



The Effect of Ownership Concentration on Liquidity of Banks

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ABSTRACT

Liquidity is the ability of a bank to obtain cash, to meet current or necessary needs. Banks need to have sufficient liquidity to meet the demand of depositors and facility takers to win the public confidence in this way. For this purpose, financial institutions are required to have an effective asset and debt management system to be able to minimize the maturity mismatching of assets and liabilities and optimize their return. In addition, due to the inverse relationship between liquidity and profitability, creating an appropriate balance between these two indices is also very important. The aim of this study is to investigate the impact of ownership concentration on liquidity in banks. For this purpose, the required data are extracted from the audited financial statements of banks for the period 2007 to 2014. This research is a correlation and the main method of statistical test is regression analysis. The results of testing the research hypotheses show that there is no significant relationship between the concentration of ownership and liquidity of banks.

Keywords: Ownership Concentration, Liquidity Management, Liquidity

INTRODUCTION

During the last global financial crisis, a number of banks attempted to have sufficient liquidity. Despite the great support provided by the central bank, a number of banks failed or were forced into mergers and acquisitions. The crisis shows how quickly and severely liquidity risk can be crystallized and how certain sources of funding can evaporate and as a result, the concerns related to the evaluation of assets and capital adequacy are combined. Consequently, the G20 group nations sought a global framework to promote higher liquidity in national and cross-border financial institutions.

In response, the Basel Committee has developed two agreeable international regulatory standards for liquidity risk monitoring for banking supervision. These standards provide a global minimum liquidity, but allow the national authorities to adopt more detailed levels. Liquidity coverage ratio represents the first standard. Liquidity coverage ratio reflects the bank's free and high quality cash assets which can be used to compensate net cash output under short-term acute pressure specified by the administrators`.

Maintaining an optimal level of liquidity is one of the main tasks of banks and lack of attention to it, increases the liquidity risk of bank. In addition, the success of many of the activities depends, directly or indirectly, on the ability of banks to provide liquidity to customers. Therefore, banks, especially from the viewpoint of liquidity problems, are vulnerable both due to the fact that they are institutions of a specific nature, and also considering the impact that they have generally on various industries. Banks that are reliant on short-term financing, for

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managing their liquidity, mostly focus on very short time (periods up to 5 days). Therefore, these banks should be able to calculate the liquidity situation on a day to day basis.

Concentration of ownership refers to the state, in which a considerable amount of firm's shares belongs to major shareholders (majority) and shows how many percent of the firm's shares are in the hands of a few. Concentration of ownership is the size of large shareholders in a firm. Large shareholders have more incentive to monitor management, because the costs associated with management supervision is less than the expected costs of shareholding in the firm. Restrictions imposed by lawmakers have been followed by many discussions among policy makers, lawmakers and financial economists. Opponents of restrictions and regulations development argue that self-regulation through the effective and orderly corporate governance will lead to ensure risk-taking by financial institutions. Given the importance of the issue of ownership concentration, and in order to ensure risk-taking and the integrity of the financial system of Iran and protect the interests of depositors, creditors, shareholders and other beneficiaries, assessing the financial health of banks from different dimensions, and identifying the factors that influence capital adequacy in banks seem necessary. In this study, the role and the impact of ownership concentration on banks' liquidity will be evaluated. In other words, this study seeks to answer the question whether there is a significant relationship between ownership concentration and the liquidity of banks.

The recent financial crisis has far-reaching impact on risk-taking behavior by banks and on economic stability and global welfare. In response to the recent financial crisis, the Basel Committee has developed new persistent capital rules aimed at preventing financial crises in the future. The new rules are known as "Basel III" and a commencement to be a replacement of Basel II in 2013 and then a complete replacement in 2018. Basel II is focused on capital adequacy and liquidity, while Basel III includes capital persistence as an additional factor. Therefore, enacting more severe and more effective regulations, in response to the standards of capital adequacy, the rules legislators have limited risk-taking of banks.

Restrictions imposed by lawmakers have been followed by many discussions among policy makers, lawmakers and financial economists. Opponents of restrictions and regulations development argue that self-regulation through the effective and orderly corporate governance will lead to ensure risk-taking by financial institutions. Given the importance of the issue of ownership concentration, and in order to ensure risk-taking and the integrity of the financial system of Iran and protect the interests of depositors, creditors, shareholders and other beneficiaries, assessing the financial health of banks from different dimensions, and identifying the factors that influence capital adequacy in banks seem necessary.

LITERATURE REVIEW

Polsiri (2005) introduced the discussion of the possible effect of ownership concentration on lack of financial health of firms. Following the discussion, Ding et al (2004) reviewed 140 firms listed in Beijing Stock Exchange and found that there is a correlation between concentration of ownership and earnings management in these firms. While in state-owned companies a strong U-shaped relationship can be seen between these two variables (concentration of ownership and earnings management). Meanwhile, large state-owned companies show less tendency towards earnings management. According to the study carried out by⁴ it can be elegantly guessed that there is somewhat moderating effect by the variable of

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ownership structure (in terms of being public and private) in the possible correlation between the variables of ownership concentration and quality of information¹. Gugerdchian and Mirhashemi (2013) studied and tested the performance of Iran banking system in liquidity management. The aim of this paper was to test three strategies to manage liquidity based on the recommendations of Basel Committee in terms of increased payment obligations of Iran banking network, using the Generalized Moments Method. For this purpose, the data of 20 banks of Iran banking network were used. The research results showed a positive relationship between the growth rate of payment obligations and growth rate of the portfolio. In addition, the relationship between the growth rate of payment obligations and the growth rate of loan repayment was positive. In contrast, the results showed an inverse relationship between growth rate of long-term loans and the growth rate of payment obligations². Chalermchatvichien et al (2014) examined the impact of ownership concentration on capital adequacy, liquidity and capital stability in East Asia's banks. In this study, the impact of ownership concentration on risk-taking by banks was examined during the years 2005-2009. The research results indicate that the concentration of ownership has an important role in determining the stability of the capital. More concentrated ownership improves the liquidity of banks³.

RESEARCH HYPOTHESIS

According to the goals set in order to answer the research questions the hypotheses are presented as the following:

First Hypothesis: There is a significant relationship between ownership concentration and capital adequacy of banks.

Second Hypothesis: There is a significant difference between liquidity of firms and more and less ownership concentration.

METHODOLOGY

Methodology of the present study is correlational in terms of nature and content. Using secondary data extracted from the financial statements of listed banks on Tehran Stock Exchange, the correlation relationship is analyzed. This study is conducted within the framework of deductive - inductive reasoning. In this study, first, the correlation between variables is tested, and if there is a correlation between the variables, multiple regression models are estimated. The present research is also among library and causal - analytical studies, and based on analysis of panel data (panel data). The research is an applied one in terms of purpose and descriptive-analytic in terms of methodology.

The population of the study consists of all banks are listed on the Tehran Stock Exchange, which contains 23 active banks in the monetary market of Iran. In this study, purposeful elimination method is applied to estimate the sample size and for sampling. The research sample consists of seven state-owned banks and private banks.

RESEARCH MODEL AND VARIABLES

Research Model:

$$LIG_{i,t} = \alpha_0 + \beta_1 OWNCON_{i,t} + \beta_2 SIZE_{i,t} + \beta_3 LEV_{i,t} + \beta_4 RG_{i,t} + \beta_5 AGE_{i,t} + \varepsilon_{i,t}$$

Ownership Concentration: Concentration of ownership refers to the state, in which a considerable amount of firm’s shares belongs to major shareholders (majority) and shows how many percent of the firm’s shares are in the hands of a few. It is the sum of the stock percentage of major shareholders above 5 per cent. To calculate the institutional ownership concentration Herfindahl – Hirschman index is used, which is an economic indicator used to measure the monopoly on the market:

$$(OCON) = \sum_{(Pi / p * 100)}^2$$

P is the total percent of shares and Pi is the sum of stock percentage higher than 3% belong to the shareholders (stock percentage of each of owners above 3% are squared and then are added up). It is the product between 0 and 10000. The closer to the 100000, the higher the concentration and the higher the ratio, the greater the concentration of ownership in the firm will be.

Liquidity: Liquidity is the ability of a bank to obtain cash, to meet current or necessary needs. Banks need to have sufficient liquidity to meet the demand of depositors and facility takers to win the public confidence in this way. For this purpose, financial institutions are required to have an effective asset and debt management system to be able to minimize the maturity mismatching of assets and liabilities and optimize their return. In addition, due to the inverse relationship between liquidity and profitability, creating an appropriate balance between these two indices is also very important. In this study, the ratio of cash assets to total assets is used to calculate liquidity. **Bank Size:** It is determined by calculating the natural logarithm of total assets of the bank. **Leverage:** It is the ratio of debt-to-equity of banks, **Revenue Growth:** It is the current year's income minus previous year’s income divided by revenue of previous year **Bank Age:** It is calculated through the natural logarithm of bank activity period from the date of establishment license issuance to the given period.

RESULTS

The study on the descriptive results of research variables shows that the mean of the ownership concentration in banks of the study is equal to 6055. In addition, the mean of the variable of liquidity is 0.007.

Table 1. Descriptive Statistics

Variable	Mean	Median	Max	Min	SD
Ownership Concentration	6055	6647	10000	980	3626
Liquidity	0.007	0.007	0.015	0.002	0.003
Bank Size	19.292	19.470	21.095	17.001	1.160
Leverage	0.913	0.930	0.970	0.698	0.057
Revenue Growth	0.287	0.220	1.044	-0.228	0.262
Bank Age	3.197	3.367	4.127	1.792	0.602

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Review of Research First Hypothesis Test

Research Hypothesis: Concentration of ownership has a significant impact on the liquidity of banks.

As can be seen, at 5 percent error level, the significance level of t statistic value (0.366) of the variable of ownership concentration is greater than 5% (sig = 0.716). Hence, H₀ hypothesis is not rejected at confidence level higher than 95%. This means that the concentration of ownership has no significant effect on liquidity of banks (Table 2).

Table 2. Test Results of Regression Model of Research Hypothesis

Variable	Regression Coefficient	Standard Error	t Statistic	Significance Level	Result
Constant	- 0.002	0.019	-0.120	0.905	-
Ownership Concentration	0.001	0.001	0.366	0.716	H ₀ Lack of Rejection
Bank Size	0.001	0.001	0.596	0.554	-
Leverage	0.001	0.008	0.073	0.942	-
Revenue Growth	- 0.001	0.002	-0.902	0.372	-
Bank Age	- 0.001	0.003	-0.493	0.624	-
Determination Coefficient	2.727		f Statistic		0.280 (0.922)
Adjusted Determination Coefficient	Less than 1 Percent		Durbin-Watson		1.5

Second Hypothesis: There is a significant difference between liquidity of firms and more and less ownership concentration.

H₀: $\mu_1 = \mu_2$

H₁: $\mu_1 \neq \mu_2$

Table 3. Results of Second Hypothesis (Dependent Variable: Liquidity)

Variable	Ownership Concentration	Mean	SD	T Statistic	Significance Level	Confidence Level		Result
						Min	Max	
Liquidity	Low	0.008	0.003	1.041	0.302	-0.001	0.003	No Difference
	High	0.007	0.003					

Comparing liquidity based on ownership concentration shows that the mean of liquidity of firms with low ownership concentration is 0.008, and the mean of liquidity of firms with high ownership concentration is 0.007. In addition, the review on t test results (1.041) shows that there is no significant difference between the mean of liquidity of firms with low ownership concentration and the mean of liquidity of firms with high ownership concentration at 5 percent error level (sig = 0.302). Therefore, with 95% confidence level, the hypothesis H₀ is accepted

and the hypothesis H1 is rejected. In addition, the comparison of two communities using the U Mann-Whitney test (nonparametric) also shows no significant differences between the two communities.

CONCLUSION

In this study, the effect of ownership concentration on the liquidity of banks is discussed. The results obtained from research hypotheses test in multivariate regression test and comparing the two communities are not confirmed. So that in accordance with the results of research hypotheses testing the concentration of ownership has a significant effect on the liquidity of banks. This means that there is no significant difference between liquidity of firms and more and less ownership concentration. The results of the research hypotheses test are not consistent with results of the study carried out by³ that the "more concentrated ownership improves the liquidity of banks". It seems that the less and more dispersion of shareholders and owners of the banks cannot explain the liquidity of banks. Therefore, investors and analysts cannot consider this factor as an effective factor on the capital adequacy of banks. Therefore, regardless of the composition and distribution of shareholders should seek the evaluation of capital adequacy in banks.

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