MARKET VALUE AND OWNERSHIP STRUCTURE OF CENTRAL EUROPEAN BANKS

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Abstract: The aim of this paper is to examine relationships between ownership structure and the market value of Central European banks from 11 countries between 2007-2021. The ownership structure refers to two elements. Firstly, it is a concentration of ownership, which is taken into account by analyzing the presence of a majority shareholder. Secondly, we consider a shareholder's country of origin. We find that the presence of a majority shareholder is related to the higher market value of banks. We also find a positive relationship between the presence of a foreign shareholder and the market value of banks.

***Keywords*:** market value, shareholder structure, corporate governance, Central European banks.

INTRODUCTION

The ownership structure is an element of corporate governance that significantly affects the functioning of banks. Previous research indicates that shareholders are significantly related to areas of bank activity such as profitability (Bian and Deng, 2017; Chen and Liao, 2011; Claessens and van Horen, 2012) and risk (Chou and Lin, 2011; Iannotta et al., 2007; Shaban and James, 2018). When listed banks are considered, it turns out that the ownership structure is significantly related to the market value of these banks.

Bank shares may be held by various groups of entities. The market value of banks is examined in the context of the types of shareholders such as: members of statutory bodies (Belkhir, 2009a; Onali et al., 2016; Basuony et al., 2014; Belkhir, 2009b; Carillo and Bathala, 2010; Elyasiani and Jia, 2008; Zagorchev and Gao, 2015), state (Chahine 2007; Zulkafli and Samad, 2007), family (Arouri et al., 2014; Chahine, 2007) or institutional shareholder (Arouri et al., 2014; Ghosh, 2018).

Another area of research on the ownership structure and market value of banks is the origin of the shareholder, with emphasis on the foreign form of ownership. Foreign shareholders often have specialist knowledge acquired in more developed markets, which they are able to use to develop the company. Foreign owners are also characterized by the ability to effectively monitor the work of statutory bodies, which translates into building effective corporate governance mechanisms (Aggarwal et al., 2011; Gillan and Starks, 2003), especially in countries with weak shareholder protection (Baba, 2009; Desender et al., 2016). These features make that the market value of banks increases under the influence of a foreign shareholder (Abraham, 2013; Chahine, 2007; Fang et al., 2014). At the same time, it is possible that the actions of the foreign owner result in a reduction in the market value of the banks. This dependence is largely caused by cultural and linguistic differences, difficulties in access to information, and the need to adapt to various regulatory requirements (Berger et al., 2000). The negative relationship between the presence of a foreign shareholder and the market value of banks is shown by Zulkafli and Samad (2007).

Many works analyze the ownership structure without taking into account the type of shareholder, but focusing only on the degree of concentration. For example, some authors focus on owners who have more than 5% (Busta et al., 2014; Zulkafli and Samad, 2007), 10% (Anginer et al., 2016), or 50% (Fang et al., 2014), of shares in the ownership structure. An owner with a significant share in the ownership structure has the ability to effectively monitor lending practices and effectively manage risk, which consequently may lead to an increase in market value (Unite and Sullivan, 2003). In consequence, some of studies show a positive relationship between the degree of ownership concentration and the value of banks (Anginer et al., 2016; Busta et al., 2014; Ni, 2019). Another trend in the literature indicates that a high degree of ownership concentration may negatively affect the process of making decisions that maximize market value. A negative relationship between ownership concentration is demonstrated by Busta et al. (2014) and Zulkafli and Samad (2007). Lastly, some studies indicate there is no relationship between ownership concentration and the market value of banks (Carrillo and Bathala, 2010; Belkhir, 2009b; Erkens et al., 2012).

Based on the literature review, we decide to focus on the presence of a majority shareholder who holds at least 50% of shares in the ownership structure. We assume that there is a positive relationship between the presence of a shareholder defined in this way and the market value of the bank. We also focus on the shareholder's country of origin. For this purpose, we consider the presence of a foreign shareholder. We assume a positive relationship between the presence of a foreign shareholder and the market value. Additionally, in each variant we consider the role of bank profitability and the financial crisis.

METHODOLOGY

In our estimations, we use a sample of listed commercial banks from 11 Central European countries. The sample comprises Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia. All countries are EU members states. The sample covers the period from 2007 to 2021.

The database used consists of four parts, which include data on: the market value of banks, the ownership structure of banks, the financial situation of banks, and the macroeconomic situation at the country level. Data on ownership structure is collected manually from banks' financial reports and websites[1]. Our focus is on the largest shareholder. Bank-level market data comes from the EquityRT database. Financial data at the bank level is taken from the Bureau van Dijk's Bankscope and Orbis databases. Lastly, we add macroeconomic data for all countries and years, using the World Bank database. The resulting final sample includes 58 banks and 576 bank-year observations. The impact of the ownership structure on the market value is estimated using the random effects method. The basic version of the model used is as follows:

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$$\boldsymbol{market\ value_{i,t}} = \boldsymbol{\alpha_0} + \boldsymbol{\alpha_1} \cdot \boldsymbol{ownership\ structure_{i,t}} + \boldsymbol{\alpha_2} \cdot \boldsymbol{bank\ controls_{i,t}} + \boldsymbol{\alpha_3} \cdot \boldsymbol{macro\ controls_{j,t}} + \boldsymbol{\delta_t} + \boldsymbol{\varepsilon_{i,t}} \quad (1)$$

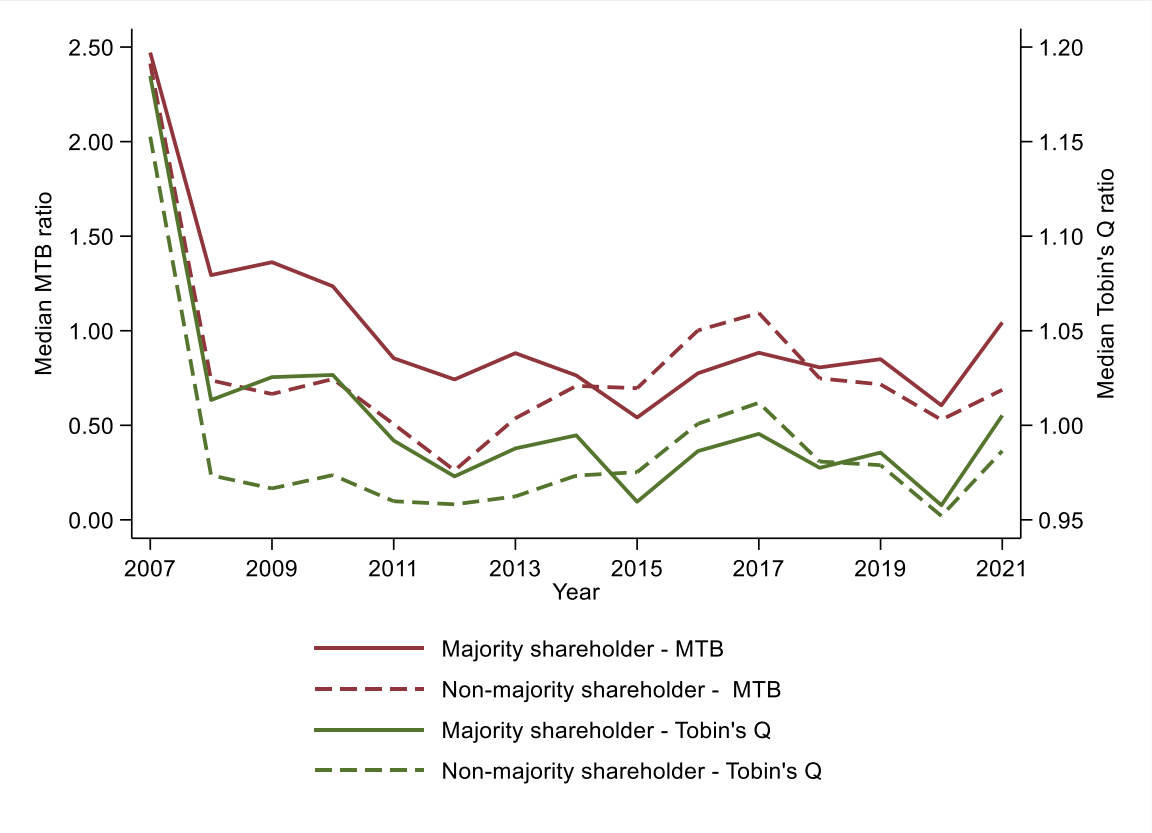
In Equation 1, i represents bank, j country, and t year. The dependent variable is the market value of a bank, which is approximated using two the most frequently used measures: MTB ratio (Arouri et al., 2014; Guerry and Wallmeier, 2017; Sawada, 2013; Vo, 2017) and Tobin's Q ratio (He and Niu, 2018; Liang et al., 2020; Sawada, 2013).
For describing ownership structure of a bank (*Ownership structure*), we use two variables: *Major shareholder* and *Foreign shareholder.* Variable *Major shareholder* equals 1, when there is a shareholder that owns a minimum of 50% stake in the ownership structure. *Foreign shareholder* is a binary variable equals one when the bank's ownership structure includes an entity from a country other than where the bank is headquartered that owns a minimum of 30% of the share capital. All models include year fixed effects (δ_t) to account for omitted variables that occur at the year level. The random error at the bank and year level is denoted by the symbol $\varepsilon_{i,t}$.
We include bank controls variables. The measure of credit risk is the ratio of non-performing loans to gross loans (Niu, 2016; Mavrkana and Psillaki, 2019). The bank's lending policy is described by the ratio of loans to assets (Baele et al., 2007; Fang wt al., 2014). The level of profitability shows the return on assets (ROA) (Anginer et al., 2016; Haq et al. 2019). The capital situation is approximated by the ratio of equity to assets (Azmi et al., 2021; Baele et al., 2007). Bank size is measured by the logarithm of total assets (Hoang et al., 2020; Minton et al., 2019). All bank controls are included with a one-year lag (Anginer et al., 2016; Avramidis et al., 2018; Baele et al., 2007). In the category of macroeconomic variables, economic growth is included in the model as annual GDP growth (Alharbi et al., 2022; He and Niu, 2018). Inflation is reflected by the CPI (González-Rodríguez, 2008; Velasco et al., 2022), and the economic situation of national stock exchanges by the values of the main stock indices (De Jonghe and Vennet, 2008; Simoens and Vennet, 2021). Table 1 shows the total number of observations per country and the number of observations depending on the bank's ownership structure. Figure 1 presents the median values of the MTB and Tobin's Q ratios for banks with a majority shareholder and for banks without a majority owner. Figure 2 presents the market value measures of banks with foreign capital and banks with domestic capital, broken down by year.

Table 1: Number of observations by shareholding structure and by country

Country	Number of observations	Ownership concentration		Shareholder's country of origin	
		Majority shareholder	Non-majority shareholder	Foreign shareholder	Domestic shareholder
Bulgaria	50	25	25	4	46
Croatia	132	57	75	51	81
Czech Republic	21	15	6	15	6
Estonia	9	6	3	0	9
Hungary	29	8	21	0	29
Lithuania	19	1	18	0	19
Latvia	4	4	0	4	0
Poland	172	141	31	114	58
Romania	49	25	24	24	25
Slovakia	57	57	0	49	8
Slovenia	34	12	22	6	28
Total	576	351	225	267	309

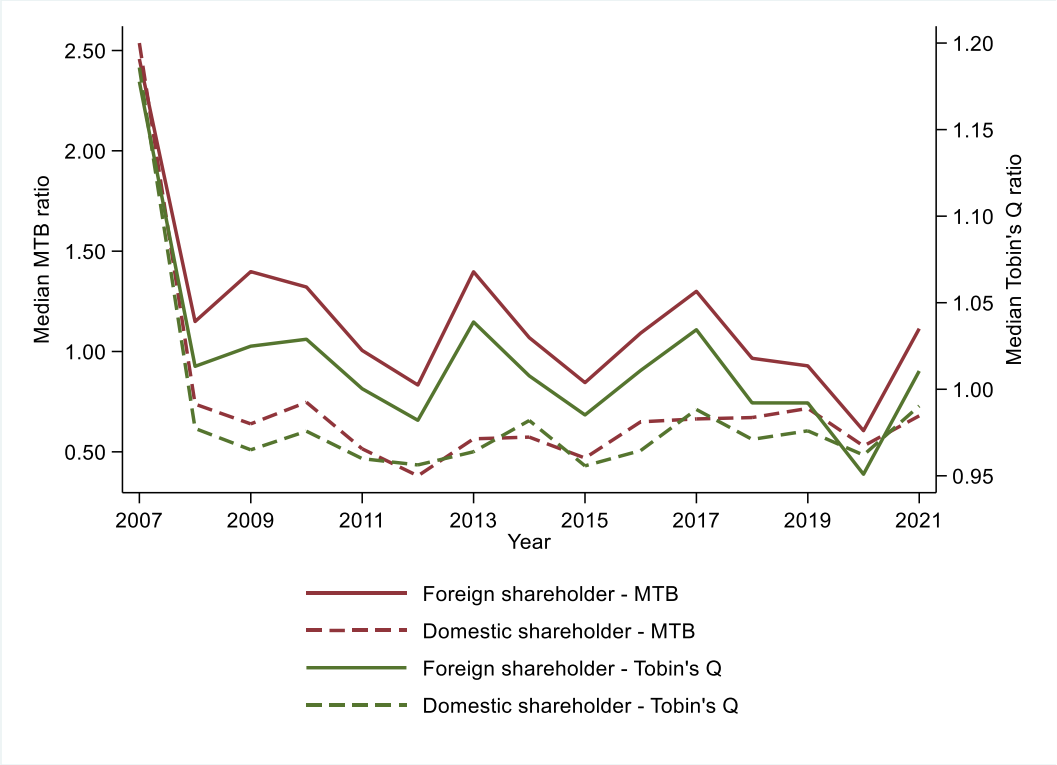
Source: own calculations.

Figure 1: Median market value ratios by shareholding structure, by years



Source: own calculations.

Figure 2: Median market value indicators by shareholder's country of origin



Source: own calculations.

FINDINGS

Table 2 and Table 3 present the results regarding the relationship between ownership structure and market value when the dependent variable is the MTB ratio.[2]. The Table 2 contains the results for the entire sample (specifications 1, 3) and for the sample of banks that report positive net profit in the period 2007-2021 (specifications 2, 4). We see that results of specifications 1 show a positive relationship between the presence of a majority owner and the market value. This means that investors tend to purchase shares of banks controlled by a significant owner. This result is consistent with the results of other studies on banks (Anginer et al., 2016; Busta et al., 2014; Ni, 2019) and non-financial enterprises (Benamraoui et al., 2019; Gugler et al., 2014; Nashier and Gupta, 2023; Pedersen and Thomsen, 2003). The same positive and significant result is seen when banks reporting losses are excluded from the sample (specificiations 3,4). In specifications 3 and 4, compared to the estimation results carried out on the full sample, the parameters for the variable Major shareholder are higher. It can therefore be concluded that the premium due to the presence of a majority shareholder is higher in the case of high-profit banks than in the case of loss-making banks. The results also show that the presence of a foreign shareholder is positively related to market value, both in the entire sample and only in banks reporting profits. This means that banks that are owned by foreign owners

[2] The regression results when Tobin's Q is the dependent variable are very similar.

have a higher market value than banks without this type of owner. The obtained result is consistent with the research results of other authors (banks: Abraham, 2013; Chahine, 2007; Fang et al., 2014, non-financial companies: Ahmed and Iwasaki, 2021; Bris et al., 2008; Douma et al., 2006)

In the next step, we examine the role of the financial crisis (Table 3). For this purpose, we define the crisis variable (*Crisis*), which equals one when the year is 2007, 2008 or 2009. In Specification 1 we see a significant and positive relationship between the crisis and the market value of banks. This may suggest that during the financial crisis, stock investors appreciate bank shares. This result may be surprising, therefore in the next stage of the research we will use a crisis variable based on changes in GDP, as in Skała (2015).

After including ownership structure, there is still a positive, significant relationship between the presence of a majority shareholder and market value. A positive and significant relationship between the crisis period and market value also remains stable. In the next specification (Specification 3), we include an interaction variable (*Crisis*major shareholder*). The obtained result shows that the positive, significant relationship between the presence of a majority shareholder and market value does not change during the financial crisis.

In the case of a foreign shareholder, we see that the inclusion of a crisis does not change the positive relationship between the presence of a foreign shareholder and market value (Specification 4). However, the result for the interactive variable (*Crisis*foreign shareholder*) shows that during the crisis the presence of a foreign shareholder is still positively related to the market value, but this effect is smaller than in the case of years not covered by the crisis.

Table 2: Market value and ownership structure. The entire sample and banks reporting profit

	(1)	(2)	(3)	(4)
	Full sample	Net income > 0	Full sample	Net income > 0
	MTB	MTB	MTB	MTB
Major shareholder	0,1293*	0,1703**		
	(0,0675)	(0,0760)		
Foreign shareholder			0,1577**	0,1592*
			(0,0766)	(0,0896)
NPL	-0,0071*	-0,0015	-0,0062*	0,0002
	(0,0036)	(0,0041)	(0,0037)	(0,0042)
ROA	0,0483**	0,1081***	0,0446**	0,1064***
	(0,0204)	(0,0281)	(0,0202)	(0,0282)
Loans to assets	-0,3121	-0,3564	-0,2907	-0,3746
	(0,2477)	(0,2800)	(0,2481)	(0,2806)
Equity to assets	-1,1609	-2,7369**	-1,4695*	-2,8608***
	(0,8620)	(1,0654)	(0,8846)	(1,0918)
Bank size	0,0405	0,0355	0,0393	0,0425
	(0,0370)	(0,0489)	(0,0371)	(0,0488)
Inflation	-0,0284*	-0,0118	-0,0305**	-0,0132
	(0,0148)	(0,0161)	(0,0148)	(0,0161)
GDP	0,0034	0,0061	0,0025	0,0047
	(0,0077)	(0,0080)	(0,0077)	(0,0080)
Stock index	0,0000***	0,0000***	0,0000***	0,0000***
	(0,0000)	(0,0000)	(0,0000)	(0,0000)
Time fixed effects	Yes	Yes	Yes	Yes
Number of observations	525	434	525	434

	(1)	(2)	(3)	(4)
	Full sample	**Net income > 0**	**Full sample**	**Net income > 0**
	MTB	**MTB**	**MTB**	**MTB**
Number of banks	57	54	57	54
R2	0,28	0,27	0,29	0,27

*Note: ***, **, * indicate statistical significance at the 1, 5, and 10% levels, respectively,*
Source: own calculations.

Table 3: Market value and ownership structure. Crisis

	(1)	(2)	(3)	(4)	(5)
	MTB	**MTB**	**MTB**	**MTB**	**MTB**
Major shareholder		0,2208***	0,2371***		
		(0,0708)	(0,0730)		
Foreign shareholder				0,2995***	0,3332***
				(0,0798)	(0,0809)
Crisis	0,3877***	0,3914***	0,4503***	0,3606***	0,4894***
	(0,0577)	(0,0572)	(0,0864)	(0,0573)	(0,0789)
Crisis*major shareholder			-0,0948		
			(0,1044)		
Crisis*foreign shareholder					-0,2325**
					(0,0988)
ROA	0,0475**	0,0548***	0,0535***	0,0453**	0,0438**
	(0,0194)	(0,0193)	(0,0194)	(0,0191)	(0,0191)
Loans to assets	0,1761	0,2347	0,1645	0,2533	0,0890
	(0,2465)	(0,2450)	(0,2570)	(0,2440)	(0,2522)
Equity to assets	-2,0428**	-2,3070***	-2,3837***	-2,7512***	-3,0435***
	(0,8785)	(0,8744)	(0,8785)	(0,8850)	(0,8929)
Bank size	-0,0322	-0,0544	-0,0508	-0,0601	-0,0493
	(0,0391)	(0,0395)	(0,0397)	(0,0396)	(0,0392)
inflation	-0,0212**	-0,0208**	-0,0212**	-0,0216**	-0,0226***
	(0,0086)	(0,0085)	(0,0085)	(0,0085)	(0,0085)
GDP	0,0091**	0,0095**	0,0097**	0,0090**	0,0091**
	(0,0044)	(0,0044)	(0,0044)	(0,0044)	(0,0044)

	(1)	(2)	(3)	(4)	(5)
	MTB	**MTB**	**MTB**	**MTB**	**MTB**
stock index	0,0000***	0,0000***	0,0000***	0,0000***	0,0000***
	(0,0000)	(0,0000)	(0,0000)	(0,0000)	(0,0000)
Time fixed effects	No	No	No	No	No
Number of observations	536	536	536	536	536
Number of banks	58	58	58	58	58
R2	0,13	0,15	0,15	0,17	0,17

*Note: ***, **, * indicate statistical significance at the 1, 5, and 10% levels, respectively,*
Source: own calculations.

CONCLUSIONS

To sum up, the results indicate that: (1) The presence of a majority shareholder is positively related to the market value of banks. This relationship occurs when the sample is limited to banks reporting profits. This relationship does not change during a crisis. (2) The presence of a foreign shareholder is positively related to the market value of banks. This relationship is stable when we consider only profitable banks. During the crisis, the positive relationship is still visible, but with a lower strength.

Some limitations are identified that may be important for a broader assessment of the relationships between the shareholding structure of banks and their market value of banks. In our study, we only examine the first shareholder. Further research may consider other shareholders in the bank's ownership structure. This would allow for the creation of a variable describing ownership concentration, but the limitation here is the availability of data.

Knowledge of the relationship between the ownership structure and the market value of banks may be particularly valuable for investors on the capital market. By observing the ownership structure of banks, they can make decisions that bring a higher rate of return

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