The relationship between ownership structure and firm financial performance

Evidence from Jordan

Tariq Tawfeeq Yousif Alabdullah
Accounting Department, College of Administration and Economics, University of Basrah, Iraq

Received 11 April 2016
Revised 8 January 2017
Accepted 19 February 2017

Abstract

Purpose – Previous studies that dealt with corporate governance have witnessed gradually significant growth that created some new trends. The purpose of this paper is to be involved in such trends through examining the link between ownership structure as one of the important corporate governance mechanisms and firm performance in Jordan as one of emerging economies.

Design/methodology/approach – The current study used the multiple regression method to analyze available data for non-financial firms listed in the Amman Stock Exchange for the fiscal year 2012.

Findings – The findings revealed that managerial ownership has a positive impact on performance. On the other hand, the findings surprisingly showed no evidence to support the impact of foreign ownership on performance. Moreover, there is a significant evidence to support the fact that company size has no impact on firm performance. The findings also revealed that industry type has no impact on firm performance.

Practical implications – The practical implications of the current study demonstrated that good corporate governance is imperative to all organizations and must be encouraged for the interest of all stakeholders. Unlike the majority of the previous studies, the current study unexpectedly found that foreign ownership is not significantly contributing to the firm performance. Thus, Jordanian Government and other related/responsible parties should formulate policies for the foreign investors.

Originality/value – Interestingly, from developed and developing countries perspective, the study is the first of its kind that exclusively chose the mechanisms of ownership structure in its relationship with firm performance represented by market share, where no previous study has tested foreign ownership in such relationship. In that, this study is the first study in emerging economies to investigate such a link. Such new insights on this relationship by current study provide helpful information that is of great value to the government, academics, policy makers, and other stakeholders.

Keywords Industry type, Firm performance, Firm size, Ownership structure

Paper type Research paper

Introduction

Corporate governance has got wide attention as one of the most researched issues in the organizational and other fields (Becht *et al.*, 2003; Daily *et al.*, 2003; Shleifer and Vishny, 1997). Corporate governance field addresses a wide variety of topics in its relationship with financial performance (see Bhagat and Bolton, 2008; Brown and Caylor, 2006; Chaghadari, 2011). Nevertheless, corporate scandals and failures in several corporations, such as the cases of Enron, WorldCom, and Arthur Andersen, and other scandals, continue to fuel the argument over whether companies should issue or use new perspectives as new trends to measure firm performance to be as essential part of their strategic goals to eventually maximize shareholders' wealth (Alabdullah, 2016; Alabdullah *et al.*, 2014a, b, 2016; Khanchel, 2007; Marr and Schiuma, 2003). This also will have a lot of concerns about the way corporations are governed and what performance measurements can effectively reflect firm performance in its relationship with corporate governance structures. Corporate governance is related to the structures and processes through which parties interested in the overall well-being of the company take measures to look after the stakeholders' interests. Precise corporate governance is centered on the mechanisms, transparency, principles of accountability, fairness,

Benchmarking: An International Journal
Vol. 25 No. 1, 2018
pp. 319-333
© Emerald Publishing Limited
1463-5771
DOI 10.1108/BIJ-04-2016-0051