

The Effects of Ownership Structure on Financial Performance of Firms: Evidence from Turkey

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ABSTRACT

The effect of ownership structure on a firm's performance is an important issue in the literature of finance theory. This study seeks to examine the effect of ownership structure on financial firm performance in Turkey, using Generalized Method of Moments (GMM) technique. According to the results obtained from the study, in the context of different models, ownership structure variables have an effect on the financial performance of companies that are expressed. In general, while foreign ownership and managerial ownership variables have an effect on financial performance, free float rate is not determined to have a statistically significant effect on financial performance. On the other hand, ownership concentration has a statistically significant positive relationship with performance at ROA model, while at TOBQ model it is not statistically significant.

Key Words: Ownership Structure, Company Performance, Panel Data Regressions.

JEL Classification: G32, C23, L25.

I.Introduction

Since Berle and Means (1932) started the contemporary discussion about the relationship between ownership structure and performance, several authors have investigated the effect of ownership dispersion or concentration on different important output variables of the firm such as leverage or financial firm performance. Theoretical arguments for the ownership structure/performance debate are principally grounded in agency theory. According to one specific view within agency theory, stronger ownership concentration mitigates the conflict of interest between owners and managers because a larger shareholder has greater incentives to monitor the management team. While some theories suggest that increased managerial ownership alleviates conflicts between inside managers and outside owners, others predict that increased ownership may reduce firm value because of managerial entrenchment. Combining these theories leads to a piecewise relationship between ownership and firm performance. It is clearly seen that there has been an increase on the reasearches

dealing with the ownership structure and price performance recently. In this regard, work on this issue is important due to different findings for relationships between ownership structure and firm performance have been obtained in both developed and developing markets.

This study seeks to examine the effect of ownership structure on firm financial performance in Turkey. We focus on the role of two main dimensions of the ownership structure: ownership concentration (i.e., distribution of shares owned by majority shareholders, free float) and identity of owners (especially, foreign investors and managerial investors). For this purpose, this study aims to examine relationship between dependent (such as Tobin's q, ROE, ROA, Marris Ratio) and independent (ownership concentration, free float rate, foreign ownership and managerial ownership) variables with the help of the panel regressions.

This study is especially important for managers and investors. Potential and existing investors may use findings to formulate better corporate governance practices as well as to select competitively profitable stocks and to revise portfolios of assets. Managers can use findings to make corporate strategies and investment decisions in the areas of profit goals, leverage, asset management and working capital.

II.Litareture

The difference in the area of interests of shareholders and managers concerning business performance has caused the relationship between capital ownership structure and business performance to be discussed for a long time by the academicians and researchers (Cole and Mehran, 1998). The relationship between ownership structure and performance was first revealed by Berle and Means in 1932, and was discussed by many researchers (Kapopoulos and Lazaretou, 2007). Ownership structure is generally explained in two dimensions as capital concentration and capital ownership type (Bolbol et al, 2004).

Ownership structure, which considers quantitative traits along with qualitative traits of stock(share) holders, involves(includes) the information of business having institutional investor and foreign investor, being family business or not, having professional manager among stockowners or not. Also, capital ownership is a concept which involves the relationships of stock holders with managers. In addition, that the number of stock owners is less may generally mean that the concentration is more (Sayman, 2012). In the businesses that has high concentration, as the shareholders' administrative information is accepted to be more, it is thought that block holders are encouraged to increase the performance of the firm (Lee, 2008).

Demsetz and Lehn (1985), who state that there is a close relationship between ownership and business control, enumerate ownership types as family group ownership, institutional investor ownership, public ownership, foreign investor ownership, manager ownership, employee ownership and wide based ownership. It is known that ownership considerably effects institutional management and business performance.

Agency theory which examines the relationship between capital owners and managers claims that capital owners aim to maximize profit and managers aim to get high pay (Thomsen and Pedersen, 2000). With reference to agency theory, Francia et al.(2011) compared the financial performances of 302 public-financed and private capitalized businesses between the years 1989 and 2003, and they obtained the conclusions that ownership structure has meaningful effect on growth but it is ineffective on profitability in the markets which has excessive competition.

According to Cole and Mehran (1998), shareholders think that as a result of the decrease in their control power over the firms, managers will prioritize their self-interest instead of shareholder interests. For this reason ownership structure has become a significant issue for the businesses.

Within literature in different terms or in different sectors, there is a great number of studies carried out about ownership structure and business performance. Alimehmeti and Paletta (2012) examined the relationship between shareholder concentration and firm value in their study covering the years of 2006-2009. The writers have reached the conclusion that there is a positive sided statistical relationship between ownership concentration and firm value except for the crisis period (the period of 2008).

In their study including the manufacturing firms operand in Tokyo stock exchange between the years of 1980 and 2005, Hu and Izumida (2008) have reached the conclusion that ownership concentration has a statistically meaningful effect on institutional performance in the current period and following period.

Clay (2001), who examined the relationship between institutional investor ownership and firm performance via 8951 businesses' data between the years 1988 and 1999, identified that institutional investor ownership has a positive and significant effect on business performance. On the other hand, Charfeddine and Elmarzougui (2010) who made a similar research aimed at 35 businesses operand in France financial market between the years 2002 and 2005, identified that institutional investor ownership has a negative and significant effect

on business performance. Along with this, Farooque et al. (2007) defend the opinion that institutional investor ownership doesn't have a significant effect on business performance.

Examining the effects of health institutions' ownership structure over their financial performances, Alam et al (2008) designated five dimensions including nonfinancial performance, stabilization, capital structure, fixed asset efficiency and liquidity as an indication of performance. It is identified that there is a statistically meaningful difference between the performances of public hospitals and, profit oriented and non-profit hospitals in the analysis of data which belong to the period covering the years 1980-2003.

Mang'anyi (2011) has examined the effects of ownership structure over institution management and performance in the sample of some selected banks operant in Kenya and revealed that there is a significant relationship between ownership structure and financial performance. The writer defends that banks that have foreign investor, in comparison with banks that have domestic investor, display a better performance. In the study (Uddin and Suzuki, 2011) aimed at the banks operant in Bangladesh between the years 2001 and 2008, similar results are obtained.

Warrad et al (2013) examined the relationship between ownership concentration and business performance via the data of nonfinancial businesses that are listed on the stock exchange of Jordan between the years 1994 and 2005. In the study, two different group assessment criteria are determined as for accounting and market. According to accounting criterions it is concluded that ownership structure doesn't have a significant effect on business performance, however according to market criterions it is determined that ownership structure effects business performance significantly.

Demsetz and Villalonga (2001) claimed that as the studies carried out in literature don't consider capital owners' benefit differentiations, they don't present enough information about capital structure and defended that capital structure is an endogenous variable. So as to scrutinize the conflict of interest, the writers gathered the capital structure in two dimensions as the shares that are owned by the administration and the shares kept by five block holders. The researchers, who used the financial profit as a performance criterion and as for control variable; annual marketing expenditure / sales, machinery and equipment / annual sales and annual average debt / total assets, couldn't obtain a significant relationship between ownership structure and firm performance

In their study that they examined the effect of capital structure on business performance, Bolbol et al (2004) explain the capital structure in two dimensions as ownership

concentration and capital ownership type. They regarded the percentage of capital that three block holders keep as the criterion of ownership concentration. In addition, they divided capital ownership type in four groups as individual investor, domestic institutional investor, government and foreign investor. Return on assets, return on equity, Q ratio are determined as variables measuring the performance of the firm. As a result of the study, it is concluded that, on the performance of the firm, capital ownership type is more effective than the ownership concentration. In a similar study, Lee (2008) stated that there is a reverse U-shaped relationship between ownership concentration and rate of return asset, and in order to display maximum financial performance, it is necessary to have medium-level capital intensity. On the other hand, the writer defends the opinion that ownership type isn't effective on financial performance. In addition, when considering the studies that examine the capital ownership structure of firms, it is seen that family businesses mostly prefer foreign financing (King and Santor, 2008), and businesses owned by institutional investors use fewer foreign resources (Pushner, 1995).

III. Methodology

1. Static and Dynamic Panel Models

The static panel data models were estimated with Pooled OLS, fixed effects and random effects estimators. The F statistic tests the null hypothesis of the same specific effects for all industries. If we accept the null hypothesis, we could use the OLS estimator. The Hausman test can decide which model is better: random effects versus fixed effects.

However, the fixed effects model is costly in degrees of freedom because it is equivalent to the use of a dummy variable for every firm (Greene, 2003). The random effects model assumes the independence between error terms and explanatory variables (Hsiao, 1986). The Hausman test is then performed to validate the exogeneity of the firm specific effect with dependent variables (Hausman, 1978). If the two null hypotheses are rejected, then the fixed effect model will be retained. A Wald test of the joint significance of dummy variables for time is also used. In order to ease comparison, we also report simple pooled ordinary least squares as well as pooled ordinary least squares with dummy variable for time and sectors and Fama-McBeth type estimations (Gaud and et., 2005).

Any static model can be written as follows:

$$y_{it} = \beta x_{it} + \gamma_{it} + \lambda_{it} + u_{it} \quad (1)$$

with $i = 1, \dots, N$ and $t=1, \dots, T$

and

y_{it} : the performance of firm i in year t

x_{it} : a $K \times 1$ vector of explanatory variables

β : a $K \times 1$ vector of constants

γ_{it} : firm effect assumed constant for firm i over t

λ_{it} : time effect assumed constant for given t over i

u_{it} : error term

Panel data analysis allows us to study the dynamic nature of the capital structure decisions at the firm level. However, the fixed or random effect models may give biased and inconsistent estimators because the error term may be correlated with the lagged variable. To deal with variables that may be correlated with the error term, we use instrumental variables. Using instrumental variables has the additional advantage of solving problems encountered in static models, mainly the simultaneity bias between the leverage measure and the explanatory variables, and measurement error issue. It is well known that the introduction of the lagged dependent variable generally means that standard estimators are inconsistent.

In order to evaluate the robustness of the results, we also use dynamic panel data estimators. The primary motivation for analyzing panel data is to control the unobservable firm heterogeneity. In finance literature, the endogeneity problem is either largely ignored or corrected for only using the fixed effects or control variables approach. We control this important problem by employing Generalized Method of Moments (GMM) technique to avoid significant bias in estimates. These econometric problems were resolved by Arellano and Bond (1991), Arellano and Bover (1995) and Blundell and Bound (1988,2000), who developed the first-differenced GMM and the GMM system estimators.

IV. Data and Findings

This paper investigates the relationship between ownership concentration, identity of owners and performance of Borsa İstanbul (BIST) firms listed in BIST-100 index using the data of the period from 2002:Q1 to 2012:Q4. Various commonly used accounting-based performance measures for financial variables are taken from published balance sheets and income statements downloaded from BIST online database. However data on ownership structure and identity of owners was collected manually from annual reports.

According to agency theory, ownership structure should affect the efficiency of monitoring mechanisms. Traditionally, the theory holds that concentrated ownership should mitigate the agency problem. Based on the traditional agency theory, the study predicts that ownership concentration positively affects firm performance. The first hypothesis to be tested is as follows:

H1: Ownership concentration is positively associated with firm performance.

In addition to ownership concentration, ownership identity is important in understanding differences in firm performance. Doidge (2004), Kim ve Singal (2003), Bae, Bailey ve Mao (2005) in their studies claimed that as foreign investors enter the market, firms have increasing improvement in the level of corporate governance. Foreign investors can be effective monitors of managers in emerging markets, because foreign investors demand higher standards of corporate governance. If foreign investors assume a role of active monitors, firm performance is expected to increase as foreign ownership increases. The extensive use of foreign capital is high in manufacturing and service sectors in Turkey. Due to the high existence of foreign ownership in the Turkish market, identifying its impact on firm financial performance is important. The second hypothesis is as follows:

H2: Foreign ownership is positively associated with firm performance.

There is increasing interest in how managerial ownership affects corporate governance and firm financial performance which is associated with the growing volume of equity controlled by managers. Managerial investors can also be effective monitors, because they have the resource and ability to properly monitor management decisions. It is claimed that firm performance increase as managerial ownership grows.

The third hypothesis is as follows:

H3: Managerial ownership is positively associated with firm performance.

Four ownership structure variables are used in the study. As a proxy for ownership concentration, the percentage of the first three largest shareholders (labeled as OC) and free float (labeled as FF) are used. As a proxy for ownership identity, foreign ownership is measured by the percentage of shares held by foreign investors (FOR) and managerial ownership (MAN) are used.

Financial performance is measured with Tobin's Q (TOBQ) and ROA in this study. Since Demsetz and Lehn (1985), most studies use Tobin's Q and ROA to examine the relationship between ownership structure and firm financial performance. Tobin's Q is

defined as the market value of a firm divided by the replacement value of its assets. The calculation of the Tobin's Q is very complex because it includes all the assets a firm owns. This calculation issue is more complicated for Turkish firms because the accounting standards they apply allow companies to only report historic purchase value of the firm instead of the current value, thus the replacement value of the assets are not listed in the financial statements. To cope with this practical problem, some approaches are introduced basically by Lindenberg and Ross (1981), Lewellen and Badrinath (1997), McConnell and Servaes (1990), Morck et al.,(1988), Lang, Stulz and Walkling (1989; 1991), Lee and Tompkins (1999), Chung and Pruitt (1994) and they use Tobin's Q in their studies. In our study, we use an approach based on the formula supported by Chung and Pruitt (1994). This approach, Tobin's Q calculation, assumes that the replacement costs of the plant, equipment and inventories are equal with their book values. And it gives proxy to the market value of the debt as the book value of long term debt plus the book value of short term liabilities net the book value of short term assets. Their method is for approximating Tobin's Q that only requires basic financial and accounting information. The next performance metric is ROA, calculated as the ratio of the earnings before interest and income tax (EBIT) to total assets, and reflects an accounting based performance measure.

Similar to previous studies, some control variables are included in the estimated models. Total leverage (DEBT) is measured as the ratio of total debt to total assets and is used as a first control variable in the models. Firm size (LNSALES) accounts for economies of scale, measured by the natural logarithm of total sales. Log of firm age (LNAGE) is also included as a control variable. For firm risk, the beta coefficient (BETA) of capital asset pricing model (CAPM) is used for capturing systematic risk of a firm's equity. The description of the variables and summary statistics for the sample are presented in Table I.

Table I Descriptive Statistics

Variables	Names	Mean	Min	Max	Std. Dev.
Ownership Concentration	OC	0,54379	0,087	0,9507	0,18903
Free Floating	FF	0,2637	0,0445	0,8815	0,22952
Foreign Ownership	FOR	0,11254	0	0,88546	0,25445
Managerial Ownership	MAN	0,04607	0	0,35200	0,10173
Financial	TOBQ	16,21344	0,44587	1062,098	121,98521

Performance	ROA	0.04426	-0.17310	0.23687	0.08169
Leverage	DEBT	0,47611	0,13184	0,91272	0,19256
Size	LNS	17,854786	14,85478	22,34568	1,63547
Age	LNA	4.217908	2.386294	5.290459	0.518735
Risk	BETA	0,96574	0,16547	1,96324	0,32654

To provide empirical testing to the hypotheses addressed in the study, a linear-multiple regression analysis was used to test the association between the dependent variables of firm financial performance and the independent variable of ownership concentration. The following two models are estimated:

$$\text{TOBQ} = \alpha_0 + \beta_1 \text{OC} + \beta_2 \text{FF} + \beta_3 \text{FOR} + \beta_4 \text{INS} + \beta_5 \text{DEBT} + \beta_6 \text{LNS} + \beta_7 \text{LNA} + \beta_8 \text{BETA} + \mu \quad (4)$$

$$\text{ROA} = \alpha_0 + \beta_1 \text{OC} + \beta_2 \text{FF} + \beta_3 \text{FOR} + \beta_4 \text{INS} + \beta_5 \text{DEBT} + \beta_6 \text{LNS} + \beta_7 \text{LNA} + \beta_8 \text{BETA} + \mu \quad (5)$$

Table II represents a correlation matrix for the selected variables. The Pearson's correlation matrix shows that the degree of correlation between the independent variables is either low or moderate, which suggests the absence of multicollinearity between independent variables. As suggested by Bryman and Cramer (1997), the Pearson's *R* between each pair of independent variables should not exceed 0.80; otherwise, independent variables with a coefficient in excess of 0.80 may be suspected of exhibiting multicollinearity.

Table II Correlation Matrix of Variables

	OC	FF	FOR	INS	TOBQ	ROA	DEBT	LNS	LNA	BETA
OC	1.000									
FF	0.039	1.000								
FOR	0.093	0.376	1.000							
MAN	-0.054	-0.027	-0.022	1.000						
TOBQ	-0.072	0.069	0.078	-0.039	1.000					
ROA	-0.059	0.087	0.194	0.020	0.085	1.000				
DEBT	0.229	-0.186	-0.601	-0.234	-0.175	-0.248	1.000			
LNS	-0.033	0.074	-0.105	-0.125	-0.379	0.336	0.019	1.000		
LNA	-0.112	-0.082	0.132	0.045	-0.223	-0.10	0.068	0.072	1.000	
BETA	-0.024	-0.013	0.099	0.026	0.039	0.164	-0.153	-0,09	-0.25	1.000

It was noted that all variables do not have a high correlation with other independent variables; except for the correlation between Debt and Foreign ownership, in which the

correlation coefficients between these variables is higher than (0.5). This result shows that multicollinearity problem doesn't exist in the model, because it doesn't exceed 0.80 (Bryman and Cramer (1997)), so no large correlation exists between independent variables.

As in all time series analysis, there is forged relationship in panel data analysis containing a combination of both time and horizontal cross-sectional analysis. To eliminate this situation, variables must be stationary. Thus, first we perform the panel unit root test by the Levin-Lin-Chu (Levin et al., 2002), the Augmented Dickey-Fuller (ADF)(Dickey and Fuller, 1979), and the PP - Fisher Chi-square (Phillips and Perron, 1988) approaches.

Table III Unit Root Tests

Variables	Levin, Lin & Chu		ADF - Fisher		PP - Fisher	
	Levels	Difference	Levels	Difference	Levels	Difference
OC	-7.88412*	-	221.649*	-	162.524*	-
FF	-13.4587*	-	36.7248*	-	43.5231*	-
FOR	-3.78564*	-	58.7299*	-	64.8632*	-
MAN	-5.45786*	-	132.122*	-	97.6275*	-
TOBQ	-4.45789*	-	179.546*	-	448.036*	-
ROA	-14.3112*	-	442.011*	-	579.134*	-
DEBT	-2.4682**	-	368.128*	-	1440.72*	-
LNS	-4.1039*	-	254.967*	-	226.478*	-
LNA	-5.2045*	-	355.723*	-	89.4567*	-
BETA	-22.4561*	-	626.696*	-	1148.18*	-

Notes: ***indicates the critical at 1% critical level, ** at 5% critical level and * at 10 percent critical level.

Based on the results of the unit root test of each panel, the variables have stationary characteristics since the nulls of the unit root are mostly rejected. Given that all variables are integrated of order zero, there was therefore no need for testing the cointegration in the series.

When describing economic relations one must have in mind that many of them are dynamic in their nature. As stated by some authors, past firm performance may affect

future output decision, so in order to insert dynamics into the profitability function of listed companies in Turkey, a lagged dependent variable is introduced as an explanatory factor. However, with this dynamic specification, the estimators usually used in static panel data models (OLS, GLS...) produce biased estimates. One way to solve this problem is to estimate dynamic panel data models based on the GMM estimation.

Finally, we estimate the following models:

$$TOBQ_{it} = \alpha_1 + K_1 TOBQ_{it-1} + \beta_1 OC_{it} + \beta_2 FF_{it} + \beta_3 FOR_{it} + \beta_4 INS_{it} + \beta_5 DEBT_{it} + \beta_6 LNS_{it} + \beta_7 LNA_{it} + \beta_8 BETA_{it} + \mu_{it} \quad (6)$$

$$ROA_{it} = \alpha_1 + K_1 ROA_{it-1} + \beta_1 OC_{it} + \beta_2 FF_{it} + \beta_3 FOR_{it} + \beta_4 INS_{it} + \beta_5 DEBT_{it} + \beta_6 LNS_{it} + \beta_7 LNA_{it} + \beta_8 BETA_{it} + \mu_{it} \quad (7)$$

To estimate the above dynamic basic models, the GMM in-system model is used.

Table IV Dynamic Panel Model Estimations

Variables	Model-I		Model-II	
	TOBQ		ROA	
	Coff	T Statistic	Coff	T Statistic
TOBQ (-1)	0,093	(0,4311)***		
ROA (-1)			0,2697	(5,0984)**
OC	0,0258	(1,4542)	0,008868	(1,1557)**
FF	0,0153	(1,3223)	0,044116	(1,4893)
FOR	-0,0164	(-0,9605)*	-0,005569	(-6,1498)***
MAN	0,0067	(2,6210)**	0,067837	(1,5309)*
DEBT	0,2302	(9,4700)***	-0,469590	(-9,8783)***
LNS	-0,4633	(-5,9695)**	-0,003763	(-0,2509)***
LNA	0,0044	(1,3225)***	0,004159	(3,4896)**
BETA	0,0213	(2,3249)***	0,086119	(2,9340)***
Ar(1)		-6,3658 (0,0000)		-8,8753 (0,0000)
Ar(2)		-1,4687 (0,2547)		-1,5489 (0,3587)

Wald	26,2459 (0,0000)	23,258 (0,0000)
Sargan	0,2936	0,0568
Sargan-Diff.	0,3778	0,4569

Notes: ***indicates the critical at 1% critical level, ** at 5% critical level and * at 10 percent critical level.

For our GMM in-system estimates, if the assumptions of our specification are valid, construction of the residuals in first differences (AR(1)) should be correlated, but there should be no serial correlation in second differences (AR(2)). Both autocorrelation tests also show satisfactory outcomes: presence of first-order autocorrelation, which we introduced ourselves by first-differencing and absence of 2nd order autocorrelation, and indicating lack of 1st order autocorrelation in the untransformed model, a necessary condition for consistent estimation. The second test is a Sargan test of over-identification. The dynamic panel GMM in-system estimator uses multiple lags as instruments. This means that our system is over-identified and provides us with an opportunity to carry out the test of over-identification. Sargan tests show that our instruments are valid. Finally, to test the exogeneity of the subset of our instruments, we use the difference-in-Sargan test. The results show that the additional subset of instruments used in the system GMM estimates is indeed exogenous. The Wald tests indicate that null hypotheses of all parameters jointly equal to zero are firmly rejected.

At the Model I and Model 2, the coefficients on the lagged performance variables are significant for our models. This finding confirms that the dynamics implied by our models are not rejected. The positive and significant coefficient of the lagged dependent variable confirms that financial performance is persistent, and it depends substantially on its own past realizations. We can observe that the increase in the share of the three largest owner positively affects firm performance. We observe a positive and not statistically significant relationship between performance and free floating for both models. On the other hand, ownership concentration is statistically significant in a positive relationship with performance at ROA model, while at TOBQ model it is not statistically significant. Foreign ownership and managerial ownership are statistically significant for both models and we observe a negative relationship for foreign ownership and a positive relationship for managerial ownership. All control variables are statistically significant for both models.

The managerial ownership coefficient exhibits a significant and positive relationship with firm performance (Tobin's Q and ROA), suggesting that the higher the managerial ownership, the higher the firm performance. The result supports the agency model theory that

higher managerial ownership should reduce agency costs and hence increases firm performance. The ownership identity variable (foreign ownership) is significantly negatively related to both financial performance metrics, indicating that local ownership positively affects company performance.

Positive and statistically significant coefficient of variable age suggests that older Turkish listed firms generate better performance in comparison with younger firms. Older firms have more experience, abilities and skills, and have enjoyed the benefits of learning, and consequently can enjoy superior performance. The debt-to-assets ratio is positively related to Tobin's Q ratio, at 1% significance level, indicating that with more debt there is a greater increase in company's financial performance, although it is negatively related on ROA. Firm size has a negative effect on Tobin's Q and ROA models, indicating that small firms have higher performance than larger firms. This is called growth anomaly in literature, Banz (1981), Reinganum (1981). The beta has positive effect on both models, according to Pettengill et al. (1995), Fletcher (1997), Lau et al. (2002), beta has positive effect on performance during periods of market rises.

Conclusion

The possible impact of ownership concentration on firm financial performance has been a central question in research on corporate governance, but evidences on the nature of this relationship has been decidedly mixed. While some theories and empirical investigations suggest that ownership concentration affects firm financial performance, some others suggest the irrelevance of the relationship between ownership concentration and firm financial performance. The main objective of this paper was to explore the relationship between firm ownership structure (ownership concentration and type) and firm performance (ROA and TOBQ) on a sample of Turkish listed firms during the period from 2002 to 2012.

The existence of the large shareholders increases performance, especially regarding the ROA model. This shows that at lower levels of ownership stakes, ownership concentration aligns the interests between controlling owners and shareholders. This supports the argument by Jensen and Meckling (1976) and Morck et al. (1988) that ownership concentration mitigates agency conflicts. Since the presence of large shareholder improves the firm performance, in a firm with small shareholders, the existing shareholders may choose to be financed by a large shareholder rather than selling shares on stock exchange to many different shareholders. Lack of large shareholder can even compromise the existence of the firm apart

from decrease in firm performance. The results confirm the positive relationship between ownership concentration and firm value, confirming the agency perspective that higher concentration increases shareholder power and control aligning managers and shareholders interests, and consequently increasing firm value. Furthermore, the results indicate that domestically controlled Turkish companies on average generate performance that is superior to that of foreign controlled companies. While, managerial ownership positively affect firm performance, free floating is insignificant.

Regarding the control variables included in the model, it can be stated that the age of the firm and risk have a positive and statistically significant influence on profitability, while the size is negative. On the other hand, Debt is positive on TOBQ model and negative on ROA model. The empirical findings in this study shed light on the role ownership structure plays in firm financial performance, and thus offer insights to policy makers interested in improving corporate governance systems in an emerging economy such as Turkey.

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