

Family-Concentrated Ownership and Its Influence on the Economic Added Value (EAV): A Practical Study on a Sample of Shareholding Industrial Companies listed in Amman Stock Exchange

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Abstract

This study aimed at analyzing the role of the Family- Concentrated Ownership in joint stock companies and its influence on the Economic Added Value EVA. By analyzing Pearson's correlations, it is found that there is a positive correlation between family-centered ownership in the joint stock companies on EAV. Such correlation emphasizes the strong role of family-centered ownership in enhancing EAV, being a very significant indicator to performance. Results of the multiple regressions have revealed that the family-centered ownership provides a good explanation for the difference that resulted from the Market Added Value where the coefficient determination reached 46%. Consequently, these results have revealed the theoretical relationship between the family-centered ownership and the company's' value. The study has recommended that researchers need to pay much more attention to this issue. It has also recommended that the Jordanian industrial joint stock companies should switch into employing EAV as one of the main criteria in evaluating the comprehensive performance of the company. It also recommended that new research should be conducted on the other patterns of ownerships such as: governmental ownership, foreign ownership, the managerial ownership. Also, these studies should explore the impact of these ownerships on EAV.

Key words: Family-Concentrated Ownership, Economic Added Value, Joint Stock Companies.

Introduction

Industrial companies in Jordan take multiple forms, such as the family ownership, which is viewed by the researchers as having a great influence on the economic added value, EAV.

The success of the company in instilling strong foundation in the market by maximizing the economic value of the company is influenced, one way or another, by the nature of the board of directors' structure. The dominance of the family on the vast majority of the board of directors' votes probably plays a great role in the quality of the decisions adopted, especially the ones that touch on the performance of the company and its position in the market.

This study takes the industrial companies included in Amman stock exchange as its population of the study due to the impact of family-centered ownership on EAV and the scope of influence of the family-centered industrial company to remain competitive in the market with similar percent of the family ownership in the board of directors.

The Problem of the Study

There had been much more controversy among financial experts regarding the scope of family-centered ownership of shares on EAV for companies. On the one hand, it was found that some of the theoretical and practical studies pointed to the role performed by family ownership, especially in functioning as an internal control over the management performance, the thing that made it function properly and exert no effort to improve the value of the performance and therefore improve EAV. On the other hand, some views emphasized the fact that joint-stock company managements who are controlled by family-centered ownership, who invest from the same family, and who may generally take part in management matters e.g., being financially authoritative by taking over financial and investment matters that aim at achieving personal benefits for the family members. This, in effect, will negatively reflect on the potential of joint stock companies to achieve a positive EAV. That said, this study aims to identify the nature and scope of the impact of having the family-centered ownership in terms of the stocks centered at the expense of the EAV of the company. This should be done in response to the following question:

Is there an influence for the family-centered ownership over the EAV?

Hypothesis of the study

There are no statistical differences at ($\alpha + .05$) for the family-centered ownership over the EAV of the company.

The Significance of the Study

The significance of the current study arises from the fact that it provides much more evidence about the level of influence of having a family-centered ownership of shares in joint stock companies on the EVA of the company in the developing countries, such as Jordan. Much of the data available about such a relationship is in fact that related to the experiences of the industrial countries that are totally different from the developing countries. This evidently makes this study much more realistic for the developing countries; it will eventually contribute to a better understanding for companies- finance decisions in the developing countries, a goal this study aims to achieve.

Goals of the Study

This study aims to provide more contributions about the controversy taking place about the level of having a family-centered ownership on the EAV for joint stock Jordanian companies.

Definition of the Key Terms

For the purpose of the current study, the following concepts and terms have been considered:

Dependant Variables: are those variables that researchers try to explain, identify their reasons, and predict their scale of prediction. A dependent variable is also known as a "response variable" (Dodge, 2003).

Economic Value Added (EVA) points to the added value for the fortune of shareholders in the market due to investing their money in the company. This value is calculated by deducting capital employment CE from the net operating profit after tax NOPAT (ACMA, 2000).

)ACMA, 2009 (This value is calculated as below

$$EAV = NOPAT - (WACC \times CE) \dots \dots \dots (1)$$

Where,

EVA: Economic Value Added

NOPAT: Net Operating profit after Tax

WACC: Weighted Average Cost of Capital

CE: Capital Employment

Independent Variable

Family-centered ownership: for the purpose of the current study, family-centered ownership was defined on the basis of the percent of ownership that belongs to one family who possesses % 10 and more of the companies shares (Yousif, 2012).

The population and the Sample of the study

The population of the study included all the public joint stock companies that meet the definition of family-centered ownership and that are listed in Amman stock exchange in the industrial sector until the date of 31/12/2013. The population of the study consisted of (93) companies classified according to the statistics published by the Amman Stock Exchange (2013). The industrial sector in Jordan was selected because of two main reasons: the importance of the industrial sector in the Jordanian economy and the nature of appropriate corporate data to conduct the study. A comprehensive survey of the population of the study was conducted during the study period of 2000-2013 to determine the size of the sample through applying a set of the following conditions which were applicable on (15) Industrial companies forming 9.3% of the population study. These conditions include:

1. The company must have been functioning non-stop and should not have stopped trading its shares throughout the period from 2000 to 2013 to ensure the continuity and consistency of its data.
2. The company should not have undergone a merger or restructuring during the study period.

Introduction

- Theoretical Framework and Previous studies

The Significance of Economic Value Added Concept EVA

EVA is the second indicator promoted by Stern Stewart in addition to the market value added MVA in the 1990s of the previous century as indicators to evaluate the internal and external performance for the capital projects in addition to measuring the profit values of the companies. Therefore, it is considered the most powerful measurement in identifying the real economic profit (Worthing & Tracey, 1999). EVA was defined as the net operating profit after tax with deducting the capital employment CE. CE is normally sponsored by the campaign of shareholders and bond holders (Dierk & Patel, 1997). It also reflects the proper way in which company

managers run their companies economic resources, evaluate projects, and build up motivation systems of management. Stock joint companies aim to reach to the highest value of EVA regardless of the products and goods they produce, being a general indicator to measure the company's internal performance.

Further, EVA is considered essential and major standard that sum up the managerial performance for business companies and that using this standard may achieve the following positive features (Al Zobaidy, 2008).

1. This standard shows the continuous and real progress of the shareholders.
2. It is used as a real index for the financial and managerial performance.
3. It guarantees the basis for the employees' motivation system in the company.
4. The employment of this standard in business companies achieves a guarantee to invest in greater-return projects, even greater than the cost of investment.
5. This standard is considered a significant tool in making investment decisions.
6. EVA plays a great role in combating the chaos represented by the many measurements that are used to reflect and represent the goals of the company, through the employment of this standard as a financial comprehensive measurement for the objectives, means, and performance of the company.

The Theoretical nature of the relationship between the focus of family ownership and the value of the company

Many writers and analysts, in the field of financial management, have paid great attention to the issue of the relationship between the centrality of family ownership and the value of the company. Many of these people believe there is a positive relationship between the centrality of ownership and value of family. They justify this by claiming that increasing the shares of family property represents a regulatory tool on managements' performance, thus forcing them to work much more seriously in an attempt to improve the performance, increase the value of the company and thereby increase managers' private wealth. But on the other hand, some believe that there is an inverse relationship between the concentration of family ownership and the value of the company. For them, this is attributed to the family domination on the seats and the votes of the Board of Directors, which may play a role in the quality of the decisions that affect the performance of the company and its position in the market in a way that achieves its goals.

Those interested in financing funding in exploring the relationship between the structure of the ownership and the value of the company through the centered ownership or ownership of major shareholders. Shleifer & Vishny (2006) have stressed the existence of a positive relationship between the family-centered ownership and the value of the company on the grounds that the centrality of ownership in the hands of a small group of owners makes them more able to control management and thus improve the company's performance.

Furthermore, the presence of the ownership of major shareholders is considered a regulatory mechanism because the owners of a large number of stocks have had an incentive to collect information and control management to limit its authority, improve its performance and increase the value of the company.

Also, the ownership of major shareholders can prevent managers from investing in non- profitable projects and practice their influences on the management regarding issues of distribution of economic profits (Lehmann & Weigand, 2000).

Others have come to realize the existence of an adverse relationship between the centered ownership and the value of the company (Filatotchev, et al., 2010) taking into consideration the presence of the ownership of major shareholders who use their influence to exploit the company's wealth and who further can benefit at the expense of a number of minority investors through the use of inside information for their own good and through directing the expenses according to their desires, which will negatively reflect on the company's performance and therefore leads to a decrease of its value (Shlifer & Vishny, 2006).

Previous studies

Gharayba et al. (2007) studied the impact of the family ownership in the public shareholding companies in Amman market on the risks of irregular shares and their financial returns. The sample of the study included 33 companies from various economic sectors whose ownership belongs to 12 families on whom the concept of family ownership applies, owning a large share of capital for the period from 01.12.1992 up to 01.31.1995. The study concluded that there is a strong and positive relationship between the financial returns of the company's shares that are controlled by a group of the same family. It was noticeable that this relation registered a remarkable increase in the sectors of banking and industry. The study also revealed that the irregular risk for the financial returns of family-centered companies' shares are very high relative to the overall risk of these shares regardless of the sector to which these companies belong to, similar to the other cases of the remaining financial returns.

James et al. study focused on studying the impact of the ownership structure on the agency costs represented by the low prices of the company's shares. The study concluded that the agency problems of shares are way higher when they are run by managers from the outside of the company rather than the inside of it. Also,

the problem of agency is adversely connected with the manager's own ownership and that the problem of agency decreases under the supervision of banks.

Deyoung et al. (2001) focused on the studying of the impact of ownership structures and its impact on profit. Results of the studies conducted on a sample of small American banks supported the fact that there is much influence for the management's control on the company in the cases when the shares of a management in ownership is less or more than the normal limit where we could have a decrease in the financial returns.

Khaled Alkhateeb's study (2008) entitled "the impact of the governmentalizing disciplines on family-dominated companies" addressed the significance of governmentalizing regarding to family companies. In his study, he concluded that governmentalizing family companies through establishing family councils and separating the ownership of these companies from management, building up effective strategies, restructuring these companies and consulting professional employees are necessary requirements for the survival of family companies with its current power.

Al Dhofeery Munif (2008) studied the impact of family ownership on the risks of shares and their financial returns in the banks and insurance companies: Kuwait as an example. In it, he studied the impact of the percent of family ownership in the banks and insurance companies and concluded that the financial returns and the risks are influenced by the domination and control of the family on the management. However, there was no similar impact on the family-dominated insurance companies.

King and Santor (2008) testified the impact of the managerial ownership on the performance of the company and the structure of its capital for 613 Canadian companies for a period that expanded from 1998 to 2005. Results have shown that family-centered companies that issue only one pattern of shares have got a market performance, that resembles other companies' performance, and a better accountancy performance based on the measurement of Return on Assets ROA. However, they have a higher financial leverage based on calculating the debts rate to the total assets. In contrast, family companies that issue two kinds of shares are 17% evaluated less than other kinds of family-based companies.

In his study, Katz (2009) explored the impact of the company's ownership structure in the accounting earnings quality and the company's long-term performance through concentrating on a special sample of American companies whose data were obtainable before and after shares offers. Also, the study differentiated between the companies that are sponsored whose management and ownership is run by investment institutions, houses and other companies that don't enjoy this same feature. Results have revealed that the companies that are equipped by a sponsor normally gain a more quality, but with little profit and then their financial report are usually more conservative before and after distributing the shares.

What distinguishes the current study?

The current study is characterized by the following:

1. Its focus on measuring the impact of family ownership of the centrality on the company's equity value (Economic Value Added EVA) taking into consideration that as the family ownership is one of the regulatory tools on company's management performance whose effect was rarely investigated especially in the Arabic milieu.
2. Its focus on measuring the impact of family-based ownership of the shares on the economic added value of the company, due to the fact that the latter functions as an indicator of modern internal performance indicators, a feature that has not been previously addressed as a dependent variable that can be influenced by family-centered ownership of the shares. Most of the previous studies have focused on the use of accounting performance indicators and traditional financial performance, including: the book value of the company and the company's profitability.
3. Most of the previous studies relevant to the present study were conducted in the stock exchanges of the Western countries or the industrialized countries whose environment are extremely different from the stock exchanges for the Arab States, especially the Amman Stock Exchange, being an emerging market that need much more research to explore the most appropriate indicators to measure the performance of the companies listed.

Analyzing research hypothesis test results

Descriptive statistics for the variables of research and test the normal distribution

Table (1) below shows the descriptive statistics for the research variables (the arithmetic mean, the highest value, the lowest value, and the standard deviation) in addition to the normal distribution test. The table below shows that the arithmetic mean for each of the family-based ownership and EVA is (42.13%), (121.24) JDs respectively with a standard deviation of \$ (23.67%), (1685214) dinars respectively.

The table also shows the normal distribution of the research variables tested, as Jarque-Bera test results indicate that the value probability variables is greater than 5% of the study which is marked as statistically significant.

Table One

Descriptive statistics for the variables of research and test the normal distribution of the data

	CO%	EVA J.D
the arithmetic mean	42.13%	121,24
Highest Value	86%	1.56E+09
Lowest Value	2%	-14733985
Standard Deviation	23.67%	1,685,214
Jarque-Bera	22.99	845417.8
Probability	0.082	0.093

CO: Centered Ownership

EVA: Economic Value Added

Analysis of Correlation Coefficients between Research Variables:

Table (2) displays Pearson correlation matrix between the researched variables. Results have indicated that the degree of correlation is generally weak between the independent variable and the dependent variable.

The relationship between the family-centered ownership and economic added value was direct, where the correlation coefficient registered (46%), a result considered as statistically significant. This relationship therefore indicates that family-based ownership direct the actions of management to achieve a positive contribution to the economic added value for the company. This may contribute to maximize shareholder's wealth through the influence in raising the market price of the company's shares.

Table No. 2

Pearson's Correlation Matrix between Research Variables

Variable	CO	EVA
CO	1	
EVA	.46	1

Analyzing research hypothesis test results

Table 3 below displays research hypothesis test results. It is clear that the value of Durbin-Waston has pointed out to the lack of correlation between self-involved errors in the regression equation, whose value was \$ 1.87, which is within acceptable limits for this test. Consequently, the F-test results indicated to reject the hypothesis and accept its alternative, which states that there is a statistically significant effect of centered family ownership on the economic value added, EVA because the calculated value of F is equal to (13.21), a significant level of significance at 1%. And the impact of the independent variables has explanatory power accounted for 46% of the change that has happened in the economic value added.

From the table above, it is noted that centered family ownership is associated with the economic value added in a direct relationship, which is statistically significant at 5%, where the value of the calculated T (2.45) and the value of P (0.03).

Table No (3)

Results of the impact of Centered family ownership of the shares on EVA

Variables	B	T-Test)P- Value(Probability	
BMO	8187368	2.45		
(R ²)	46%	(Test) DW(1.87
F- Test	Calculated Value)F(Probability	13.21	0.0000

Results and Recommendations

The results

In light of the foregoing analysis, the study has concluded the following:

- The Jordanian industrial companies are weakly oriented towards the use of standard economic value added, being one of the overall performances of companies to assess long-term standards.
- The presence of a statistically significant positive relationship between the family-based ownership and the economic added value of the company in accordance with a number of studies conducted in the Arab and foreign environments. Those studies conveyed the notion that family-centered ownership are considered internal quality control tools capable to collect information on the work of the company, identify activities related to investment and financing policies for the company, therefore pushing company's managers to exert no efforts in improving their performance to improve the value of EVA for the company.

Recommendations

In light of the current findings, the researchers recommend the following:

- Giving family based ownership of shares priority and attention by researchers regarding financial matters, being one of the regulatory tools to contribute to performance of corporate managements.
- Jordanian industrial companies need to move towards using the standard of economic value added EVA as one of the overall performance comprehensive standards of the company to assess the long-term performance, as well as the use of accounting performance indicators and the traditional financial performance. These performances provide a more objective assessment for the performance and reflect a good management of the company's financial resources in the long term.
- Conduct studies to test the impact of other types of ownership, including: government ownership, foreign ownership, management ownership on the economic value added, EVA.

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