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The Impact of Corporate Governance and Ownership Structure on Bank Performance

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A B S T R A C T

Objective: This study investigates the impact of corporate governance and ownership structure on the performance of banks listed on the Tehran Stock Exchange during the period from 2012 to 2021.

Methodology: The research method is of a survey type and utilizes financial information and annual reports of the banks. Data extraction and necessary statistical tests were conducted. In this study, three performance indicators were used: Return on Assets (ROA), Return on Equity (ROE), and Tobin's Q. The research method is descriptive-causal, and the design is experimental using a post-event approach. For data analysis, statistical and econometric methods, particularly multiple regression, were employed.

Findings: The results indicate that among the corporate governance criteria, board independence, board size, and audit firm size have the most significant impact on bank performance and play a crucial role in improving performance. In contrast, CEO duality and the relationship and holding management have less impact. Additionally, a positive and significant relationship was observed between board independence and audit firm size with bank performance. In the context of ownership structure, top shareholders and ownership concentration were identified as the most influential criteria.

Conclusion: This study highlights the importance of specific corporate governance and ownership structure criteria in improving or diminishing the performance of banks on the Tehran Stock Exchange.

Keywords: *Corporate Governance, Ownership Structure, Bank Performance, Tehran Stock Exchange.*

1 Introduction

Banks are the heart of the financial system and play a significant role in the process of mobilizing savings, identifying investment opportunities, and diversifying risk. Banks are considered the primary providers of resources needed by various economic sectors, and it is natural for the growth of each economic activity to be influenced by the dynamism of the banking system (Son et al., 2015). Today, the performance of the banking system, especially in the

optimal allocation of resources, is directly influenced by investment, employment, and the economic growth of a country. In other words, since the improvement of the performance of banks and financial institutions in a country paves the way for the economic improvement of that country, examining the conditions that lead to the improvement of bank performance is deemed necessary (Mirchandani & Gupta, 2018). One of the most important financial issues for banks is measuring their performance. In fact, financial performance measurement is crucial as it forms the basis for many decisions both inside and outside the bank. Investment decisions, capital increase, agency relationships, and many other decisions are all based on performance measurement (El-Chaarani et al., 2022; Grove et al., 2011). Efforts to improve performance and increase transparency in financial reporting are among the essentials for attracting investors. One of the potential factors that can affect bank performance is corporate governance mechanisms. The issue of corporate governance has been of interest to groups such as specialists, managers, shareholders, investors, regulatory bodies, and others since the mid-1980s following financial scandals and economic crises. Corporate governance refers to the responsibilities and practices employed by the board of directors and executives to determine the strategic direction ensuring the achievement of objectives, risk control, and resource utilization (Chen et al., 2012). Transparency, accountability, and sufficient disclosure are the three main elements in corporate governance. Proper establishment of corporate governance mechanisms is essential for the optimal use of resources, enhancing accountability, transparency, fairness, and the rights of all stakeholders. Good corporate governance is vital for ensuring a stable financial system and, consequently, the economic development of a country (Ozili & Uadiale, 2017). Therefore, corporate governance mechanisms will impact various organizational aspects, including performance (Markarian & Gill-de-Albornoz, 2010). Besides the aforementioned factors, ownership structure can also influence the performance of organizations and financial institutions, including banks. In fact, with the expansion of global markets and the separation of ownership from management, conflicts of interest among all stakeholder groups have emerged. These are generally expressed in management accounting as "agency theory." According to the definition by Afzal (2021), the agency relationship is a contract in which the owner or principal appoints an agent on their behalf and delegates decision-making authority to them (Afzal et al., 2021). In agency relationships, the goal of owners is to maximize wealth, and thus, they monitor and evaluate the agent's performance to achieve this goal (Phillips, 1986). In reality, the ownership structure of banks, through various theoretical frameworks, is recognized as a determinant of overall investment policies, particularly those related to performance and profitability (Wang, 2018).

Private ownership, meanwhile, aims to attract customers and increase bank profitability. Given this objective, customer, shareholder, and depositor satisfaction is prioritized, where corporate governance can play an effective role in improving the banking system's performance (Khan et al., 2021; Micco et al., 2007). On the other hand, equilibrium, as one of the foundations of economics since its inception by Adam Smith, was proposed because Smith's invisible hand relies on the concept of equilibrium to achieve the stability of the perfect competition market system. In this context, the activities carried out by various economic units to achieve equilibrium determine the overall economic balance. However, the entire economy reaches equilibrium only when all its members are in equilibrium; because if a unit is in disequilibrium, its situational changes cause disequilibrium, resulting in changes in the overall economic equilibrium (Bose et al., 2021).

Ownership structure is accepted as one of the determinants of firm performance. One of the significant dimensions of ownership structure is the contrast between private ownership and state or public ownership. According to Shleifer and Vishny (2020), private ownership is preferred over state ownership, especially when strong incentives for innovation and cost reduction in economic firms exist, and when competition among suppliers, reputation mechanisms, and the feasibility of providing services by private firms come into play (Shleifer & Vishny, 1986). Ownership structure is another important factor that can influence the quality of firm management, decisions, and performance. Ownership structure includes the composition of ownership on one hand and the degree of concentration of shares held by shareholders on the other. Past research indicates that ownership structure and different ownership groups cannot equally affect firm performance and strategies (Flannery & Rangan, 2006). Among different shareholder groups, institutional ownership is one of the important factors that can influence firm decisions and management and, consequently, their financial performance. As institutional ownership increases, due to greater oversight and control over executive activities, financial performance can improve

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(El-Chaarani et al., 2022). Therefore, this research examines the impact of corporate governance and ownership structure on the performance of banks listed on the Tehran Stock Exchange during the period from 2012 to 2021.

2 Methods and Materials

This research is quasi-experimental in nature concerning correlation and methodology, and falls within the realm of post-event and positive accounting research. This study uses real data and, since it can be applied in the process of using information, it is considered an applied research.

The statistical population of this research includes banks listed on the Tehran Stock Exchange during the years 2012 to 2021. The sample of this study, considering its subject, is of the elimination sampling type, where the selected banks, based on the following limitations, are from the banks listed on the Tehran Stock Exchange that meet the following conditions:

- Banks must have been listed on the Tehran Stock Exchange before 2012 and have not been delisted until the end of 2021;
- Banks should not have changed their fiscal year during the study period;
- Necessary information for conducting this research should be available.

Considering these limitations, the sample consists of 19 Iranian banks.

The following model and tables describe the variables and functions used to test the research hypotheses:

Model 1:

Bank Performance = f (1NDIV, 2BS, Duality, 4TOP10, 5MD, 6FORE, 7AUDIT, LNAT, INF, INT)

Model 2:

Bank Performance = f (DPO, FOR, MGO, CONC, TOP3, LNAT, INF, INT)

Table 1

Functions of Variables for the First Hypothesis

Variable	Symbol	Description
Corporate Governance Variables		
Independent Members	1NDIV	If more than 50% are independent
Board Size	2BS	Number of board members
CEO Duality	Duality	CEO and Chairman are not the same person
Relationship	4TOP10	No relationship among the top 10 shareholders
Management Holding	5MD	Greater managerial ownership (managers, supervisors, executives)
Foreign Ownership	6FORE	Foreign investor ownership greater than 0
Big 4 Audit Firm	7AUDIT	Audited by one of the Big 4 audit firms or joint ventures with them (the Audit Organization is considered a large firm)
Bank Performance Variables		
Return on Assets	ROA	Net profit / Total assets
Return on Equity	ROE	Net profit / Total common equity
Tobin's Q	QT	Market value of a company divided by total assets
Control Variables		
Bank Size	LNAT	Market value of assets (market value of equity - book value of equity)
Inflation Rate	INF	Inflation rate
Loan Interest Rate	INT	Loan interest rate

Table 1 illustrates the symbols and descriptions for corporate governance functions (independent members, board size, CEO duality, relationship, management holding, foreign ownership, Big 4 audit firm) and bank performance functions (return on assets, return on equity, Tobin's Q), as well as control variables (bank size, inflation rate, loan interest rate).

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Table 2

Functions of Variables for the Second Hypothesis

Variable	Symbol	Description
Bank Ownership Structure Variables		
Domestic Private Ownership	DPO	Percentage of shares held by domestic private owners
Foreign Ownership	FOR	Percentage of shares held by foreign investors
Managerial Ownership	MGO	Managerial ownership
Ownership Concentration	CONC	Sum of the squared ownership of the top ten major shareholders
Top Three Ownership	TOP3	Sum of the percentage of shares held by the top three shareholders
Bank Performance Variables		
Return on Assets	ROA	As per the first hypothesis
Return on Equity	ROE	As per the first hypothesis
Tobin's Q	QT	As per the first hypothesis
Control Variables		
Bank Size	LNAT	As per the first hypothesis
Inflation Rate	INF	As per the first hypothesis
Loan Interest Rate	INT	As per the first hypothesis

Table 2 illustrates the symbols and descriptions for ownership structure functions (domestic private ownership, foreign ownership, managerial ownership, ownership concentration, top three ownership) and bank performance functions (return on assets, return on equity, Tobin's Q), as well as control variables (bank size, inflation rate, loan interest rate).

In this study, data were collected over a nine-year period (2012 to 2021). Tables below present descriptive statistics for the research variables, including mean values, median, standard deviation, minimum, and maximum. It is noteworthy that continuous variables in this study were winsorized at the 1% level to reduce the impact of outliers.

3 Findings and Results

Table 3

Descriptive Statistics for Quantitative Variables

Variable	Mean	Median	Maximum	Minimum
Return on Assets (ROA)	0.024	-0.004	0.525	-0.564
Return on Equity (ROE)	0.060	0.278	3.668	-1.361
Tobin's Q	0.847	1.160	6.024	0.154
Bank Size	26.783	1.636	2.197	1.098
Board Size	19.875	19.845	23.072	15.972
Inflation Rate	1.912	23.411	43.390	7.250
Loan Interest Rate	0.071	0.164	0.840	0.094
Domestic Private Ownership	59.823	0.664	4.192	0.029
Foreign Ownership	29.853	0.000	0.000	0.000
Managerial Ownership	59.852	30.561	83.765	0.061
Ownership Concentration	52.523	37.813	97.119	0.000
Top Three Ownership	65.431	28.694	83.014	0.000
State Ownership	0.327	65.453	99.938	5.531

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Table 4

Descriptive Statistics for Qualitative Variables

Variable	Percentage Zero	Percentage One
Independent Members	73%	27%
CEO Duality	10%	90%
Relationship	38%	62%
Management Holding	93%	7%
Foreign Ownership	100%	0%
Big 4 Audit Firm	63%	37%

Banks with stronger corporate governance have a more positive performance (ROA). When examining the significance of the research model, as shown in Table 5, the F-statistic probability is less than 0.05, confirming the model's significance with 95% confidence. The Durbin-Watson statistic for Model (1) in Table 5 is 1.734, which falls between the critical values of 1.5 to 2.5; therefore, there is no autocorrelation among the residuals of the research models. Additionally, the adjusted R-squared value for the model is 0.201, indicating that the independent and control variables of the model explain approximately 20.1% of the variation in return on assets. The results of testing the first hypothesis show that the significance level of independent members is significant at the 5% error level. Independent members increase return on assets.

Table 5

Test Results for Models (1 to 2) for ROA Variable

Research Variables	Symbol	Coefficient (Hypothesis 1)	Sig (Hypothesis 1)	Coefficient (Hypothesis 2)	Sig (Hypothesis 2)
Constant	C	***0.089	0.000	-0.014	0.377
Board Size	2BS	-0.061	0.197	-	-
Independent Members	1NDIV	***0.051	0.022	-	-
CEO Duality	Duality	0.008	0.878	-	-
Relationship	4TOP10	-*0.028	0.078	-	-
Management Holding	5MD	0.051	0.306	-	-
Big 4 Audit Firm	7AUDIT	**0.031	0.034	-	-
Bank Size	LNAT	-0.009	0.070	-0.003	0.509
Inflation Rate	INF	0.001	0.384	0.169	0.865
Loan Interest Rate	INT	-0.139	0.102	-0.515	0.606
Domestic Private Ownership	DPO	-	-	-0.001	0.120
Managerial Ownership	MGO	-	-	**-0.003	0.042
Ownership Concentration	CONC	-	-	-0.006	0.005
Top Three Ownership	TOP3	-	-	0.008	0.004
R-squared	R^2	0.242	-	0.166	-
Adjusted R-squared	adj R^2	0.201	-	0.131	-
F-statistic	F	*5.847	-	*9.580	-
Durbin-Watson Statistic	DW	1.734	-	1.819	-

There is a significant relationship between ownership structure and performance (ROA). When examining the significance of the research model, as shown in Table 5, the F-statistic probability is less than 0.05, confirming the model's significance with 95% confidence. The Durbin-Watson statistic for Model (2) in Table 5 is 1.819, which falls between the critical values of 1.5 to 2.5; therefore, there is no autocorrelation among the residuals of the research models. Additionally, the adjusted R-squared value for the model is 0.131, indicating that the independent and control variables of the model explain approximately 13.1% of the variation in return on assets. The results of testing the third hypothesis show that the significance level of ownership concentration is significant at the 1% error level. Ownership concentration increases return on assets.

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Table 6

Test Results for Models (1 to 2) for ROE Variable

Research Variables	Symbol	Coefficient (Hypothesis 1)	Sig (Hypothesis 1)	Coefficient (Hypothesis 2)	Sig (Hypothesis 2)
Constant	C	***0.089	0.000	-0.014	0.377
Board Size	2BS	-7.97	0.000	-	-
Independent Members	1NDIV	***2.128	0.064	-	-
CEO Duality	Duality	1.014	0.711	-	-
Relationship	4TOP10	-*1.003	0.223	-	-
Management Holding	5MD	-0.765	0.768	-	-
Big 4 Audit Firm	7AUDIT	-0.116	0.877	-	-
Bank Size	LNAT	-0.188	0.470	0.169	0.001
Inflation Rate	INF	0.009	0.731	-0.515	0.780
Loan Interest Rate	INT	-2.432	0.584	-0.003	0.396
Domestic Private Ownership	DPO	-	-	*0.002	0.054
Managerial Ownership	MGO	-	-	0.001	0.636
Ownership Concentration	CONC	-	-	***-0.030	0.004
Top Three Ownership	TOP3	-	-	***0.036	0.003
R-squared	R^2	0.074	-	0.483	-
Adjusted R-squared	adj R^2	0.047	-	0.438	-
F-statistic	F	*2.433	-	*9.580	-
Durbin-Watson Statistic	DW	2.166	-	1.853	-

Banks with stronger corporate governance have a more positive performance (ROE). When examining the significance of the research model, as shown in Table 6, the F-statistic probability is less than 0.05, confirming the model's significance with 95% confidence. The Durbin-Watson statistic for Model (1) in Table 6 is 2.166, which falls between the critical values of 1.5 to 2.5; therefore, there is no autocorrelation among the residuals of the research models. Additionally, the adjusted R-squared value for the model is 0.047, indicating that the independent and control variables of the model explain approximately 4.7% of the variation in return on equity. The results of testing the first hypothesis show that the significance level of board size and independent members is significant at the 5% error level. Board size decreases return on assets, while independent members increase return on equity.

There is a significant relationship between ownership structure and performance (ROE). When examining the significance of the research model, as shown in Table 6, the F-statistic probability is less than 0.05, confirming the model's significance with 95% confidence. The Durbin-Watson statistic for Model (2) in Table 6 is 1.853, which falls between the critical values of 1.5 to 2.5; therefore, there is no autocorrelation among the residuals of the research models. Additionally, the adjusted R-squared value for the model is 0.438, indicating that the independent and control variables of the model explain approximately 43.8% of the variation in return on equity. The results of testing the third hypothesis show that the significance level of domestic private ownership, ownership concentration, and top three ownership is significant at the 1% error level. Ownership concentration decreases return on assets, while top three ownership and domestic private ownership increase return on equity. The significance level at the 10% error level shows that ownership concentration increases return on equity.

Table 7

Test Results for Models (1 to 2) for Tobin's Q Variable

Research Variables	Symbol	Coefficient (Hypothesis 1)	Sig (Hypothesis 1)	Coefficient (Hypothesis 2)	Sig (Hypothesis 2)
Constant	C	***0.089	0.197	-0.014	0.377
Board Size	2BS	-*1094.306	0.059	-	-
Independent Members	1NDIV	4235.761	0.123	-	-
CEO Duality	Duality	-2788.647	0.666	-	-
Relationship	4TOP10	990.549	0.612	-	-
Management Holding	5MD	**1530.651	0.802	-	-
Big 4 Audit Firm	7AUDIT	**4222.777	0.019	-	-

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Bank Size	LNAT	***2801.521	0.000	0.710	0.951
Inflation Rate	INF	41.761	0.516	-2.137	0.954
Loan Interest Rate	INT	**-2188.67	0.031	-0.567	0.749
Domestic Private Ownership	DPO	-	-	***-20.23	0.492
Managerial Ownership	MGO	-	-	-43.23	0.186
Ownership Concentration	CONC	-	-	-18.765	0.000
Top Three Ownership	TOP3	-	-	***23.729	0.000
R-squared	R^2	0.224	-	0.483	-
Adjusted R-squared	adj R^2	0.187	-	0.438	-
F-statistic	F	*5.306	-	*9.580	-
Durbin-Watson Statistic	DW	2.217	-	1.853	-

Banks with stronger corporate governance have a more positive performance (Tobin's Q). When examining the significance of the research model, as shown in Table 7, the F-statistic probability is less than 0.05, confirming the model's significance with 95% confidence. The Durbin-Watson statistic for Model (1) in Table 7 is 2.217, which falls between the critical values of 1.5 to 2.5; therefore, there is no autocorrelation among the residuals of the research models. Additionally, the adjusted R-squared value for the model is 0.187, indicating that the independent and control variables of the model explain approximately 18.7% of Tobin's Q. The results of testing the first hypothesis show that the significance level of board size and audit firm size is significant at the 5% error level. Board size decreases Tobin's Q, while audit firm size increases Tobin's Q.

There is a significant relationship between ownership structure and performance (Tobin's Q). When examining the significance of the research model, as shown in Table 7, the F-statistic probability is less than 0.05, confirming the model's significance with 95% confidence. The Durbin-Watson statistic for Model (2) in Table 7 is 1.853, which falls between the critical values of 1.5 to 2.5; therefore, there is no autocorrelation among the residuals of the research models. Additionally, the adjusted R-squared value for the model is 0.438, indicating that the independent and control variables of the model explain approximately 43.8% of Tobin's Q. The results of testing the third hypothesis show that the significance level of domestic private ownership, ownership concentration, and top three ownership is significant at the 1% error level. Ownership concentration decreases Tobin's Q, while top three ownership increases Tobin's Q.

4 Discussion and Conclusion

Based on the research findings, board independence, board size, and audit firm size are the most influential and receptive criteria for corporate governance for Iranian banks, highlighting their importance. On the other hand, the criteria of CEO duality, relationship, and management holding have relatively less influence on other criteria. Therefore, there is a positive and significant relationship between corporate governance and performance for the two variables of board independence and audit firm size. Corporate governance acts as a mechanism that can solve agency problems and increase the quantity and quality of disclosure (Son et al., 2015). The findings are consistent with prior studies (Garg, 2007; Ozili & Uadiale, 2017) which showed that since each group has its own specific interests and seeks to achieve its own utility function, there is a constant conflict among them. Commercial units use various mechanisms to maintain balance among different stakeholders and gain their satisfaction. Although the results obtained from CEO duality, relationship, and management holding do not align with those of Renders et al. (2021), which believed that the existence of a corporate governance system in any economy leads to optimal resource allocation and increased transparency in information provision, which in turn leads to growth and improved performance (Renders et al., 2010). Similarly, the findings do not align with Hambrick et al. (2021), which showed that larger boards provide more knowledge, diverse opinions, and different investment opportunities that ultimately benefit stakeholders, whereas smaller boards make inefficient strategic decisions. Among such monitoring mechanisms is the design and implementation of a corporate governance system because it reduces information asymmetry and helps shareholders in better management (Hambrick et al., 2008). Numerous empirical studies have examined the impact of corporate governance on social performance (Aebi et al., 2012; Bose et al., 2021; El-Chaarani et al., 2022; Garg, 2007; Grove et al., 2011; Khan et al., 2021; Kumar & Zattoni, 2015; Mirchandani & Gupta, 2018; Ozili & Uadiale, 2017; Renders et al., 2010). Corporate governance comprises a set of mechanisms for guiding and controlling companies. The corporate governance system includes instructions, structures, processes, and cultural norms that banks follow

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to achieve transparency in processes, accountability to stakeholders, and respect for their rights. Corporate governance mechanisms reduce agency problems in banks. The quality of these mechanisms is relative and varies from one bank to another. Corporate governance mechanisms affect the information disclosed by banks to their shareholders, reducing the likelihood of incomplete or unreliable information disclosure. Bank corporate governance considers various aspects of performance. Corporate governance in banks depends on the characteristics of managers, the composition of board members, and financial and other incentives to align the activities of key role players with the interests of shareholders. Senior managers may be selected from major shareholders or hired externally. Most bank managers are initially selected from major shareholders; if shareholders lack sufficient experience in managing the bank's daily operations or do not have enough time for it, hiring professional managers is necessary. In this regard, shareholders should promote good governance practices to encourage companies towards responsibility (Garg, 2007; Grove et al., 2011; Khan et al., 2021; Kumar & Zattoni, 2015).

Based on the research findings, top three ownership and ownership concentration are the most influential and receptive criteria for ownership structure for Iranian banks, highlighting their importance. On the other hand, domestic private ownership, foreign ownership, and managerial ownership have relatively less influence on other criteria. There is a negative and significant relationship between ownership concentration and performance. The results are consistent with those of Shleifer and Vishny (2020), which showed that with the development and improvement of financial market activities, banking activities have expanded, and economic development without considering the role of banks and financial institutions is impossible (Shleifer & Vishny, 1986). Similarly, Aebi et al. (2012) found that large shareholders, such as corporate investors, cannot effectively monitor the risks taken by banks, thereby improving bank performance (Aebi et al., 2012). Han and Suk (2016) showed that financial companies with large corporate ownership took more risks before the crisis and suffered more losses during the 2007-2008 period (Han & Suk, 1998). However, the findings do not align with those of Cho (2017), who showed a positive relationship between domestic ownership and performance (Cho, 1998). Therefore, there is a significant relationship between ownership concentration and financial performance of companies. Major shareholders are usually less inclined to disclose company information in the market, possibly because they aim to hide confidential information from other shareholders and stakeholders to protect company plans and policies that often align with major shareholders' interests. It is recommended to use legal requirements and mandatory disclosure of financial performance information to enhance relationships between commercial units and other stakeholders.

Suggestions Based on Research Results:

- Increase the use of non-executive members in the composition of the board of directors.
- Separate the role of the CEO from the role of the chairman of the board.
- Avoid long-term stability of the CEO position.
- Strive to increase the floating shares of the company.
- Transfer shares to institutional shareholders and shareholders with more than five percent.

Suggestions for Future Research:

- To make better use of the research results and clarify the impact of factors affecting bank performance in the future, the following topics can be given more attention:
- Examine the role of board composition in moderating the impact of political connections and corporate governance on bank performance during financial crises.
- Examine the role of social trust in moderating the impact of political connections and corporate governance on bank performance during financial crises.
- Examine the role of social responsibilities in moderating the impact of political connections and corporate governance on bank performance during financial crises.
- Examine the role of information disclosure in moderating the impact of political connections and corporate governance on bank performance during financial crises.

Examine the role of industry characteristics in moderating the impact of political connections and corporate governance on bank performance during financial crises.

- Future research should focus on other factors with customer-centric and relative performance, such as managerial overconfidence, corporate social responsibility, audit quality, CEO short-sightedness, etc., in the areas of finance, management, and auditing.

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Authors' Contributions

All authors have contributed significantly to the research process and the development of the manuscript.

Declaration

In order to correct and improve the academic writing of our paper, we have used the language model ChatGPT.

Transparency Statement

Data are available for research purposes upon reasonable request to the corresponding author.

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Declaration of Interest

The authors report no conflict of interest.

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Ethical Considerations

In this research, ethical standards including obtaining informed consent, ensuring privacy and confidentiality were observed.

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