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UNVEILING THE OWNERSHIP STRUCTURE: IMPACTS ON FIRM PERFORMANCE IN THE INDIAN STOCK MARKET

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ABSTRACT

The ownership structure of companies plays a pivotal role in both corporate governance dynamics and firm performance. Over the years, scholars have extensively investigated how ownership patterns influence the value and performance of firms. While this relationship has been thoroughly examined in developed markets and more recently in emerging economies, such as India, there remains a gap in understanding the nuanced impact within the Indian context amidst evolving market conditions. "This paper seeks to bridge this gap by exploring the relationship between ownership structure and firm performance, specifically focusing on the Indian market landscape." Drawing from a sample of the 98 most actively listed companies on the Bombay Stock Exchange (BSE) during the period of 2019-2020, this study delves into the ownership dynamics prevalent in the Indian market. The findings reveal a notably concentrated ownership structure within the sampled companies, shedding light on the dominance of certain types of owners in actively traded firms. Furthermore, the study investigates how ownership type influences key accounting and market performance indicators, providing insights into the complex interplay between ownership structure and firm performance metrics. Employing Ordinary Least Square Estimation methodology, this empirical investigation dissects the impact of ownership structure on both accounting and market performance measures. Through rigorous regression analysis, the study examines variables such as Return on Equity (ROE), Return on Investment (ROI), Price-Earnings Ratio (P/E), and Price to Book Value (P/BV). Ultimately, this research contributes to a deeper understanding of the factors shaping firm performance in the Indian stock market, highlighting the intricate relationship between ownership structure and corporate outcomes.

Keywords: Ownership structure, Firm performance, Indian stock market, Corporate governance, Accounting performance indicators, and Market performance indicators, etc.

I. INTRODUCTION

The interplay between ownership structure and firm performance has long been a focal point in the realms of corporate governance and financial analysis. As companies navigate the complexities of global markets, understanding the implications of who holds equity and how this ownership affects value creation remains imperative. While extensively studied in developed economies, the dynamics of ownership structure and its impact on firm performance in emerging markets, particularly in India, have garnered increasing attention in recent years.

ISSN: 2278-4632
Vol-13, Issue-01, No.01, January 2023

India's economic landscape, characterized by rapid growth, regulatory reforms, and evolving market dynamics, presents a compelling backdrop for exploring the relationship between ownership structure and firm performance. With the Bombay Stock Exchange (BSE) serving as a prominent platform for trading, understanding the ownership dynamics of listed companies and their subsequent effects on performance metrics holds significant implications for investors, policymakers, and corporate decision-makers alike.

This study embarks on a comprehensive examination of the ownership structure of the 98 most actively traded companies on the BSE 100 indices, representing a diverse array of sectors ranging from finance to agriculture. By analyzing detailed financial and trading data spanning the period of 2019-2020, this research endeavours to unravel the complexities of ownership concentration and its ramifications on key accounting and market performance indicators. Through empirical investigation and rigorous statistical analysis, this study aims to provide nuanced insights into the intricate relationship between ownership dynamics and firm performance within the Indian context.

REVIEW OF LITERATURE

Abhijit Sinha, in the year 2017. This empirical study aims to contribute to the existing subject by examining the impact of capital structure decisions on business value. An examination was conducted on eleven power businesses that were picked from the 'BSE Power' category in the Capita-line database. The investigation covered the period from 2007 to 2015. The firm's value is represented by Tobin's Q and the Enterprise value to profit before interest, depreciation, and taxes ratio. The debt-equity ratio is used to measure leverage. The analysis utilises a panel data regression model to demonstrate that financial leverage has a detrimental impact on business value, as assessed by Tobin's Q. However, the other indicator is not substantially affected by the level of debt in the capital structure. Therefore, this work contributes to the contentious conclusions of previous researchers, providing further opportunities for exploration and fresh lines of thinking.

Elena Alexandra Nenu, Georgeta Vintilă, and Stefan Cristian Gherghina (2018). Examines the development of the primary theories about capital structure and their influence on risk and business performance. The capital structure is a fluid process that undergoes changes over time, influenced by various factors that impact the overall development of the economy, a specific industry, or a corporation. The capital structure of a firm may vary based on its projected profitability, as it represents a trade-off between risk and return. This study enhances the existing body of knowledge by examining the factors that influence the capital structure of companies in the Romanian market. In the econometric analysis, we used multivariate fixed-effects regressions and dynamic panel-data estimations (two-step system generalised method of moments, GMM) on a panel that included the companies listed on the Bucharest Stock Exchange. The period under analysis, spanning from 2000 to 2016, encompasses a cycle characterised by substantial fluctuations in the Romanian economy. Our findings indicate a significant correlation between leverage and both the company's size and the volatility of its share price. However, the debt structure has a distinct influence on company performance, whether it is assessed based on accounting measurements or observed through changes in market share price.

ISSN: 2278-4632
Vol-13, Issue-01, No.01, January 2023

P. Aishwarya, Sudharani R, and Dr. N Suresh published a paper in 2020. The present research aims to analyse the effects of capital structure on the profitability of Indian automobile firms. This is achieved by examining various variables such as Return on Capital Employed, Return on Long Term Funds, Return on Net Worth, Gross Profit Margin, Operating Profit, and Return on Assets. The study postulated that the variables RoCE (Return on Capital Employed), RoLT (Return on Long-Term Assets), and RoNW (Return on Net Worth) had a favourable influence on debt equity and interest coverage ratios, whereas GP (Gross Profit), OP (Operating Profit), and ROA (Return on Assets) have a negative impact on the capital structure of the companies. "Furthermore, the analysis demonstrates a robust and statistically significant link between profitability and capital structure characteristics. The hypothesis was investigated using fixed effect and random effect models, analysing 10 years of data (2010-2019) from 17 vehicle firms." The study's findings suggest that organisations can enhance their performance by implementing an optimal capital structure. In addition, it is important to have a balanced combination of debt and equity in order to ensure that the company maintains sufficient capital sufficiency. Therefore, firms can fulfil their financial obligations and make investments that offer appealing returns.

Narayan Kafle and Sanjib Ghimire (2020). The capital structure decision is a crucial aspect of financial management that involves evaluating and selecting the optimal combination of several sources of funding. The sources of funding in a company firm encompass short-term debt, long-term debt, preferred stock, and common stock or equity capital financing. Determining the optimal combination of these sources is a challenging responsibility for the financial manager. An optimal blend is one in which the level of risk and costs is minimised while simultaneously maximising earnings and shareholders' wealth. "The capital structure decision is an ongoing process that reaches its optimal state when it maximises the market value of the firm in question." Hence, the ongoing process of capital structure decisions entails a deliberate effort to achieve a harmonious equilibrium between the risks and rewards in a company's operations. Effective management of the ideal capital structure is crucial as it directly impacts the profitability and overall worth of the company. Nevertheless, the determination of an ideal capital structure remains an unresolved inquiry. Although numerous ideas have attempted to explain the optimal capital structure, academics in finance have yet to discover a definitive model for determining the best capital structure.

Prakash, N., Maheshwari, A., and Hawaldar, A. (2023). Capital structure is a crucial financial decision for organisations, especially those operating in developing nations. This study aims to determine the extent to which the pandemic has influenced the financial composition of enterprises in developing nations. India, being a renowned emerging economy, is an attractive choice for analysis. The study employs three leverage ratios in the BSE500 extended market index from 2015 to 2021. The ratios under consideration are the short-term leverage ratio (STLR), long-term leverage ratio (LTLR), and total leverage ratio (TLR). A dummy variable is used to distinguish between the time period before the epidemic (2015-2019) and the time period during the pandemic (2020-2021). Control variables are employed to symbolise company attributes like as growth, tangibility, profit, size, and liquidity. The technique of dynamic panel data regression is used to tackle the issue of endogeneity. The results indicate that Covid-19 has had a substantial adverse impact on long-term lending rates (LTLR), although the influence on short-term lending rates (STLR) and total lending rates (TLR) was negligible. The results suggest that enterprises operating in a culturally risk-averse

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Vol-13, Issue-01, No.01, January 2023

environment, such as India, would decrease their long-term debt in order to prevent bankruptcy during periods of uncertainty. The paper examines the repercussions of the pandemic on Indian corporations. Therefore, it may not be valid to generalise the findings to a worldwide environment.

OBJECTIVE OF THE STUDY

The primary objective of this study is to examine the relationship between ownership structure and firm performance within the Indian stock market context.

RESEARCH METHODOLOGY

Empirical Analysis:

OLS estimation methodology was used to analyze the relationship between ownership structure and firm performance. Dependent variables included ROE, ROI, P/E, and P/BV. Independent variables represent ownership structure, summarized in Tables (2) (3), (4) and (5).

Sample Selection and Data Collection:

A sample of 98 actively traded companies listed on the Bombay Stock Exchange (BSE) during 2019-2020 was chosen, representing 18 diverse sectors. Detailed trading and financial data were collected from company financial statements and the CMIE PROWESS database.

The details and proportion of these sectors in BSE 100 is given in table 1.

Table 1: Sector-wise Breakup of BSE 100 Companies

S. No.	Sectors	%
	BSE100	**100**
1	Finance	22.14
2	Oil&Gas	15.26
3	InformationTechnology	11.71
4	Metal, MetalProducts&Mining	9.58
5	CapitalGoods	8.83
6	FMCG	6.36
7	TransportEquipments	5.49
8	Power	5.13
9	Housing Related	4.03
10	Healthcare	3.78
11	Telecom	3.34
12	Diversified	2.13
13	Chemical& Petrochemical	0.55
14	Miscellaneous	0.43
15	Media& Publishing	0.36
16	TransportServices	0.31
17	Tourism	0.29
18	Agriculture	0.27

Source: Bombay Stock Exchange (Adjustment factors are converted into % FF)

ISSN: 2278-4632
Vol-13, Issue-01, No.01, January 2023

Variables and Measurement:

Financial indicators such as Total Revenues, Gross Profit, and Stock Performance Indicators were collected. Calculated ratios including debt to equity ratio, ROE, ROA, P/E, and P/BV were derived for analysis.The following formula was used for modeling:

$$Y_{ij} = a + X_{ff,j} + X_{de,j} + X_{dph,j} + X_{fp,j} + X_{npi,j} + X_{npni,j} + \varepsilon \dots\dots\dots\dots\dots\dots (i)$$

Y_{ij}: i corresponds to ROE, ROI, P/E or P/B for company j (j=1…98)

$x_{ff,\,j}$: represents the percentage of free float in company j capital structure,

$x_{de,j}$: represents the debt to equity ratio for company j,

$x_{dph,j}$ and $x_{fp,j}$: represents the domestic promoter and foreign promoter holding in the company

$x_{npi,j}$ and $x_{npni,j}$: represents non promoter institutional and non-promoter non institutional holding of the company.

ANALYSIS AND INTERPRETATION

The sampled companies of BSE 100 were analyzed on the basis of their free floats and the findings are given below in table 2.

Table 2: Free Float of Companies in BSE 100

S. No	FreeFloat	NumberofCompanies	Cumulative
1	0-25%	13	13
2	25-50%	27	40
3	50-75%	46	86
4	75%-100%	13	99
5	100%	1	100

Source: BombayStockExchange(Adjustmentfactorsareconvertedinto% FF).

Table 3: Ownership Structure in Sampled Firms

	N	Minimum	Maximum	Mean	Std. Deviation
ForeignPromoters(%)	98	-	63.92	7.51	16.84
IndianPromoters(%)	98	-	99.33	41.31	25.93
Non-institutions (%) non-promoters	98	0.03	48.97	16.26	8.94
Institutions(%)-non-promoters	98	0.64	88.07	32.01	16.39
Valid N (listwise)	98				

Source:CMIEPROWESS.

Table 2 clearly depicts that majority of the sampled companies have less than 75% of the free float. Even 13% of the companies have a free float of less than 25%. Only 13% of the companies have a free float of greater than 75%.

ISSN: 2278-4632
Vol-13, Issue-01, No.01, January 2023

Table 4: Debt Equity Ratio of Sampled Firms

S. No	DebtEquityRatio	Number of Companies	Cumulative
1	0.00-2.00	72	72
2	2.00-4.00	20	92
3	4.00-6.00	2	96
4	6.00-8.00	3	99
5	8.00-10.00	1	100

Source:CMIEPROWESS.

Table three provides information on the ownership structure of the selected companies. The data clearly illustrates that the ownership stake of Indian promoters in the sampled company ranges from 0% to 99%, with an average holding of 41%. On average, the studied enterprises are primarily controlled by Indian promoters. The average ownership stake of foreign promoters is only 7.51%. This unequivocally affirms the notion that Indian enterprises are predominantly controlled by families and the stakes of their promoters. The table 4 provides data regarding the debt equity profile of the selected companies. The results indicate that the majority of the sampled companies fall into the first group of 0-2, suggesting that most of these organisations have low levels of leverage.

Table 5: Performance Measures of sampled firms

	N	Minimum	Maximum	Mean	Std. Deviation
ROA	98	(16.28)	129.32	12.77	17.25
ROE	98	(34.19)	129.32	17.36	19.40
P/BV	98	0.41	16.95	3.83	2.95
P/E	98	(26.42)	575.37	34.86	65.34

Source:PROWESS.

Performance measures in the paper are represented by two sets of variables accounting measures are ROA and ROE while the market measures are P/E and P/BV ratio. Table five depicts that average ROE, ROA, P/E and P/BV values are 17.36%, 12.77%, 34.8 and 3.8 respectively.

Table 6: Results of OLS Regression Analysis

	ROE	ROA	P/E	P/BV
Constant$_c$	(20.883)	(3.032)	(107.730)	2.721
Debt Equity ratio	(0.210)	(0.338)	0.031	0.113
Free float	(0.022)	0.039	0.386	(0.040)
Foreign Promoter Holding	0.517	0.453	(0.205)	0.122
Domestic Promoter Holding	0.539	0.287	0.213	0.213

ISSN: 2278-4632
Vol-13, Issue-01, No.01, January 2023

Non-Promoter Non-Institution Holding	0.162	0.067	(0.215)	(0.065)
Non-PromoterInstitution Holding	0.424	0.168	(0.176)	(0.050)
R2	0.128	0.235	0.165	0.094
Significance of F value	0.070	0.001	0.018	0.209
F value	2.034	4.253	2.727	1.441
DW statistics	2.167	2.174	2.092	1.926

The OLS regression analysis findings are presented in table 6 below. The empirical results, with a significance level of 5%, indicate that the ownership characteristic does not exhibit any correlation with accounting performance measures such as ROA and ROE. Additionally, there is no significant relationship observed between ownership structure and stock market indicators such as P/E and P/BV ratios, as presented in Table (6) below. However, when considering a significance level of 10%, all sampled variables demonstrate a statistically significant link with the performance indicators of ROA, ROE, P/E, and P/BV for every given company.

CONCLUSION

The analysis of the sampled companies listed on the Bombay Stock Exchange (BSE) offers valuable insights into the ownership structure and its implications for firm performance. "The findings reveal that a majority of the sampled companies exhibit low levels of free float, indicating a concentration of ownership." Moreover, the dominance of Indian promoters in these companies underscores the prevalence of family-owned businesses in the Indian market, with an average stake of 41%, compared to a mere 7.51% average stake held by foreign promoters.

In terms of financial leverage, the majority of the sampled companies demonstrate low debt-to-equity ratios, indicating conservative capital structures. However, when assessing performance measures, the results present a mixed picture. While the average Return on Equity (ROE) and Return on Assets (ROA) stand at 17.36% and 12.77% respectively, indicating relatively healthy profitability, the variability in Price/Earnings (P/E) and Price/Book Value (P/BV) ratios suggests diverse market valuations.

Furthermore, the OLS regression analysis provides additional insights, indicating that ownership characteristics do not exhibit significant relationships with accounting performance measures (ROA and ROE) or stock market indicators (P/E and P/BV ratios) at the 5% level of significance. However, at a 10% significance level, all sampled variables demonstrate significant relationships with performance measures, highlighting the nuanced nature of ownership dynamics and their impact on firm performance.

Overall, while ownership structure appears to play a role in firm performance, the complexity of market dynamics suggests that additional factors beyond ownership may influence company outcomes. This underscores the importance of considering a holistic range of variables when assessing firm performance within the Indian stock market context.

Implications of the Study:

ISSN: 2278-4632
Vol-13, Issue-01, No.01, January 2023

Corporate Governance Practices: The findings of this study shed light on the ownership dynamics prevalent in the Indian stock market, emphasizing the dominance of family-owned businesses and the limited influence of non-promoter institutional investors. Such insights have significant implications for corporate governance practices, highlighting the need for regulatory frameworks that promote transparency, accountability, and minority shareholder protection.

Investment Decision-making: For investors and financial analysts, understanding the relationship between ownership structure and firm performance provides valuable insights for investment decision-making. The findings suggest that while ownership concentration may not directly impact performance measures at a significant level, it remains a crucial factor to consider alongside other financial and market indicators when evaluating investment opportunities in Indian companies.

Market Efficiency: The study's exploration of ownership structure and its impact on firm performance contributes to the broader discourse on market efficiency within the Indian context. By revealing the complex interplay between ownership dynamics, corporate performance, and market valuations, the study underscores the need for efficient market mechanisms that accurately reflect underlying company fundamentals and investor sentiment.

Policy Implications: Policymakers and regulators can draw upon the findings of this study to inform policy decisions aimed at fostering a more inclusive and competitive market environment. Measures to enhance investor protection, encourage institutional investor participation, and mitigate ownership concentration could help promote market stability, liquidity, and long-term economic growth.

Future Research Directions: The study paves the way for further research into the nuanced determinants of firm performance within the Indian stock market. Future studies could explore additional factors, such as board composition, corporate governance mechanisms, and industry-specific dynamics, to provide a more comprehensive understanding of the drivers of corporate success and market efficiency in India.

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