
Ownership Structure as One of the Corporate Governance Tools and Banking Risks

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Abstract:

Purpose: *The current study aimed to test the effect of the ownership structure on banking risks of banks operating in the State of Qatar over the period (2008-2018).*

Design/Methodology/Approach: *To measure the quality of the ownership structure and its effect on banking risks, special indicators were developed regarding the ownership concentration, government ownership, institutional ownership, and foreign ownership. The study used the contents analysis technique by deep study of financial and corporate governance reports published by the study sample as the main source data. To test this effect, the multiple linear regression models were designed using the OLS method.*

Findings: *The study found that the banks operating in the state of Qatar have good ownership structures, which is reflected positively in reducing banking risks. Especially, the study found out that banks with high governance ownership proportion have low liquidity and credit risks. The study also found that banks with shareholders owning 5% or more have low liquidity and credit risks. Also, the existance of a high proportion of foreign investors decreases liquidity risks, while the increase in the share of foreign investors increases the credit risks. The study also found any increase in institutional ownership proportion in the bank leads to an increase in credit risk, while there is no effect of institutional ownership on bank liquidity risks.*

Originality/Value: *The current study examines the ownership structure as one of the mechanisms of corporate governance, and the extent of its effect on reducing banking risks of the banks operating in the state of Qatar, which is considered one of the most important sectors affecting the economy.*

Keywords: *Corporate Governance, ownership structure, liquidity risks, credit risks.*

JEL Code: *M48, M41, M38.*

Paper Type: *Research study.*

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1. Introduction

The financial collapses and scandals that affected major international business organizations have proven the failure of traditional techniques to prevent the causes of these crises. Perhaps the most important one is the phenomenon of financial and administrative corruption, and the lack of commitment to the rules of professional and ethical behavior. Corporate governance and its mechanisms, including ownership structure, resulted from lengthy studies to prevent economic crises (OECD, 2009).

If we go back to the economic impact, the concept of governance developed because of the need for it at the beginning of the past decade. Recently the world suffered from hard economic crises from 2001 to 2008 in the global financial market. The base of this crisis and the collapse of global financial markets was not the absence of governance systems but are the absence of good practices and compliance with these regulations and lack of transparency and clarity in dealing between shareholders, and the inability to reconcile between conflicting stakeholders (Karkowska and Acedański, 2019). This impact has spread worldwide, leading to a revolution to demand greater scrutiny, oversight, integrity, transparency, and fairness by the organizations' departments (Zidan, 2018). For example, the mandatory laws were required to disclose in some transactions in the financial markets and call for the separation of the executive management from the boards of directors, and the existence of effective, and independent internal control and auditing from the executive management within the organizational structure, in order to restore the investor's confidence. This led to an urgent need for a framework that governs and regulates boards and executive departments' work and guarantees, the rights of owners and shareholders, which is called corporate governance.

The current study examines the ownership structure as one of the mechanisms of corporate governance, and the extent of its effect on reducing banking financial risks of Qatari banks over the period (2008-2018), which is considered one of the most important sectors that affects the economy.

2. Literature Review

Several studies have been conducted related to corporate governance, including ownership structure, corporation performance and risks. Most researches agreed that the efficiency of the ownership structure mainly depends on four basic dimensions, concentration ownership, government ownership, foreign ownership, and institutional ownership.

2.1 Concentration Ownership

Ownership concentration occurs when shareholders own 5% or more of the total shares. Many studies pointed out that the presence of shareholders who own more

than 5% of the entity's ownership structure has a positive impact on company value and decrease agency costs (Karkowska and Acedański, 2019). Also the study by (Staszkievicz and Szelągowska, 2019) indicated that the concentration of ownership has an effective role in reducing the agency's problem and raising the institution's value, in addition to controlling the opportunistic behavior of executives. Also, Yasser and Al Mamun (2017) conducted a study on companies in Pakistan and pointed out that the concentration of ownership with a few shareholders positively affects firm performance. The study of Tsouknidis (2019) found that many shareholders negatively affect financial performance.

In context, Liu *et al.* (2019) conducted a study on Chinese commercial banks, and found that the banks with higher private ownership concentration have higher credit risks. Vintil and Gherghina (2014) argued that banks dominated by high concentrated ownership would tend to enter into risky investments due to shareholders' willingness to take more risk to influence the market value of shares to achieve higher profitability. Besides, both Machek and Kubíček (2018), Thalassinos (2008), and Abdallah and Ismail (2017) studies pointed out that a high level of ownership concentration leads to the agency problem, and monitoring management actions to become more difficult.

2.2 Government Ownership

This term refers to the percentage of government ownership in the company. The results (Liu *et al.*, 2019) concluded that banks with high government ownership have low credit risk. In the same line, Oteros *et al.* (2019) conducted a study to investigate the relationship between corporate governance and risk behavior in MENA countries' banking sector. The study found that banks' high government ownership led to a stronger banking system, allowing investors to enter into riskier investments. Also, Iannotta *et al.* (2011) conducted a study on Western European banks, and they found out that the bank with the highest government ownership tends to be lower default risk but higher operating risk, especially in an election year.

In contrast, Tran *et al.* (2014) study found a negative effect of government ownership on firm profitability and labor productivity of Vietnamese firms. Moreover, Huang and Xiaoc (2012), and Suryanto *et al.* (2017) found that government ownership reduces the cost of capital and negatively affects financial performance. In context, Alfaraih *et al.* (2012), concluded that firms with high government ownership have the worst financial performance than full private firms. On the other hand, Naima *et al.* (2016) pointed out that government ownership encourages banks to take more risks, while foreign ownership reduces risk-taking.

2.3 Foreign Ownership

Lee (2008) argued that foreign ownership could be effective monitor of managers' actions because foreign investors demand higher corporate governance standards, leading to improving firm performance. In this context, the Bamiatzi's (2017) study indicates that foreign ownership reduced the debt ratios and yielded higher profitability and productivity of Italian and Spanish firms. Furthermore, Nguyen *et al.* (2019) argued that banks with high foreign ownership have high profits and effective risk management comparing with banks with lower ownership. Whereas Lassoued *et al.* (2017) study indicated that high foreign ownership proportion negatively affects China's commercial banks' performance.

2.4 Institutional Ownership

Institutional ownership represents the proportion of the number of shares held by investment institutions such as banks or insurance companies to the bank's total shares. Alomari *et al.* (2018) conducted a study on Jordanian commercial banks, and they found a negative effect on Jordanian banks' liquidity risks. Wimelda and Siregar (2017) argued that investment institutions are considered to be one of the main players in the financial markets, through their supervisory influence on the management behavior in trading their shares and their experience and broad knowledge of the markets. A study by Yahaya and Lawal (2018) revealed that institutional ownership has a positive and significant effect on the ROA and ROE of Nigerian Banks. In contrast, the study of Wimelda and Siregars' (2017) show that institutional ownership of banks does not affect the company value, while in the non-banking institution, it has a positive impact on the company's value. In context, Karkowska and Acedański (2019) study found a negative relationship between institutional ownership and U.S. listed shipping companies' financial performance.

3. Hypotheses

Based on what was discussed in the literature review and the light of study goals, the study hypotheses can be formulated as follows:

H01: There is no statistical effect of ownership structure on reducing liquidity risks of the banks operating in Qatar.

H02: There is no statistical effect of ownership structure on reducing credit risks of the banks operating in Qatar.

4. Methodology

This study is an applied study on the banks operating in Qatar, because of its great importance to Qatari economy. To achieve the study's goal, the content analysis of financial and corporate governance reports published by the study sample banks which have relied on. The current study aims to test the ownership structure's effect on reducing banking risks over the period (2008-2018). The study sample consisted of 12 banks, one bank was excluded because it was established after 2008. The following table represented study variables and measurement:

Table 2. Variables and Measurement of Study

Variable Type	Sub-Variable	Measurement
Independent Variable	Ownership Structure	
	Ownership Concentration	Shareholders percentage who own 5% or more of the bank's shares
	Government Ownership	Government ownership percentage of the bank's total shares
	Foreign Ownership	Foreign investors' ownership percentage of the bank's total shares
	Institutional Ownership	Bank's shares percentage owned by private institutions and entities
Dependent Variable	Banking Financial Risks	
	Liquidity Risks	Cash + short-term investments / total deposits
	Credit Risks	Non-performing loans / total loans
Control Variable	Company size	Natural logarithm of total assets

Source: Own study

To meet the research objectives and test the hypotheses, the multiple linear regression models were used in this research as the following:

$$Lq.R_{it} = \alpha + \beta_1 CONO_{it} + \beta_2 GOVO_{it} + \beta_3 FORO_{it} + \beta_4 INSO_{it} + \beta_5 SZ_{it} + \epsilon$$

$$Cr.R_{it} = \alpha + \beta_1 CONO_{it} + \beta_2 GOVO_{it} + \beta_3 FORO_{it} + \beta_4 INSO_{it} + \beta_5 SZ_{it} + \epsilon$$

Where, $Lq.R_{it}$ the liquidity risks of bank i in year t , $Cr.R_{it}$ the credit risks of bank i in year t , $\beta_1 CONO_{it}$ the concentration of ownership of bank i in year t , $\beta_2 GOVO_{it}$ the government ownership of bank i in year t , $\beta_3 FORO_{it}$ the foreign ownership of bank i in year t , $\beta_4 INSO_{it}$ the institutional ownership of bank i in year t , $\beta_5 SZ_{it}$ the size of bank i in year t , and ϵ the random error.

5. Analysis and Hypothesis Testing

First Hypothesis Test

The multiple linear test results in Table 3 showed that there is a statistically significant effect of the ownership structure variables on bank's liquidity risk, as the value of ($F = 28.36$) reached the level of significance (Sig. $F = 0.000$) which is less than 0.05, besides, the correlation coefficient (r) which indicates a strong relationship between the dimensions of the model, reached 0.798. Besides, the value of $R^2 = 0.827$, means that the independent variables can explain 82.7% of the change in liquidity risk. Moreover, $F = 28.36$, at significance value 0.000, express the significance of the regression relationship as a whole between the dependent variable and the independent variables. Also, the hypothesis test results showed:

- *Ownership concentration:* The results of the analysis showed that there is a positive effect of the ownership concentration on the liquidity risk, as the beta value reached 0.162 and the value of $t = 7.491$ at the level of

significance (Sig. $t = 0.001$), which is less than the level of statistical significance (0.000), which means that the ownership concentration reduces the bank risks liquidity, this result is consistent with Al Omari *et al.* (2018) study result.

- *Government ownership:* The results of the study showed that government ownership negatively affected bank liquidity risk, as the value of ($B = -0.241$) and the value of ($t = -2.18$) at the level of significance (Sig $t = 0.017$) was less than the level of statistical significance (0.000), which means the significant effect of government ownership on reducing liquidity risk. This result is consistent with the study of Otero *et al.* (2019), where it found that government ownership within the bank supports the framework of governance in facing risks.
- *Foreign ownership:* The concentration of ownership proportion had a positive and statistically significant effect at the level of significance 0.05, as the value of the regression coefficient of foreign ownership is (0.216), while the calculated value of ($t = 3.696$), at the level of significance (Sig = 0.000), which is less than the level of statistical significance ($0.05 \geq \alpha$), which means that the increase in the number of foreign shareholders increases the liquidity and consequently reduces the bank liquidity risk in banks.
- *Institutional ownership:* The value of the coefficient β showed the extent of institutional ownership's effect on reducing liquidity risk, where it reached (-0.065). Also, the value of the t-test shows the linear significance of the independent variable, where ($t = -1.634$), which is greater the significant value (0.05), which means that there is a negative effect of institutional ownership, but it is not statistically significant. Our conclusion agrees with both Otero *et al.* (2019) and Alomari *et al.* (2018) studies.
- *Bank size:* The bank size affected liquidity risk positively, where the coefficient β reached 0.221, and the t value reached 4.580. Also, the level of significance (Sig. $t = 0,000$) was less than the level of statistical significance (0.05), which means that the greater the bank size increased liquidity, the liquidity risk decreased. This result agrees with Otero *et al.* (2019).

Table 3. Results of the first hypothesis test

	Sig. (t)	t	S.D	β
Ownership Concentration	0.001	7.491	0.084	0.162
Government Ownership	0.017	- 2.18	0.001	- 0.241
Foreign Ownership	0.000	3.696	0.002	0.120
Institutional Ownership	0.287	- 1.634	0.011	- 0.065
Bank Size	0.000	9.419	0.093	0.162
R²	82.75			
Correlation coefficient (r)	0.798			
F	28.36			

Sig. F	0.000
D.W	2.27

Source: Own study

Second Hypothesis Test

The multiple linear regression test results showed a statistically significant effect of the ownership structure variables on bank credit risk. The correlation coefficient (r) indicates a strong relationship between the dimensions of the model, it reached 0.603, also, the value of $R^2 = 0.637$, means that the model variables can explain 63.7% of the change in credit risk. It also shows F's value reached 21.48 at significance level (Sig. F= 0.000), which is less than 0.05, which indicates the significance of the regression relationship as a whole between the dependent variable and the independent variables. Also, the hypothesis test results showed:

- *Ownership concentration:* The test results showed that there is a negative effect of the concentration of ownership on credit risk, where the coefficient of β reached - 0.038 and the value of (t) reached - 4.54 at a level of significance (Sig t = 0.000) which is less than the level of statistical significance (0.05), This means that the ownership concentration variable helps in reducing bank credit risk.
- *Government ownership:* The results of the study showed that government ownership negatively affected credit risk. The coefficient of β reached - 0.184, and the value of (t) reached - 11.47, also the level of significance (Sig. t= 0.000) which is less than the level of statistical significance (0.05), thus there is an effect of government ownership on reducing liquidity risk.
- *Foreign ownership:* The foreign ownership variable had a positive and statistically significant effect on credit risk, as the value of the coefficient of β reached 0.368, while the value of (t) reached 9.71, and at the level of significance (Sig. t= 0.000), which is less than the level of statistical significance (0.05), which means that increasing the number of foreign shareholder's increases bank credit risks.
- *Institutional ownership:* The coefficient of β indicates the extent of institutional ownership's effect on the reduction of credit risk, where it reached 0.060. Also, the value of the (t) test shows the linear significance of the independent variable in the linear regression model, where it reached 6.36, which is greater than (0.05); this means that there is a positive effect of institutional ownership on credit risk so that the high proportion of foreign ownership increases the bank credit risks.
- *Bank size:* The results indicate that the coefficient of β reached - 0.085, and the t-value reached -6.61. Also, the level of significance (Sig. t = 0,000) was less than the statistical significance (0.05), which means that the greater bank size leads to increased credit risk.

Table 4. Results of the second hypothesis test

	Sig. (t)	t	S.D	β
Ownership Concentration	0.000	- 4.54	0.002	- 0.038
Government Ownership	0.000	- 11.47	0.007	- 0.184
Foreign Ownership	0.000	9.71	0.018	0.368
Institutional Ownership	0.000	6.36	0.001	0.060
Bank Size	0.000	- 6.61	0.023	- 0.085
R²	0.637			
Correlation coefficient (r)	0.603			
F	21.48			
Sig. F	0.000			
D.W	2.15			

Source: Own study

6. Conclusion

The study found that the ownership structure variables affected the banking risks of the banks operating in Qatar. Multiple linear regression analysis revealed that the government ownership in the Qatari banks reduced liquidity and credit risks, which may be due to the supervisory and banking policies imposed by government agencies on the banks. The study also found that banks with shareholders owning 5% or more have low liquidity and credit risks; the reason may be that this type of shareholder tends to keep their investments in the bank for a long time. Therefore, liquidity risk decreases.

Moreover, this type of shareholder can directly influence the board of directors' decisions, including credit decisions, thus reducing credit risk. Besides, the study found out that the increase in foreign investors in the bank lead to an increase in liquidity and consequently decreases liquidity risks, while the increase in foreign investors increases the credit risks, the reason may be that foreign investors prefer investments with high returns regardless of the risks involved. Also, the study found an increase of institutional ownership proportion in the bank leads to an increase in credit risk, perhaps the reason for this is the institutional investors' preference for soft credit policies that increase the volume of loans granted to maximize their profits, while there is no effect of institutional ownership on bank liquidity risks.

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