

The Effect of Management Ownership Adjustments and Its Changes on A Company's Value

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ABSTRACT

In recent decades, the effect of management ownership on a company's value has been a fundamental and noteworthy subject in companies' organization and financial researches. In the current research, the effect of management ownership adjustments and its changes on a company's value has been studied. In this regard, all the collected data were used from 52 companies that were accepted in Tehran Stock Exchange during the years 2006 to 2011. Management ownership and its transformations have been considered as independent variables in this research. The dependent variable that has been studied is the company's value. Multiple regression and panel data methods have been used to test the hypothesis. Two hypotheses have been developed to accomplish this research: in the first one, the effect of management ownership adjustments on a company's value has been studied. The first hypothesis result shows its acceptance in the significance level of 95%. In the second hypothesis, the changes of management ownership have been studied. The results of this hypothesis test showed that management ownership changes and transformations have a meaningful effect on a company's value.

Keywords: Company's Value, Management Ownership, Ownership Adjustments

Introduction

Ownership separation from the management departments is the most important feature of corporations and joint stock companies. In the past thirty years many cases of profit and interest conflicts among groups and companies have been discussed and the efficient ways of encountering such conflicts have been studied by economists. These cases are generally expressed as "Agency theory".

Agency relationship/partnership is a contract under which the owner appoints an agent or another person and gives him/her the decision-making authority, so the represented person is handed over the decision-making authority. In the Representation/Agency Theory, the owners' aim is wealth maximization. So, representative performance monitoring, supervision, inspection, and evaluation are

done to reach this goal (Esta, 1390). Managers perform in ways to meet their benefits in companies with lots of shareholders, because those managers don't have any assets or shares and the actual/main company assets belong to the shareholders. Therefore the managers don't act sympathetically and compassionately in their investments and are so ambitious, arrogant, and opportunistic in their operation and management performances. This benefits conflicts cause managers to tend to invest on plans with short term turn overs and outputs instead of plans with long term results (Sajjadi, 1388). Considering governance and leadership system, the company's ownership structure can be effective by benefits conflicts decrease between company management department and economical unit owners and also by decreasing agency costs. One means combined amount of company stock ownership by the term "ownership structure". Therefore, different groups of owners like individual, institutional, and managerial shareholders can make different combinations. When the manager owns a low percent of the company's share, his/her acts and moves are affected by the market's forces and efficient supervision to maximize the company's value. Counter pointedly, when the manager controls a considerable share part, he/she may behave in ways not to reach the company's goals and maximize the company's value. So, the steps must be in line with the optimum management ownership. This research is looking for an answer to the ways we can affect management ownership adjustments and its changes on company's value.

Theoretical Research

Management ownership

The share percent maintained by the board of directors indicates the whole share part and assets (Nekoonam, 1391). Management ownership leads to further alignment among managers and shareholders and decreases the agency problems. It is expected that managers with high ownership levels remain in the company for long term. As a result, with ownership increase, their benefits inspiration is aligned with other shareholders and the agency intensity decreases. When the manager owns a low amount of company's share percent, he is affected by the market forces and efficient supervision and acts in a way to maximize the company value. Counter pointedly, when the manager controls a considerable share part, he/she may behave in ways not to reach the company's goals and maximize the company's value. In 1976, Jenson and Mc.Ling found out that ownership percent increase of management share helps shareholders and managers' benefits to be aligned (Valipur&Khurram, 1390).

Ownership adjustments

Companies always set a desirable and optimal level for their managers' ownership in their contracts.

That is the appropriate percentage of shares owned by the directors of a company that is at their disposal, thereby increasing incentives for management activities are aligned with corporate interests. Most of the contracts at this level are so important. There is a favorable adjustment of property managers must have come into existence. Deviations caused must be removed (Ming- Yung Chen, 2013). And if managers are also shareholders at a more favorable level of the company, it is likely that their arbitrary acts prejudicial to the company. On the other hand, if a low percentage of company

shares are owned by them, there may be insufficient incentives for their activities, which are consistent and profitable in long term (Sajjadi, 1388).

Research background

Ming has studied the relationship between Management Ownership Adjustments and its changes effects on the company, from two viewpoints in 2013. First, moving towards the optimum ownership level will be studied, which will be asked if it will be an important concept for managers. Second, the Management Ownership changes effects on Q'tobin will be studied, considering the fact that what the market reaction is to the performed reforms and adjustments. Observations show that managers tend to increase their ownership level, when their ownership is lower than the optimum or desired level, although this fact's counterpoint did not seem to be important.

In other words, when managers' ownership is higher than the desired level, they don't show a willingness to decrease their ownership. Also, the practical results show that the market shows a positive reaction to ownership adjustment for reaching the optimum or desired level.

Saeedi and Shiri have studied the ownership structure effect on some companies' performance in 2012. These companies are those which are accepted in Tehran Stock market. In this research, the ownership structure is considered to be the independent variable and Kiyotobin ratio (Measure of companies' financial performance) is considered to be the dependent variable. The research population includes 93 companies between the years 2004 to 2008. The research hypotheses test, using the combined regression method with fixed effects showed that there is no

relationship between different kinds of ownership and performance.

Research methodology

Since the current research is focused on the study of the effect of management ownership adjustments and its changes on a company's value, it is considered to be a kind of discriptional or Cross - correlation one.

The Statistical Society or the population in this research, consists of all firms listed in Tehran Stock Exchange, which are listed before 2006 March and their symbol is not stopped till the end of 2011. According to studies conducted, the population studied in this research, consists of 52 companies that entered Tehran Stock Exchange before the first 2006 March and are included in this category of companies that have the following features:

1. As for their comparability capability, their fiscal/financial period should end in March.
2. Company's financial year should not be changed in the period under review.
3. The mentioned Companies should not interrupt their work activities more than 6 months.
4. The mentioned Companies should be producing something.
5. The mentioned Companies should have the needed research information.

Data analysis method and hypothesis test

Regression method has been used to analyze the collected information and in this research, data analysis has been done by Stata 12 software and also, panel data have been used. F Lymr test and Hausman test is performed to determine the type of data and t-test was used to test the hypotheses. To evaluate the impact of modifications and changes to the value of the property management company, both

independent and dependent variables are examined from two different aspects. On one hand, these variables are tested among different companies and on the other hand they are tested over the period 2006 to 2011.

Pattern and research variables

In order to test the main hypotheses and also sub-research question, multiple regression models were processed as follows :

$$Q_{i,t} = \alpha + \beta_1 Sstar_{i,t} + \beta_2 \Delta Sstar_{i,t} + \beta_3 \ln asset_{i,t} + \beta_4 fage_{i,t} + \beta_5 capex_{i,t} + \beta_6 ppe_{i,t} + \beta_7 fcf_{i,t} + \beta_8 debt_{i,t} + \varepsilon$$

$Q_{i,t}$ shows the i company's value during the year t . The Tobin q variable has been used according to Ming article (2013) in order to calculate the company value. The shareholders salaries are achieved by calculating the total market value of equity and total debt now divided by total assets.

$Sstar_{i,t}$ is Management Property Adjustments for the I company during the year t . In other words, this is the optimum limit of management ownership which is calculated as follows:

$$Sstar_{it} = \varphi_i + \eta_t + yX_{it} + u_{it}$$

$Sstar_{it}$ shows the optimum percentage of management ownership and is actually the level with the managers can own the company's stock share. It is in this level that the company's value will increase and the managers and owners benefits will be aligned in one direction and so the benefits conflicts will be minimized. By achieving the management ownership variable (which is in hand from the board meetings reports) and comparing them with the optimum level, one can understand that if the management ownership is lower than the optimum level, Management Property Adjustments will be accomplish upwards to eliminate the current deviation.

$\Delta Sstar_{i,t}$ is the changes of management ownership adjustment of company i in the year t .

$\ln asset_{i,t}$ Natural logarithm of company i total assets in the year t (size of company).

$fage_{i,t}$ shows the age of company i in the year t .

$capex_{i,t}$ is the ratio of company i assets to the total belongings in the year t .

$ppe_{i,t}$ is the ratio of company i property, land, and tools and devices to the total belongings in the year t .

$fcf_{i,t}$ is the free cash flow of company i in the year t .

$debt_{i,t}$ is the ratio of debt (financial leverage) of company i in the year t .

Research Hypotheses

Considering the research goal which is the effect of managerial ownership adjustments and its changes on a company's value, the following hypotheses were proposed.

First hypothesis

Managerial ownership adjustments have an influence on the company's value.

Second hypothesis

Managerial ownership adjustments and its changes influence the company's value.

Research variables

Independent variable

Property Management: represents the percentage of shares is in the hands of managers. In other words, managers are owners of some percent of the company's stake. Management stock will be calculated using board meetings reports, as follows (Hashemi&Bakrani, 1390).

Management stock = $r \times$ number of board of directors / total current stock (share)
 R= the number of the required stock for members selection.

Dependant variable

Value of the firm: One of the factors affecting the company's stock value is financial decisions (assets structure and profit dividend policy) (Sinai et al, 1390). The effect of ownership structure on firm value is derived from the conflict of interests between shareholders. Crew (2002) believes that when the majority of shareholders own a good percentage of the shares of the company, they can have their own policies being imposed on the corporate. The index used in this study to measure the value of the company is Q'tobin index.

Controlling variables

Control variables used in this study are as follows: the logarithm of assets (firm size), firm age, and the ratio of property, land and equipment to total assets, the ratio of capital expenditures to total assets, financial leverage and free cash flow. The Variables can be calculated size of different variables such as the natural logarithm of market value of equity, the natural logarithm of total assets, the log of

total sales and book value of total assets should be used (Arab Salehi et al, 1390). In this study, to measure the size of the log of total assets are used. The impact of financial leverage on the company's financial management is one of the most challenging and controversial issues. Managers are trying to maximize firm value in selecting the right combination of financing sources. Debt is one of the most important sources of financing for the company. Debt increase is one of the ways to reach this goal (Hashemi&Akhlaghi, 1389). Free Cash Flow is a cash flow which is in excess of what remains from the projects funds with the net remaining value and decreases with the related asset expenses and costs. Managers have incentives to accumulate cash, i.e., to increase their control over resources and the investment decisions of their judicial power and shall diagnose this. Power management reduces payments to shareholders and the others may require financing, by which capital markets can be controlled. While domestic financing enables managers to shirk the monitoring the fact must be considered seriously (Ghorbani&Adili, 1391).

Research findings

Descriptivestatistics

Table 2. Data analysis results for the Hypotheses Test

variable	average	standard deviation	smallest	Largest	Number of observations
Frim value	0.62	0.31	0.01	3.86	291
Sstare	0.008	1.57	-4.67	3.28	291
Lnasset	11.92	0.67	10.68	14.007	291
Fage	15.46	7.9	5	43	291
Ppea	0.36	1.11	0.002	18.42	291
Capexa	0.022	0.18	-1.62	1.99	291
Debt	0.62	0.35	0.013	3.86	291

Tests used in this research

Autocorrelation test have been used to test the independence of the errors, which

shows the difference between the actual and predicted values. The nature of panel

data makes the variance anisotropy problem to show up. Studying the values of statistic 2χ shows that the null hypothesis of equal variances is rejected. So this model is variance anisotropy. Jog Bera statistic test was used to investigate Normality of data and showed that the disturbance terms are normally distributed. Hausman test was used for choosing one of the two methods: fixed or random effects method. The results showed that the Fixed effects method is a good choice for the hypotheses test.

Inferential statistics

Hypotheses Test

The first and second hypothesis was put forward amendments and changes to the value of the property management companies affected.

The hypothesis was tested that level panel data models using research results are reflected in Table 2.

Table 2. Data analysis results for the Hypotheses Test

Variable	coefficients	Standard deviation	statistic t	P- value
Sstare	-0.051	0.015	-3.49	0.001
Δ sstar	0.027	0.01	2.73	0.007
Lnasset	-0.53	0.091	-5.82	0.000
Fage	0.028	0.008	3.58	0.000
Ppea	0.008	0.01	0.76	0.44
Capexa	-0.009	0.052	-0.18	0.85
Fcf	-0.042	0.043	-0.96	0.33
Debt	0.59	0.033	17.62	0.000
C	6.15	1.014	6.06	0.000
Number of observations		291		
R ²		0.74		
JB		12.85		
Chi ²		14.85		
2χ	2184.98			0.000
Total significance F(Regression)	82.76			0.0000
F(Limer)	1.51			0.02
Hausman	72.46			0.000

Hypotheses Test Results

The results of the estimates contained in the table shows that the adjustment of managerial ownership is negatively meaningful and significant at the 5% level and the change is positive and significant at 0.5% level. In other words, there is an inverse relationship between the adjustment of property management and corporate value. If the management ownership adjustment is more, the firm value may reduce. On the other hand, if fewer adjustments happen, it can increase the firm value. There is a direct

relationship between changes in the value adjustments of property management and the company's value. In other words, these changes are in order to increase the company's value. Thus the hypothesis is accepted. Variables of logarithm of the company assets, total liabilities and the negative impact of age, respectively, were positive and significant, are positive. Variables such as the ratio of assets to total assets, profits and relative costs are not significant and meaningful.

Discussion and conclusion

In the current research, the collected data related to financial statements of listed companies in Tehran Stock Exchange were studied to investigate the effect of managerial ownership adjustments and its changes on the company's value. The results of the model indicate that managerial ownership adjustment is negatively significant at the 5% level and its changes in the level of 0.05%, is positive and significant and meaningful. Therefore, the research hypothesis and the results of the investigation are accepted. These results are consistent and compatible with Ming (2013) Fahlenbrach et al (2009) and Tang (2008) investigations. Changes in management ownership means changes that occur each year, in the percentage of shares, in the hands of managers. In other words, the annual variations caused by stock exchange (buying or selling shares in the hands of administrators and managers) that can work on to be involved and what effects it can have on the company. The results suggest that these changes will have a significantly positive effect on firm value. The more the changes happen, the higher the value of company will be. Results obtained with R Hubbard and Palya (1999) researches showed that changing the ownership of the Company will be beneficial and profitable (Esta, 1390).

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