

DANA AL-NAJJAR

Applied Science Private University, Jordan

DO LEVERAGE AND OWNERSHIP CONCENTRATION INFLUENCE FIRMS' VALUE? A STUDY OF JORDANIAN LISTED FIRMS

Abstract:

In the last decade corporate control has been facing a major challenge enhanced by successive corporate scandals; moreover, the shape of relationship between financial decisions (capital structure) and ownership structure on the firm value has been the heart debate of academics and financial experts for recent years. Furthermore, there have been contradictory findings across years by different researchers all over the world, in this path the studies of Demsetz (1983), Demsetz and Lehn (1985) provides support to no statistical relationship between ownership structure and firm performance. On the other hand, subsequent studies by Morck, Shleifer and Vishny (1988), McConnell & Servaes (1990; 1996), Smith & Watts (1992), and Lang et al., (1996) all these studies reported that their statistical analysis support the existence of relationship between both capital structure and firms' performance. In turn capital structure is likely to affect managers' incentives and, hence, the firms' performance (Harris & Raviv (1991); Fama & French (1998); Barclays & Smith (1999); and Rizov (2004)).

This study uses a sample of Jordanian non-financial firms listed from 2005-2012 to examine how the capital structure, and ownership structure affect the firm's value. The study depends on panel data analysis; the dependent variable is the firm value measured by P/E ratio, and the independent variables are leverage measured by Debt/ Asset ratio, and ownership concentration through Herfindahl index, for the explanatory variables they contain both firm size, and profitability.

Partially consistent with the previous studies; my empirical results support the presence of significant relationship between capital structure and firm value, and insignificant relationship between ownership structure and firms value for Jordanian firms.

Keywords:

Ownership structure; Capital structure; Firm value; Accounting Measurements; Agency Theory; Jordanian Listed firms; Emerging Markets.