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The Impact of Ownership Structure on the Financial Performance of Industrial Companies Listed on the Amman Stock Exchange

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ABSTRACT

This study aimed to examine the impact of ownership structure, in its dimensions (managerial ownership, institutional ownership), on financial performance measured by return on assets in industrial companies listed on the Amman Stock Exchange. The study adopted a descriptive-analytical approach, and the sample consisted of all industrial companies listed on the Amman Stock Exchange, totaling 30 companies during the period (2018-2023), with a total of 180 observations. Data related to the study variables were collected from annual reports, and panel data analysis was conducted using STATA software. The results showed a significant positive impact of both managerial and institutional ownership on financial performance, as measured by return on assets in industrial companies listed on the Amman Stock Exchange.

Keywords: ownership structure, managerial ownership, institutional ownership, financial performance, return on assets.

INTRODUCTION

The world is witnessing tremendous development in the industrial sector, which plays an important role in economic and social development in terms of employment, job creation, and attracting investments. Investments also contribute to enhancing productive capacity and innovating new technologies, which increases corporate profits. Industrial diversification reduces financial risks and expands markets, significantly impacting the financial performance of companies, as it has become an essential role in measuring the efficiency and effectiveness of the financial activity of an organization. Financial performance also reflects the company's ability to achieve sustainable profits and generate substantial returns on investments, through its ability to control costs and achieve its objectives through operational processes that measure productivity. It is also considered one of the vital factors that directly influence the ownership structure in companies (Al-Haddad et al., 2024), and thus, financial performance analysis allows investors and decision-makers to take informed actions based on accurate data, contributing to adaptation to market changes. In this regard, it has also become necessary to consider the importance of ownership structure, as it has a significant impact on a company's ability to achieve financial returns, determine the stability of the company, its financial performance, and maximize the value of the organization (Al-Adl & Abdul-Aleem, 2022). The way shares and stakes are divided among shareholders affects decision-making and company stability (Islam, 2023).

Research Problem

Given the lack of clarity regarding the impact of ownership structure on financial performance in industrial companies listed on the Amman Stock Exchange, it is essential to examine the extent to which ownership structure affects financial performance by analyzing the fundamental factors that may influence a company's financial outcomes. This is crucial to ensure the sustainability of companies, achieve their sustainable growth, and identify their strengths and weaknesses. Based on this issue, this study aims to determine the relationship between ownership structure and financial performance in Jordanian industrial companies, which play a significant role in the national economy and are considered key pillars of economic growth in Jordan. By studying this relationship, the research seeks to identify the factors affecting corporate sustainability and suggest ways to improve financial performance.

Research Questions

Based on the research problem and the variables that the study will rely on, the following questions have been formulated:

Main Research Question 1:

Is there an effect of ownership structure, in its dimensions (managerial ownership, institutional ownership), on financial performance measured by return on assets (ROA) in industrial companies listed on the Amman Stock Exchange?
From this main question, the following sub-questions arise:

Sub-question 1:

Is there an effect of managerial ownership on financial performance measured by return on assets (ROA) in industrial companies listed on the Amman Stock Exchange?

Sub-question 2:

Is there an effect of institutional ownership on financial performance measured by return on assets (ROA) in industrial companies listed on the Amman Stock Exchange?

Study Objectives

The main objective of this study is to identify the following:
Main Objective 1: To examine the impact of ownership structure, in its dimensions (managerial ownership, institutional ownership), on financial performance measured by return on assets (ROA) in industrial companies listed on the Amman Stock Exchange.
From this main objective, the following sub-objectives arise:

- To examine the impact of managerial ownership on financial performance measured by return on assets (ROA) in industrial companies listed on the Amman Stock Exchange.
- To examine the impact of institutional ownership on financial performance measured by return on assets (ROA) in industrial companies listed on the Amman Stock Exchange.

Study Significance

The significance of this study can be divided into the following:

First: Scientific (Theoretical) Significance:

The theoretical significance of this study lies in enhancing the academic understanding of the impact of ownership structure on financial performance. This study contributes to clarifying the relationship between ownership structure and financial performance of companies, while also revealing differences among companies within the same industry sector. Through this research, valuable insights are provided on how various ownership structures affect financial performance efficiency, helping companies adjust their strategies for managing ownership structure to improve financial outcomes. Furthermore, the study contributes to expanding the literature on corporate governance and provides data that supports future research in this field. The findings of this study are expected to be beneficial to companies, particularly industrial firms listed on the Amman Stock Exchange, by offering recommendations that may help improve their financial performance.

Second: Practical (Applied) Significance:

The practical significance of this study lies in the results and recommendations that have been reached, which can assist industrial companies listed on the Amman Stock Exchange by providing practical insights to improve their financial performance. The study highlights how ownership structure influences the effectiveness of governance and oversight within companies, contributing to the design of more efficient governance and management policies. Additionally, the study offers practical guidance on how to organize ownership structures in a way that enhances financial performance, thereby strengthening management strategies and financial oversight in the industrial sector, particularly for companies listed on the Amman Stock Exchange.

Study Hypotheses

H01: There is no statistically significant effect at the significance level ($\alpha \leq 0.05$) of ownership structure in its dimensions (managerial ownership and institutional ownership) on financial performance measured by return on assets in industrial companies listed on the Amman Stock Exchange.
From this main hypothesis, the following sub-hypotheses are derived:
H01.1: There is no statistically significant effect at the significance level ($\alpha \leq 0.05$) of managerial ownership on financial performance measured by return on assets in industrial companies listed on the Amman Stock Exchange.
H01.2: There is no statistically significant effect at the significance level ($\alpha \leq 0.05$) of institutional ownership on financial performance measured by return on assets in industrial companies listed on the Amman Stock Exchange.

Study Model:

The model below presents the study variables, which include the independent variable (ownership structure) with its dimensions (managerial ownership and institutional ownership), and the dependent variable (financial performance), as shown in the following figure :

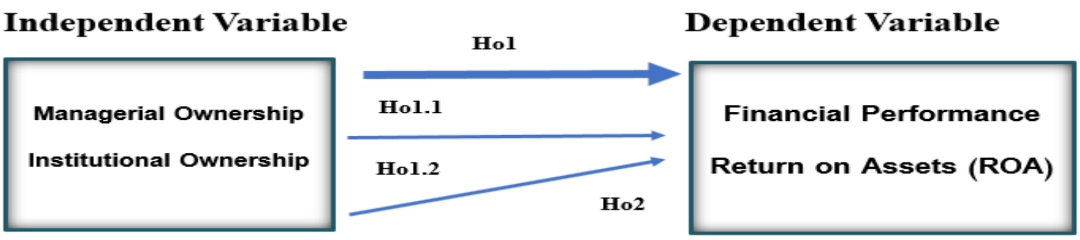

Figure 1: Study Model Prepared by the Researcher Based on the Previous Literature
The following studies were referred to in order to define the dimensions of the study, as shown in the table below:

Table 1: Sources of the Study Model

Study variables	the reviewer
	Ali & Masood, 2024
	Al-Khazaleh, 2024
	Anderson & Reeb, 2022
	Burghleh & Al-Okdeh, 2020
	Feng et al., 2020
	Qawqzeh et al., 2021
	Hossain et al., 2024
	Islam, 2023
	Tayeh et al., 2023
	Saleh et al., 2024
Independent variable: ownership structure	Basuony et al., 2023
	Ahmed & Yahaya, 2024
	Al-Haddad et al., 2024
	El-Adl, 2022
	Hamed, 2023
	Alkurdi et al., 2021
	Kuttu, 2024
Financial performance	Ruiz et al., 2024

Conceptual and Operational Definitions:

Ownership Structure Terminologically

Many scholars and thinkers have provided various definitions of the concept of ownership structure, which is considered the distribution of a company's shares among different categories of shareholders. This structure reflects the presence of a group of owners within a legal framework that defines shared objectives and specifies the percentage of ownership for each category. It also highlights the impact of this distribution on the company's overall performance and the complex relationship between the owners and management. These issues raise important concerns, such as conflicts of interest, emphasizing the significance of effective governance and management in promoting institutional stability and sustainability. Furthermore, ownership structure influences the distribution of power and authority within the company and contributes to regulating mechanisms of control and accountability, enhancing transparency and reducing conflicts of interest between the owners and management (Feng, Hassan, & Elamer, 2020).

This study addresses two types of ownership structures, namely managerial ownership and institutional ownership, as they are considered among the common types in the context of Jordanian companies (Qawaqzeh et al., 2021).

Administrative ownership refers to the proportion of a company's shares held by individuals in managerial positions, including both executive and non-executive directors. This type of ownership aligns the interests of management with those of the shareholders, thus helping to mitigate agency conflicts and potentially enhancing the company's overall performance (Tayeh, Mustafa, & Bino, 2023). However, the impact of administrative ownership on performance can vary: while it may improve performance, excessive ownership could concentrate decision-making power, leading to potential declines in performance. In general, holders of administrative ownership strive to maintain the company's reputation and long-term market success, benefiting their own investments (Basuony et al., 2023).

Managerial ownership, operationally: managerial ownership was measured by the percentage of shares owned by executive managers and board members out of the company's total shares. It is calculated by dividing the number of shares owned by them by the total outstanding shares of the company, and is usually expressed as a percentage (Al-Khazaleh, 2024).

Managerial Ownership = (Number of shares owned by managers) / (Total number of company shares)

Institutional ownership refers to the holding of shares by legal entities such as institutional investors who own 5% or more of the company's total shares. According to agency theory, the role of institutional ownership in monitoring varies based on the investment intent. If the objective is long-term investment, it enhances the institutional investor's role in oversight, making it a key governance mechanism to reduce biased earnings management (effective monitoring hypothesis). However, if the purpose is speculation for short-term returns, the institutional investor is unlikely to play an active monitoring role (neutral hypothesis), which may increase management's incentives to engage in earnings manipulation.

Studies also show mixed effects of institutional ownership on financial performance. While some research indicates a positive impact, other studies suggest there is no strong relationship. Return on equity is often used as the primary indicator of financial performance, taking into account control variables such as firm size and financial leverage (Ahmed & Yahaya, 2024).

Institutional ownership, operationally: institutional ownership was measured by the percentage of shares owned by institutions out of the company's total shares. It is calculated by dividing the number of shares owned by them by the total outstanding shares of the company and is usually expressed as a percentage (Al-Khazaleh, 2024).

Institutional Ownership = (Number of shares owned by institutions) / (Total number of company shares).

Financial performance, terminologically, refers to the assessment of a company's financial outcomes, commonly measured by indicators such as return on equity (ROE), taking into account control variables like firm size and financial leverage. Institutional ownership refers to the holding of shares by legal entities, such as institutional investors, who own 5% or more of a company's total shares. According to agency theory, the role of institutional ownership in monitoring varies based on the investment goal. If the objective is long-term investment, it enhances the institutional investor's role in oversight, positioning it as a key governance mechanism to reduce biased earnings management (effective monitoring hypothesis). However, if the goal is short-term speculation for quick returns, the institutional investor typically does not engage in active monitoring (neutral hypothesis), which could increase management's incentives to manipulate earnings.

Studies also show mixed effects of institutional ownership on financial performance. While some research indicates a positive impact, other studies suggest no strong relationship (Ahmed & Yahaya, 2024) .

Financial performance, operationally: financial performance was measured through the return on assets (ROA) indicator, which measures the extent of the company's efficiency in using its assets to generate profits, using the following equation:

Return on Assets = Net profit after tax / Average total assets (Kuttu, 2024).

THE THEORETICAL FRAMEWORK

Ownership Structure

Characteristics of Ownership Structure and Its Impact on Companies:

The ownership structure is a fundamental determinant of the relationship dynamics between shareholders and management within corporations, significantly influencing decision-making processes. It reflects the distribution of power among shareholders, which in turn impacts their influence on management and corporate policies. Several key characteristics of ownership structure play a crucial role in shaping corporate performance and guiding growth strategies. These include the diversity of shareholders, the types of shares, and the size of ownership.
These characteristics can be summarized as follows:

- ***Diversity of Shareholders:*** The ownership structure comprises various types of shareholders, such as individuals holding small stakes and institutional investors possessing significant shares. This diversity plays a vital role in determining the extent to which each group influences strategic and administrative decisions.
- ***Types of Shares:*** The ownership structure encompasses different types of shares, such as common shares that grant shareholders voting rights and participation in profit distribution, and preferred shares that provide priority in profit distribution without voting rights. This differentiation affects the balance of power among shareholders and dictates who holds greater influence in shaping corporate policies.
- ***Ownership Size:*** The size of ownership is a critical indicator of the level of influence shareholders have over administrative and financial decisions. The proportion of ownership stakes reflects the degree of control shareholders exercise within the corporate structure.
- ***Control and Influence:*** The ownership structure allows major shareholders to exert considerable influence over corporate policies and strategic directions, enhancing the company's capacity to make critical decisions that impact its future trajectory.
- ***Transparency and Accountability:*** A well-defined ownership structure requires a high level of transparency in management, fostering trust among shareholders and strengthening internal accountability.
- ***Growth Strategies:*** The ownership structure directly impacts a company's ability to attract new investments and achieve expansion. The distribution of ownership influences the sustainability of these investments and plays a pivotal role in shaping the company's long-term growth and development strategies.

  As emphasized by Hossain, Akhter, and Rahman (2024), the structure of ownership is integral to corporate governance and performance, shaping not only internal dynamics but also influencing external perceptions of organizational stability and growth.

Ownership Patterns

Ownership structures are crucial factors that influence the management and organization of institutions, with these structures varying across different countries and even within the same country. Ownership structures can be classified into two main types: the dispersed structure, characterized by ownership distributed among a large number of shareholders, and the concentrated structure, where ownership is held by a small number of individuals or institutions. The distinction between these two types is based on two key dimensions: the degree of ownership concentration and the nature of the investors, which directly affect management strategies and institutional success. Therefore, the study and analysis of ownership structures are of great importance due to their significant impact on institutional performance (Ali & Masood, 2024).

- ***Dispersed Ownership:*** In this type of ownership, the ownership is distributed among a large number of shareholders, each holding a small stake, preventing any single shareholder from exercising individual control. This results in the absence of incentives and contractual mechanisms to align the interests of shareholders with those of the managers, which may lead managers to make decisions that serve their personal interests at the expense of the company. Furthermore, dispersed ownership reduces the ability of small shareholders to monitor management performance, as the costs of monitoring are not justified by the benefits they receive. However, dispersed ownership contributes to expanding the ownership base, encouraging small savers to invest in the stock market and allowing them to diversify their investment portfolios, thereby reducing their exposure to risk (Anderson & Reeb, 2022).
- ***Concentrated Ownership:*** In this type, ownership is concentrated in the hands of a few individuals or institutions, giving them the ability to influence management decisions. This leads to a conflict of

interest between the controlling shareholders and minority shareholders, as major shareholders may influence decisions to further their personal goals, potentially distorting financial outcomes to meet their interests at the expense of smaller shareholders. Studies suggest that an increase in ownership stakes (e.g., 5% or more) is associated with heightened conflicts of interest, which may negatively affect the quality of earnings in the company.

***The Relationship Between Ownership Structure and Financial Performance*:**

The relationship between ownership structure and financial performance in industrial companies is a critical topic that warrants in-depth study. Ownership structure is considered one of the key factors influencing a firm's financial performance. While there is general agreement among researchers on the importance of this factor, opinions diverge regarding the nature and direction of its impact. Consequently, there is a need to explore the various theories that explain the link between ownership structure and organizational performance (Saleh et al., 2024). This diversity of viewpoints reflects the multifaceted nature of this relationship, where the distribution of ownership can affect management decisions and growth strategies, which in turn impacts the interests of various stakeholders within the firm. Companies play a significant role in driving economic development and contributing to national economic growth, which is reflected in improved operational efficiency and increased productivity. Therefore, research on these dynamics is crucial to understanding how sustainable financial performance can be achieved at the organizational level.

Financial Performance:

The Importance of Financial Performance:

Measuring financial performance is a key factor in the success of organizations. Through it, the effectiveness of managerial activities and the achievement of organizational goals can be assessed. The importance of financial performance is reflected in several key aspects:

1. ***Achieving Organizational Goals and Enhancing Effectiveness:*** Financial performance reflects the organization's ability to achieve its set objectives through the optimal use of available resources, leading to improved operational efficiency and better results. Additionally, measuring financial performance helps in formulating effective strategies based on the organization's financial capabilities.
2. ***Sustainability of Organizations:*** Financial performance plays a critical role in making well-informed financial decisions that ensure the sustainability of organizations in a competitive environment. By evaluating performance, companies can develop sustainable competitive strategies (Hamed, 2023).
3. ***Enhancing Market Value and Organizational Transparency:*** Financial performance contributes to increasing the company's market value, making it more attractive to investors and helping meet shareholders' needs. It also improves institutional transparency by analyzing the company's competitiveness and identifying areas for improvement (Bui & Krajcsak, 2024).
4. ***Decision-Making and Predicting Crises:*** Financial performance allows organizations to measure their performance using financial ratios, helping in making informed decisions and analyzing the impact of financial tools on profitability and risk. Additionally, it plays a crucial role in predicting financial crises and mitigating their effects, thus enhancing the company's stability and reducing the impact of financial pressures.
5. ***Providing Necessary Data:*** Financial performance provides accurate and comprehensive financial data that supports the decision-making process, enabling a clear understanding of the financial position and guiding future strategic directions (Ruiz, Salazar Gomez, & Valdivia Rivera, 2024).

Financial Performance Measurement

Financial performance measurement is a fundamental tool for evaluating the efficiency of companies, as it relies on a set of metrics to determine the level of institutional performance and analyze the extent to which strategic goals are achieved. The importance of these metrics is evident in several key dimensions (Baker & Powell, 2022):

1. ***Market Performance Analysis:*** This metric involves studying sales volume and relative changes over time, which helps determine the company's position in the market compared to its competitors. It includes the analysis of market share and relative growth, providing insights into market trends and enhancing the ability to adapt to changes in the competitive environment.
2. ***Achieving Efficiency:*** This metric focuses on evaluating the effectiveness of resource utilization, minimizing waste, and maximizing productivity. It includes measuring the time taken to complete processes and the cost efficiency related to production.

3. ***Effectiveness Evaluation:*** This metric measures the company's ability to achieve its defined strategic goals. It relies on analyzing the extent to which pre-set goals are achieved and assessing the impact of strategic decisions on the results.
4. ***Value-Added Measurement:*** This metric aims to estimate the company's social and economic impact, including job creation and improvements in quality of life. It also involves evaluating the company's effect on the environment and society, reflecting its role in sustainable development.
5. ***Quality Determination:*** This metric measures the quality level of the company's products and services by setting precise standards and defining acceptable error levels. Customer satisfaction is assessed as a critical element in improving quality and ensuring excellence in products and services.
6. ***Financial Performance Analysis:*** This metric includes analyzing key financial statements such as the balance sheet, income statement, and cash flow statement to understand the company's overall financial performance. It is important to consider financial figures in their full context, where it is preferable to integrate them with other metrics such as return on investment and liquidity ratios to obtain a comprehensive evaluation.

Furthermore, performance measurement provides an opportunity to detect both negative and positive deviations, which aids in taking corrective actions to enhance performance. Supporting positive deviations through material and moral support contributes to motivating employees and increasing their commitment. Without accurate performance measurement, the process of monitoring and guiding activities becomes more difficult.

RELATED PREVIOUS STUDIES

Islam (2023) Study: This study aimed to examine the impact of ownership structure on the financial performance of listed pharmaceutical companies in Bangladesh for the period from 2007 to 2020. The study used fixed and random effects regression models to present the results, which indicated a significant effect of institutional shareholding on financial performance. However, regarding market performance, there was no significant relationship between ownership structure and financial performance. The study sample included 9 companies, and it recommended encouraging investors to focus on companies with institutional ownership while advising caution in selecting family-dominated companies.

Burghleh & Al-Okdeh (2020) Study: This study aimed to identify the impact of board characteristics, financial expertise, and board meetings on earnings management. It was applied to Jordanian industrial companies listed on the Amman Stock Exchange, with a sample of 41 industrial companies for the period from 2013 to 2017, measured using the modified Jones model. The results indicated that the total board characteristics, board size, and financial expertise affected earnings management, while board meetings had no effect. When linked to ownership concentration, there was an impact between earnings management and board characteristics. The study recommended focusing on legislation that emphasizes earnings quality and imposing strict penalties to prevent financial data manipulation.

RESULTS OF THE STUDY

After presenting the results of the hypotheses testing, this section will discuss and interpret these results in light of the theoretical framework and previous studies.

Discussion of the Results of the Testing of the First Main Hypothesis

The results of testing the first main hypothesis showed a statistically significant effect of ownership structure with its dimensions (managerial ownership, institutional ownership) on financial performance, as measured by return on assets in industrial companies listed on the Amman Stock Exchange. This effect was positive for both dimensions, where the regression coefficient for managerial ownership was 0.6082 with a significance level of 0.001, and the regression coefficient for institutional ownership was 0.0564 with a significance level of 0.001.

Discussion of the Results of the Testing of the First Sub-Hypothesis

The results of testing the first sub-hypothesis revealed a statistically significant positive relationship between managerial ownership and financial performance, as measured by return on assets (ROA) in industrial companies listed on the Amman Stock Exchange. This finding supports the predictions of Agency Theory, which suggests that increasing managerial ownership can mitigate agency problems and enhance financial performance (Jensen & Meckling, 1976).

Furthermore, the result is consistent with previous research, such as the study by Alkurdi et al. (2021), which examined Jordanian companies listed on the Amman Stock Exchange's first market. These studies have emphasized the positive correlation between managerial ownership and financial performance, explaining that higher ownership stakes in the company align the interests of managers with those of shareholders. As a result, managers are more likely to make decisions that benefit the company and increase its value, as a portion of their personal wealth is directly tied to the company's performance.

In the context of Jordanian industrial companies, this result can be interpreted as an indication that increased managerial ownership fosters greater commitment among managers. This ownership structure encourages managers to make decisions that are conducive to improving the company's financial outcomes, particularly in terms of investment and operational choices. Additionally, higher managerial ownership could contribute to greater management stability and lower turnover rates, which in turn supports the execution of long-term strategies aimed at enhancing the company's financial performance.

However, it is important to note that the average level of managerial ownership in Jordanian industrial companies is relatively low (1.15%), which may potentially limit the extent of its positive impact on financial performance. Therefore, it may be beneficial for these companies to consider increasing managerial ownership through stock incentive plans, thereby potentially improving financial outcomes.

Discussion of the Results of the Testing of the Second Sub-Hypothesis

The results of testing the second sub-hypothesis demonstrated a statistically significant positive effect of institutional ownership on financial performance, as measured by return on assets (ROA) in industrial companies listed on the Amman Stock Exchange. This finding is consistent with the Effective Monitoring Hypothesis, which posits that institutional investors have both the incentive and the capacity to effectively monitor management's performance, thereby contributing to improved financial outcomes for the company (Shleifer & Vishny, 1986).

Moreover, this result aligns with the findings of several previous studies that have identified a positive relationship between institutional ownership and financial performance. For instance, Islam (2024) conducted a study on pharmaceutical companies in Bangladesh, which concluded that institutional ownership positively influences financial performance. These studies attribute the positive relationship between institutional ownership and financial performance to the fact that institutional investors typically possess the expertise and resources required to monitor management effectively, guiding them toward decisions that enhance the company's value.

In the context of Jordanian industrial companies, this result can be interpreted as reflecting the significant role of institutional owners, such as investment funds and large corporations, in shaping company strategies. Institutional investors are often able to appoint representatives to the boards of directors of the companies they invest in, enabling them to influence key strategic decisions and oversight. Furthermore, institutional owners may provide valuable financial and technical support to the companies in which they hold stakes, thereby contributing to improved financial performance.

It is noteworthy that institutional ownership in Jordanian industrial companies averages a relatively high 48.54%, underscoring the substantial influence that institutional investors exert in these firms. Given the pivotal role that institutional owners play, it may be beneficial for Jordanian industrial companies to strengthen their relationships with these investors, leveraging their expertise and resources to further enhance financial performance.

11. Recommendations

In light of the study's results, the researcher provides the following recommendations:

The study recommends that Jordanian industrial companies adopt stock incentive programs for executives and senior management to increase their ownership stake in the company. This alignment of interests between management and shareholders is expected to enhance the company's financial performance.

It is recommended that industrial companies strengthen their relationships with institutional owners and leverage their expertise and resources to develop company strategies and improve operational processes, thereby positively impacting financial performance.

The study suggests that the Jordan Securities Commission develop governance guidelines that align with the ownership structures of Jordanian companies, ensuring clear standards for governance practices and requiring companies to disclose details of their ownership structures.

The study recommends that legislative authorities provide tax incentives and facilities for companies adopting Employee Stock Ownership Plans (ESOPs), as this could lead to increased managerial ownership and improved financial performance.

The study proposes enhancing the monitoring of institutional owners' practices in industrial companies to ensure that their control is not exploited for private benefits at the expense of other shareholders, and to ensure that their practices serve the interests of the company and contribute to its financial performance.

FUTURE RESEARCH:

In light of the study's results and limitations, the researcher proposes the following future research directions:

- Conduct a study on the non-linear relationship between ownership structure and financial performance in Jordanian companies, as some previous studies have suggested that this relationship may take the form of a U-curve or an inverted U-curve, which was not addressed in the current study.
- Conduct a comparative study on the impact of ownership structure on financial performance across different sectors (industrial, financial, and service) in the Amman Stock Exchange, to determine if the nature of this relationship varies across different economic sectors.

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