the performance of the firms was not evaluated based on the sector each firm operates.

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