Paradigms
Print ISSN 1996-2800, Online ISSN 2410-0854
2019, Vol. 13, No. 2 Page 50-57
DOI: 10.24312/1943130207

Shareholding Patterns & Financial Performance (Islamic V/S Conventional Banks in Pakistan)

Ghulam Saghir[1], Sundas Sohail[2], Sajjad Nawaz[3], Farhat Rasul[4], Rabia Ali[5]

Assistant Professor, University of Central Punjab[1], Assistant Professor, Minhaj University[2], UCP Bahawalpur Campus, Ph.D. Scholar, PIDE[3], Director Marketing, Minhaj university[4]

Corresponding Author Email: ghulam.saghir@ucp.edu.pk[1]

Cite this paper: Saghir, G., Sohail, S., Nawaz, S., Rasul, F., & Ali, R. (2019). Shareholding patterns & financial performance (Islamic v/s conventional banks in Pakistan). *Paradigms, 13*(2), 50-57.

The study is an empirical investigation of the nexus of ownership structure (shareholding's pattern) and financial performance of banks (Islamic and Conventional) in Pakistan. To accomplish the purpose of the study, the stratified random sampling used to draw the samples (Five banks from pure Islamic and pure conventional) for the time span of 2008-2015. The ownership structure and management practices of different types of banks has been a matter of concern especially for the Islamic bank. The findings reveal that the ownership structure in conventional banks is more proficient than Islamic banks to enhance the return on assets (ROA), return on equity (ROE) and non-performing loans (NPL). The Islamic banks are not efficient to recover the loans as cannot gain more on their investments. The results also give better understanding (either Islamic or Conventional) about how banks can improve their management practices toward ownership structure which can augment their performance.

Keywords: Governance, Ownership Structure, Performance, Islamic & Conventional Banks.

INTRODUCTION

The banks provide the major financial services in Pakistan's to cope the benefits of globalization. For the last two decades, the financial sector of Pakistan has witnessed the significant fluctuations in its novel reforms. Such changes have brought new transformations developments in this sector. The new phenomenal changes in banking sectors include the privatization of the state-owned banks, introduction of the Islamic banking system, integration of the national and international banks and the structural variations at the governance level in banking segment (Akhtar, 2007).

In late 1972, the government hold in the financial sector was strong as the market share of the state-owned banks was 90 percent and the beneficiaries were government officials and the political parties. The state-owned banks could not survive for the longer period due to higher default rate of the non-performing loans. Before the financial reforms in the banking sector of Pakistan, all commercial banks were foreign banks which were working without any prescribed regulations. These foreign banks were mostly providing the facilities of credit and loans in the market. Due to their innovative strategies, the foreign banks could open new branches in Pakistan. This massive change made the certain non-productive state-owned banks to resign under various policies. The emergence of some private and foreign banks also resulted in the acquisition of 12 banks as domestic private bank in the era of 2000-2005.

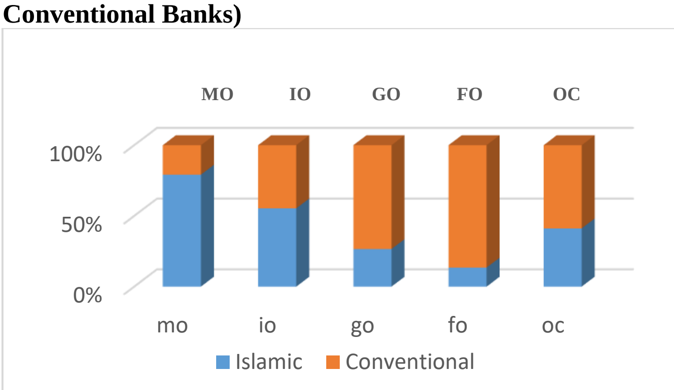
Since from independence of Pakistan, the scholars and political leaders were urging for the creation of Islamic banking system in Pakistan in order to reduce the Interest rate (Riba) in the banking & financial institutions (Hasan & Dridi, 2010). Islamic banking system was introduced in Pakistan through "Banking Ordinance 1962", "Mudarabah Companies Act 1984" and "Policies for Islamic Banking in 2001 and 2009". Under the supervision of this ordinance Shariah Board Act has been formed in 2003 in order to increase the performance and management of the Islamic banks.

In 2008, SBP published complete guidelines for Islamic banking institutions to comply with Sharia compliance, covering all the necessary elements of a strong compliance mechanism. State Bank of Pakistan issued a Strategy Paper for the financial institutions of Pakistan in order to execute the practices described by Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). The feedback on the executed practices is vital to comply Shariah for the Islamic banking sector. The industry feedback on each clause is reviewed by SBP Shariah Board's committee after the execution of the AAOIFI practices. So, to reap the benefits of the Islamic banking system in the Islamic republic of Pakistan, five Islamic banks were authorized in the economy. These Islamic banks that follows the complete "Shariah rules" and now many conventional banks are also offering Islamic products.

Investment structure in in both the banking systems are different and it's all based on the stated legislative compliance. Banks annually mentioned their patterns of shareholdings which reflect the different forms of ownership. In theoretical point of view, the ownership structure is defined as the choices that emulate the influence of shareholders in trading those shares at country-level, according to the rules and regulations defined by stock market. The ownership structure is explained through the equity distribution with respect to poll, level of investment and individuality of the equity holders. Thus, corporate governance is vital to run financial institution as decision maker must regulate incentives and rewards to create the disciplined management culture to increase the firm performance. The six dimensions of the ownership structure have been explained in prior literature Barry, Lepetit, & Tarazi (2011) which are mentioned below: Managerial ownership (MO) explained by Holderness (2003), that the percentage of equity owned by block holders such as equity holders occupies designation of directors and officers of firm. Institutional ownership (IO) can be explained through the probability in an institution owned by large financial organizations and pension funds. In addition to that, these institutions possess bulky shares of companies' outstanding shares and thus, significantly effects the management. Government ownership (GO) (also called public ownership and state ownership) scenario includes property interest owing to community, individual and private authority. It also pertains to organize industry, assets and enterprise at any level.

A family ownership (FAO) is directly governed by the traditional, conventional and family related bounds. In block holder ownership or ownership concentration (OC), the owners possess massive shares and bonds and hence considerably influence the multiple decisions of the firms and so the performance. Foreign ownership (FO) centralizes the complete majority, control of business and its resources even by non-nationality holders. This type of ownership is due to the long-term investments or acquisition of resource by multinational corporations, those performing their economic activities globally. The current scenario of ownership structure in both the Islamic and conventional banks are given in table below.

Figure 1: **Ownership Structure Comparison (Islamic V/S Conventional Banks)**



Source: Author's own construction. Data has been taken from the annual reports of the banks

This study is an attempt to empirically investigate the influence of ownership structure on performance of banks both Islamic and conventional. The study employed managerial ownership (Singh & Davidson, 2003), government ownership (Li, Armstrong, & Clarke, 2014), institutional ownership (Tomar & Bino, 2012), foreign ownership and ownership concentration for ownership structure.

REVIEW OF LITERATURE

Ownership Structure and Islamic Bank's Performance

Sarkar & Sarkar (2000) explore that foreign equity not only have positive effect on corporate governance of companies of developing country but it also enhances their valuation. Demsetz & Villalonga (2001) explore that there is no relationship between ownership structure and the firm performance (ROA & ROE). This results in consistent in explaining that ownership structure disseminates various agency problems, also produces compensating environment to offset such issues. Chen and Gursoy (2001) examines the influence of ownership structure on firm performance and risk-taking behavior. Ownership structure has significant impacts on both performance and risk-taking behavior parameter vice versa. The higher level of ownership concentration results improved firm performance in market, but accounting performance has slightly at lower end. In contrast with, Family-owned firms and corporation affiliates, seems to have less firm performance with minimum risk level. Government owned firms increases the firm performance in the market with higher level of risk.

The firms with more family ownership created significantly impact on firm performance in comparison to non-family ownership structures. It also revealed that the performance of firm increases when family member serves as a CEO rather than any other designation in the firm (Anderson & Reeb ,2003). Singh & Davidson (2003) explore that managerial ownership have significant positive and outside block ownership have no impact on total asset turnover. Zeitun & Tian (2007) investigate that individual shareholders have no influence on the performance of the organization, whereas ownership concentration not only increases the activity of the company but also reduces the chances of insolvency. On the contrary, the government ownership is creating negative impact which is associated to the probability of default, and the firm's performance. Abbas, Rehman, & Mehanthrian (2009) discover the influence of ownership structure (Government, institutional ownership and family) on the firm performance (and Non-Performing Loans and return on equity) of Islamic banking and found ownership structure have significant positive influence on ROE also on Non-Performing Loans. High ownership concentration has constructive impact on the level of performance in Islamic banking.

Najid & Rahman (2011) found that common governance measures such as composition of board owners, non-duality and factors which are specifically effects on firm size, firm phase, leverage, foreign ownership. Government's involvement has a significant positive relationship on firm performance. Alkhawaldeh (2012) examines the effect of ownership structure on the credit rating of a company. Insider, family and foreign ownership have significant positive relations with credit ratings. There is a negative impact of leverage, institution and governmental ownership on credit rating. Kim, Rasiah, & Tasnim (2012) investigate that multinational banks owned by foreign institutions performing well as compared to national banks as they implement strong governance structure. The key role of bank managers is to device effective and efficient corporate governance through innovative policies to regulate them in controlled mechanism.

Zourari & Takak (2014) investigates that the government, family and institutional ownership have no impact on non-performing loans, but they have positive influence on return on asset. Generally, ownership concentration has less effect on the performance of Islamic banking system. It also revealed that the financial crisis negatively impacts on the performance of Islamic bank. Li, et al., (2014) explore that with the increase of independent directors, family and governments' shareholding, follow the Shariah rules, with no the CEO duality, the proper conduct of internal and external auditing, and less directors and institutional shareholding enhances the financial performance of Islamic banking. Naushad & Malik (2015) found that block holders' ownership structure creates positive influence on the performance in Islamic banking sector. Corporate governance pretenses a substantial effect on the financial performance in conventional banking sector.

Ownership structure and Conventional bank's performance

Ataullah, Cockerill & Le (2004) has done the comparative analysis on the advancement of conventional banking system in India and Pakistan based on their ownership structure and the level of their efficiency. It is proved that is India improved based upon technical and scale efficiency whereas in Pakistan increased in technical efficiency leads to their governance at corporate level. Tarawneh (2006) examined the fact that the financial performance of banks is governed by their operational capabilities, assets, management, and institution size. Financial performance is strongly dependent on factors such as institution size, operational efficiency, management of their assets and positively influenced by the ownership structure. Iannotta, Nocera, & Sironi (2007) explore the question to calculate the role of alternative ownership models related to level of ownership concentration, cost efficiency, risk , and profitability. The banks profitabilty has no impact on ownserhsip concentration rather ownership concentration is directly associated with better credit quality, lower assets and insolvency risk.

Barry et al., (2011) investigate the nexus between ownership structure and risk in both privately public sector banks, it is the proven fact that the level of ownership in each group of shareholders has nothing to do with ownership structure and risk. Evidently it proves, that the public banks ownership does not bring any impact of risk-taking strategies at the level of governance. Ongore & Kusa (2013) explores the performance of conventional banks is affected due to factors like capital adequacy, management acumen and asset quality. Whereas, the effect of liquidity has little effect on the performance of conventional banks. Capital adequacy and management efficiency as positive factors and asset quality as negative. Prior research has proved that bank performance diminishes when they are owned publicly. Thus, private and foreign banks significantly upgrade bank performances and reduces the jeopardy bank (Ahmad, 2013).

Ownership structure and bank's performance (Islamic VS Conventional)

Moin (2008) by probing directly into the Islamic and conventional banking, found that conventional banks are riskier and less solvent but more profitable then Islamic banking. Considering this, conventional banks are statistically sound in utilization of their income, assets, financial aspects and measures to adopt in case of risk & solvency measures as compared to Islamic banking. Stating the factors asset utility, income expense ratio, and operating efficiency analytically suggest that Islamic banks in comparison to conventional banks are significantly less potent but increasingly converging towards that of conventional banks.

Zeitun R. (2012) investigate the profitabilty in conventional banking versus islamic banking. Analytically, Islamic bank performance reduces due to the factor of Cost-to-income whereas, it is productive in case of conventional banking structures. In this connection, foreign ownership has nothing to do to the execution of Islamic and Conventional system. In this manner, GDP has significant positive correlation to profitability of the bank whereas, inflation is marked negative. Similarly, the reserve-loan variable has a negative and substantial effect on conventional banks performance measures (ROA and ROE) are termed as has a negative and insignificant in case of assessing Islamic banking productivity.

Srairi (2013) explored statistically that the private islamic banks enjoys the same stability as private conventional banks. Whereas, islamic banks faces meager exposure to credit risk as compared to conventional banks. Daly & Frikha (2015) discover that in the conventional funding model; return on assets, return on equity, and efficiency has a negative impact on the banking performance. Mollah & Zaman (2015) has been explored that in case of single advisory role, the impact on Islamic banking performance is negligible but the Shariah Supervision plays an imporant impact on the firm perfomance. Islamic banking performance reduces down with the Board structure (board size and board independence) and CEO decision making practices. Whereas, in case of conventional banks it is vice versa. Abbas, Azid, & Hj Besar (2016) observed about Islamic banking system and noticed that Islamic banks have a positive impact on age, minimum capital requirement, capitalization, non-approval costs, size and GDP growth rate. Because profitability has negative relationships with Islamic banks. It is obvious from the previous studies that only the performance of the Islamic banks but in this paper considers the influence of ownership structure (shareholding's pattern) on financial performance in comparison of pure Islamic banks and pure conventional banks.

From the above discussions, the study has the following hypothesis:

H1: There is a significant relationship between managerial ownership and the performance of Islamic as well as conventional Banks.

H2: There is a significant association between institutional ownership and the performance of Islamic as well as conventional Banks.

H3: There is a significant relationship between government ownership and the performance of Islamic Banks as well as conventional.

H4: There is a negative relationship between foreign ownership and the performance of Islamic as well as conventional Banks.

H5: There is a significant relationship between ownership concentration and the performance of Islamic as well as conventional Banks.

Research Framework

The basic structure of the organization comprises of the owner and manager, and many research scholars in literature have put an effort to develop a uniform model for the both. First it was agency theory developed by Jensen (1976) which postulates that the in any corporation, the owners (shareholders) are "the principals" and the directors/managers are "the agents". The agency problem may arise if the interest of an agent may differ from its principle. The theory suggests that financial rewards to the agent can elevate the profit of the owners (Gitman & Zutter, 2012).

The second theory is the stewardship theory established by (Donaldson & Davis, 1991), who argue that both groups (managers or owners) share the common objectives but the managers of a firm are the stewards. In contrast with the agency theory, the stewardship theory introduces the limited authority of the board of directors. The board role is just to authorize the executives and, increase the probability of higher performance.

The next theory is the resource dependence (Hillman & Dalziel, 2003) which argues that the existence of board is considered as the provider of funds to their managers in order to accomplish their organizational goals. The professional board members can deliver their skills to train and counsel their executives in such a way that enhance the organizational efficiency.

Another theory is the stakeholder provided by (Freeman, Wicks, & Parmar, 2004) which is based on the assumption that not only the shareholders, but also the customers, suppliers and employees have a holding in the company. The success or failure of a company can affect all participants. In this context, the management must be the guardian of the interests of all stakeholders, certifying that the company's or organizational activities consider the sustainability principles of the surrounding societies. By following these theories and different ownership structures are for the conventional g system that can affect the performance of the financial institutions (Conventional as well as Islamic). The following figure 2 describes the relationship between financial structure and financial performance.

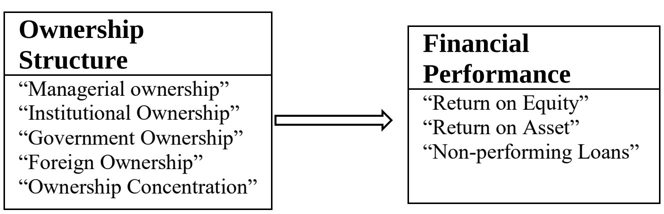


Figure 2: **Research Framework**

METHODOLOGY

The comparative study for measuring the performance was conducted on the Islamic and conventional banks which are listed in Pakistan Stock Exchange (PSE) for the period of 2008 to 2015. There are 27 banks in Pakistan (except for specialized and foreign banks), where 5 banks are clean Islamic banks, and everything is chosen. Out of total conventional banks only five banks were selected as they are not offering any Islamic product to the public. The data has been taken from the annual reports of banks websites and from the “Financial Statement Analysis Report 2009-2015” from the “State bank of Pakistan”. The performance indicators of the banks have collected through the “Financial Statement Analysis Reports 2009-2015.

Variables Description

This section elaborates the variables which are used to determine the relationship of ownership structure and the banks performance. Table 1 contains the definitions and the author contribution of the selected variables. The operational definitions of the variables employed in this study has been taken from Financial Statement Analysis of financial sector issued by State Bank of Pakistan (SBP). A uniform methodology has been employed to obtain the profitability ratios for the both Islamic and Conventional banks by SBP.

Table 1; Operational Definition of Variables

Definition of Variables	Symbol	Definition	References
Performance Variables			
Return on assets	ROA	“Ratio of profit after tax to total assets”	(Al-Saidi & Al-Shammari, 2013)
Return on equity	ROE	“Ratio of profit after tax to shareholder’s equity”	(Tomar & Bino, 2012)
Non-performing Loan ratio	NPL	“Ratio of non-performing loans to gross advances.”	(Abbas, et al. 2009)
Ownership Variables			
Managerial Ownership	MO	“Ratio of shares owned by the directors to total outstanding common stocks”	(Tomar & Bino, 2012)
Institutional Ownership	IO	“Ratio of shares owned by the financial institutions to total outstanding common stocks”	(Tomar & Bino, 2012)
Ownership Concentration	OC	“Percentage of shares held by largest shareholder of the bank”	(Aymen, 2014)
Foreign ownership	FO	“Ratio of shares owned by the foreign investors to the total outstanding stocks”	Dahlquist, M. & Robertsson, G. (2001)
Government ownership	GO	“Ratio of shares owned by the state to the total outstanding common stocks”	(La Porta, Lopez-De-Silanes, Shleifer, & Vishny, 2002)
Control Variables			
Debt Equity ratio	D/E	“Ratio of total liabilities to shareholders’ equity”	(Hovakimian, A., Opler, T., & Titman, S., (2001)
Bank size	Lnsize	“Natural logarithm of total assets”	(Naushad & Malik, 2015)

Source: Author’s own construction

Econometric Methodology

The study encompasses the banks with different forms (Islamic and Conventional) as sample over the recent eight years. Descriptive, correlation, and panel data estimation (fixed or random effect models) employed to analyze the data. Technology has used the Hausman test to determine if an effect is suitable or random (Aymen, 2014).

Estimation Models

To prove the above-mentioned hypothesis, following three models are designed:

$ROA = \alpha + \beta_1 MO + \beta_2 IO + \beta_3 GO + \beta_4 OC + \beta_5 FO + \beta_7 Lnsize + \beta_8\, D/E + \epsilon$………. (i)

$ROE = \alpha + \beta_1 MO + \beta_2 IO + \beta_3 GO + \beta_4 OC + \beta_5 FO + \beta_7 Lnsize + \beta_8\, D/E + \epsilon$……….(ii) $NPL = \alpha + \beta_1 MO + \beta_2 IO + \beta_3 GO + \beta_4 OC + \beta_5 FO + \beta_7 Lnsize + \beta_8\, D/E + \epsilon \ldots\ldots\ldots (iii)$

Discussions of the Results

The findings of the descriptive and interferential statistics conducted on the private commercial banks for the period of 2008-2015 has been reported. In this paper, panel data techniques have been used. Two techniques of panel data: Fixed effects and Random effect models are used to analyze panel data and for the testing of hypothesis.

Descriptive Statistics

In descriptive statistics, the mean, median, maximum, minimum, standard deviation, skewness and kurtosis of independent and dependent variables have been discussed separately for both Islamic and Conventional Bank.

Table 2; Descriptive Statistics of Islamic Banks

	ROA	ROE	NPL	MO	OC	FO	GO	IO	Lnsize	DE
Mean	0	0.03	0.0	0.08	0.43	0.01	0.0	0.8	17.94	9.68
Median	0	0.01	0.0	0.01	0.4	0.4	0.0	0.87	17.94	9.59
Maximum	0.02	0.25	0.1	0.26	0.9	0.1	0.0	0.2	20.09	19.78
Minimum	-0.04	-0.21	-0.0	0.0	0.0	0.0	0.0	0.4	15.94	0.27
Std. Dev.	0.01	0.11	0.0	0.0	0.3	0.03	0.0	0.1	0.94	5.12
Skewness	-1.05	0.12	0.6	0.6	-0.0	2.33	1.7	-1.0	0.25	0.07
Kurtosis	3.44	2.92	2.7	1.6	1.4	6.69	6.3	2.9	2.86	2.19

Source: Author's own calculation

Table 2 reported the Mean, Median and maximum value of return on equity (ROA) is (0.00) and the minimum and standard deviation value is -.04 and 0.01. The skewness is symmetric normal distribution for return on equity (ROE), non-performing loan (NPL), managerial ownership (MO), ownership concentration (OC), institutional ownership (IO), log of asset (Lnsize) and debt equity (DE) but for return on asset (ROA), foreign ownership (FO)and government ownership (GO) it's not symmetrical. The kurtosis is symmetric normal distribution for all the variables except return on asset (ROA), foreign ownership (FO)and government ownership (GO) because value of kurtosis is greater than (3.00).

Table No 3; Summary of descriptive statistics of Conventional Banks

	ROA	ROE	NPL	MO	OC	FO	GO	IO	Lnsize	DE
Mean	0.01	0.07	0.11	0.02	0.62	0.08	0.09	0.66	18.42	6.76
Median	0.01	0.06	0.11	0	0.7	0	0	0.74	18.22	6.71
Maximum	0.03	0.26	0.26	0.11	0.99	0.55	0.79	0.99	20.74	13.72
Minimum	-0.05	-0.23	0.01	0	-0.33	-0.07	-0.16	-0.25	15.87	2.83
Std. Dev.	0.02	0.13	0.05	0.04	0.32	0.15	0.23	0.3	1.51	2.55
Skewness	-0.75	-0.34	0.48	1.57	-0.84	1.67	1.76	-0.98	0.03	0.78
Kurtosis	3.08	2.17	2.88	3.63	3.3	4.45	5.02	3.46	1.5	3.62

Source: Author's own calculation

Table 3 shows the summary of descriptive statistics of dependent and independent variables. The mean and median value of return on asset (ROA) is (0.1). The maximum and minimum value is 0.03 and -.05is (0.1), and the Std. Dev. is (0.02). The skewness is symmetric normal distribution because its value (-0.75) which is approximately equal to 0 and the kurtosis is also symmetric normal distribution because value of kurtosis (3.08) which is equal to 3. Similarly, all the dependent and independent shows the no missing values and depicts the normality of the data except the foreign and government ownership.

Correlation Analysis

Correlation analysis is employed to measure the problem of multicollinearity, which means as "When two or more than two explanatory variables in a regression model are highly correlated to each other and their coefficient estimates may change unreliably in response to small change in the model or data". It means multicollinearity test has been applied to investigate the association among the independent variables (Gujarati and Porter, 2009**)**. The table 4 shows the findings of correlation matrix among the independent variables of Islamic banks.

Table No 4; Correlation Matrix of Islamic Banks

	MO	OC	FO	GO	IO	Lnsize	DE
MO	1.00	0.30	0.48	0.33	-0.78	-0.57	-0.32
OC		1.00	0.06	0.18	-0.22	0.32	0.27
FO			1.00	0.41	-0.76	-0.13	0.18
GO				1.00	-0.66	0.05	0.14
IO					1.00	0.26	-0.05
Lnsize						1.00	0.87
DE							1.00

Source: Author's own calculation

The result shows that there is no issue of multicollinearity between the independent variables because the numerical value of r inside the range (-1 to 1) and extremely low. The table 5 reveals the findings of correlation analysis among the independent variables of conventional banks.

Table 5; Correlation Matrix of Conventional Banks

	MO	IO	FO	GO	OC	Lnsize	DE
MO	1.00	-0.68	0.92	-0.22	-0.70	0.64	0.02
IO		1.00	-0.76	-0.46	0.84	-0.14	-0.26
FO			1.00	-0.14	-0.77	0.62	0.08
GO				1.00	-0.20	-0.48	0.40
OC					1.00	-0.08	-0.26
Lnsize						1.00	0.10
DE							1.00

Source: Author's own calculation

The result reported that the correlation among the explanatory variables is less .95 which means it is not near to 1, so there is no issue of multicollinearity.

Regression Analysis

The Hausman (1978) has been employed to distinguish among a fixed and random model. The conclusion that $p < 0.05$ is evidence that these two models are sufficiently different from the conventional critical levels to reject the null hypothesis, and thus to favor a model of unintentional effects to reject the random effects model. The Hausman test employed for every model to check, whether the fixed effect model is a suitable selection or random effect model.

Table 6; Impact of Ownership Structure on Return on Equity (ROE)

	Islamic Banking Fixed Effect			Conventional Banking Fixed Effect		
Variable	Coeff.	t-Stat	Prob.	Coeff.	t-Stat	Prob.
MO	0.01	0.13	0.90	-1.73	-2.15	0.04**
OC	0.07	2.81	0.01***	-0.32	-2.25	0.03**
FO	0.26	0.57	0.58	-0.29	-0.84	0.41
GO	-0.17	-1.10	0.28	0.08	1.07	0.29
IO	0.22	2.37	0.03**	-0.12	-1.04	0.31
Lnsize	0.00	0.15	0.88	0.11	4.42	0.00***
DE	0.02	3.55	0.00***	-0.01	-1.46	0.16
C	-0.46	-1.03	0.31	-1.51	-5.67	0.00***

Significance level *p < 0.10, **p <0.05 and ***p < 0.01

The table 6 shows the impact of ownership structure on return on equity of both Islamic and conventional banks. Through Hausman test, in both Islamic and conventional banks fixed effect model is applied.

The result of Islamic banks shows that there is an insignificant relationship of the managerial ownership, foreign ownership (FO) and government ownership (GO) with return on equity (ROE) as (p<0.57) and return on equity (ROE) also have insignificant relationship between (MO) (p<0.89). The ownership concentration (OC) and institutional ownership (IO) have positive significant impact on the return on equity (ROE) as (ρ>0.03). The relationship between log of total asset (Lnsize) and return on equity (ROE) is an insignificant because (ρ<0.88) but with the debt equity is positive significant. In case of conventional banks, managerial ownership (MO) and ownership concentration (OC) has negative significant relationship with the return on equity (ROE). There is an insignificant relationship between the foreign ownership (FO), institutional ownership

(IO) and government ownership (GO) with the return on equity (ROE) as (ρ<0.39). There is negative insignificant relationship between debt on equity (D/E) and return on equity because (ρ<0.23).

The table 7 demonstrate the impact of ownership structure on return on asset for both Islamic and conventional banks.

Table 7; Impact of Ownership Structure on Return on Asset (ROA)

	Islamic Banking Random Effect			Conventional Banking Fixed Effect		
Variable	**Coeff.**	**t-Stat**	**Prob.**	**Coeff.**	**t-Stat**	**Prob.**
MO	0.03	0.38	0.71	-0.20	-1.95	0.06*
OC	0.00	-0.21	0.83	-0.06	-2.91	0.01***
FO	-0.03	-0.22	0.82	0.03	0.58	0.57
GO	0.06	0.70	0.49	0.03	2.77	0.01***
IO	0.03	0.52	0.61	0.04	2.37	0.03**
Lnsize	0.00	0.66	0.51	0.01	4.37	0.00***
DE	0.00	1.38	0.18	0.00	-1.99	0.06*
C	-0.12	-0.93	0.36	-0.22	-6.53	0.00***

Significance level *p < 0.10, **p <0.05 and ***p < 0.01

The research findings of Islamic banks reveal that an insignificant effect of managerial ownership (MO) on ROA (p<0.71). Similarly, the impact of foreign ownership (FO), government ownership (GO) and ownership concentration (OC) on return on asset (ROA) is insignificant. This depicts that all the ownership variables do not influence the performance of Islamic banks in term of return on asset. In case of conventional banks, there is a negative but significant relationship of managerial ownership (MO) and ownership concentration (OC) with return on assets (ROA). There is positive insignificant relationship between foreign ownership (FO) and return on assets (ROA) as (ρ<0.57). There is positive and significant relationship between institutional ownership (IO), government ownership (GO) and return on assets (ROA) as (p>0.01). Return on assets also has positive significant relationship with log of total assets (Lnsize) and debt to equity. The table 8 reported the influence of ownership structure on non-performing loan (NPL) for both Islamic and conventional banks.

Table No 8; Impact of Ownership Structure on Non-Performing Loan (NPL)

	Islamic Banking Random Effect			Conventional Banking Random Effect		
Variable	**Coeff.**	**t-Stat**	**Prob.**	**Coeff.**	**t-Stat**	**Prob.**
MO	0.03	0.38	0.71	-1.04	-4.29	0.00***
OC	0.00	-0.21	0.83	0.00	-0.04	0.97
IO	0.03	0.52	0.61	-0.18	-1.10	0.28
FO	-0.03	-0.22	0.82	-0.01	-0.20	0.84
GO	0.06	0.70	0.49	-0.13	-1.84	0.07*
Lnsize	0.00	0.66	0.51	0.03	2.08	0.05**
DE	0.00	1.38	0.18	-0.01	-5.34	0.00***
C	-0.12	-0.93	0.36	-0.14	-0.91	0.37

Significance level *p < 0.10, **p <0.05 and ***p < 0.01

The results reported for Islamic banks that all the ownership variables i.e. managerial ownership (MO), institutional ownership (IO), government ownership (GO) and ownership concentration (OC) have insignificant but positive relationship. There is a negative insignificant association between foreign ownership (FO) and nonperforming loan (NPL). The control variable log of total asset (Lnsize) and debt /equity (DE) have negative insignificant relationship with nonperforming loans (NPL). For the conventional banks, managerial ownership (MO) and government ownership (GO) have negative significant relationship with nonperforming loans (NPL). There is insignificant relationship of between foreign ownership (FO), institutional ownership (IO) and ownership concentration (OC) with non-performing loans (NPL) There is a significant relationship between log of assets (Lnsize) and nonperforming loans (NPL) as (ρ<0.07). Debt on equity (D/E) has a negative significant relationship with nonperforming loans.

Conclusions

The study has determined the impact of ownership structure on the performance of the Islamic and conventional banks of Pakistan by employing the data of the five pure Islamic banks and five pure conventional banks over the time period 2008-2015. Empirical results show that the performance of conventional banks is better than the Islamic banks in Pakistan. The ownership structure reflects the structure of the participation of the various shareholders in pure conventional organizations gain more on their investment. It reveals that the role of ownership structure (managerial ownership, foreign ownership, institutional ownership, government ownership and ownership concentration) in conventional banks is quite significant for enhancing the financial performance (return on asset, return on asset and non-performing loan).

The results of the Islamic banks reflect that owners are not making policies regarding efficient use of assets to get more returns. As the managerial ownership and ownership concentration have negative impact on the performance of the Islamic banks. The efficiency of the banks to recover their loans from their clients seems meager because all ownership structure (institutional ownership, government ownership, foreign ownership and ownership concentration expect managerial ownership) have positive significant impact on performance. It means management of the Islamic banks is inefficient as it couldn't collect the funds back from the borrowers. The results also imply that management of the Islamic banks are not properly utilizing the funds collected from the different sources of ownership and so their performance is not up to the mark of the pure conventional banks in Pakistan.

Recommendations

The results of this study provide better insights into the corporate governance and the performance of Islamic and Conventional Banks. The findings give better understandings to the management of banks (either Islamic or Conventional) that how to improve the ownership structure to enhance the performance. The study is the first of its nature which examine the relationships between the ownership structure and financial performance by taking the sample of the both Islamic and Conventional Banks of Pakistan. This study is important from an operational as well as an academic perspective. Financial performance can be improved by improving the ownership-related practices. For prospective research, it is advisable to cover those conventional banks which offer Islamic banking as well. Further family ownership can inculcate to measure ownership structure.

REFERENCES

Hasan, M. M., & Dridi, J. (2010). The effects of the global crisis on Islamic and conventional banks: A comparative study. *IMF Working Papers*, 1-46.

Abbas, M., Zuha, S., Abdul Rahman, R., & Mahenthrian, S. (2009, April). Ultimate ownership and performance of Islamic Financial Institutions in Malaysia. In *Asian Finance Association Conference, July*.

Abbas, M., Azid, T., & Hj Besar, M. H. A. (2016). Efficiency, effectiveness and performance profile of Islamic and conventional banks in Pakistan. *Humanomics*, *32*(1), 2-18.

Ahmad, F. (2013). Ownership Structure and Non-Performing Loans: Evidence from Pakistan. *Asian Journal of Finance & Accounting*, *5*(2), 268.

Akhtar, S. (2007). *Pakistan Banking Sector Reforms: Performance and Challenges* (p. 12). Geneva: State Bank of Pakistan.

Alkhawaldeh, A. A. (2012). Effects of family and foreign ownership structure on Jordanian credit risk assessments. *International Research Journal of Finance and Economics*, *90*, 92-113.

Al-Saidi, M., & Al-Shammari, B. (2013). Board composition and bank performance in Kuwait: an empirical study. *Managerial Auditing Journal*, *28*(6), 472–494.

Anderson, R. C., & Reeb, D. M. (2003). Founding-family ownership and firm performance: evidence from the S&P 500. *The journal of finance*, *58*(3), 1301-1328.

Ataullah, A., Cockerill, T., & Le, H. (2004). Financial liberalization and bank efficiency: a comparative analysis of India and Pakistan. *Applied Economics*, *36*(17), 1915-1924.

Aymen, B. M. M. (2014). Impact of Ownership Structure on Financial Performance of Banks: Case of Tunisia. *Journal of Applied Finance and Banking*, *4*(2), 163.

Barry, T. A., Lepetit, L., & Tarazi, A. (2011). Ownership structure and risk in publicly held and privately-owned banks. *Journal of Banking & Finance*, *35*(5), 1327-1340.

Chen, J. S., & Gursoy, D. (2001). An investigation of tourists' destination loyalty and preferences. *International Journal of Contemporary Hospitality Management*, *13*(2), 79-85.

Dahlquist, M. & Robertsson, G. (2001)."Direct foreign ownership, institutional investors, and firm characteristics," *Journal of Financial Economics*. 59: 413-440.

Daly, S., & Frikha, M. (2016). Banks and economic growth in developing countries: What about Islamic banks? *Cogent Economics & Finance*, *4*(1), 1168728.

Donaldson, L., & Davis, J. H. (1991). Stewardship Theory or Agency Theory: CEO Governance and Shareholder Returns. *Australian Journal of Managemen*, *16*(1).

Demsetz, H., & Villalonga, B. (2001). Ownership structure and corporate performance. *Journal of corporate finance*, *7*(3), 209-233.

Freeman, R. E., Wicks, A. C., & Parmar, B. (2004). Stakeholder Theory and "The Corporate Objective Revisited." *Organization Science*, *15*(3), 364–369.

Gitman, L. J., & Zutter, C. J. (2012). *Principles of managerial finance*. Boston: Pearson Prentice Hall.

Gujarati, D.N. and Porter, D.C. (2009) Basic Econometrics. 5th Edition, *McGraw Hill Inc*., New York.

Hasan, Maher Mohamad, and Jemma Dridi. (2010). The effects of the global crisis on Islamic and conventional banks: A comparative study.

Hillman, A. J., & Dalziel, T. (2003). Boards of Directors and Firm Performance: Integrating Agency and Resource Dependence Perspectives. *The Academy of Management Review*, *28*(3), 383.

Holderness, C G. (2003). A Survey of Block holders and Corporate Control. Economic Policy Review, *Federal Reserve Bank of New York*, NY, vol.9, pp51-63.

Hovakimian, A., Opler, T., & Titman, S. (2001). The debt-equity choice. *Journal of Financial and Quantitative analysis*, *36*(1), 1-24.

Hausman, J. A. (1978). Specification Tests in Econometrics. *Econometrica*, *46*(6), 1251.

Iannotta, G., Nocera, G., & Sironi, A. (2007). Ownership structure, risk and performance in the European banking industry. *Journal of Banking & Finance*, *31*(7), 2127-2149.

Jensen, M. C., & Meckling, W. H. (1976). Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure. *Journal of Financial Economics*, *3*(4), 305–360.

Kim, P. K., Rasiah, D., & Tasnim, R. B. (2012). A review of corporate governance: ownership structure of domestic-owned banks in term of government connected ownership, and foreign ownership of commercial banks in Malaysia. *Journal of Organizational Management Studies*, *2012*, 1

La Porta, R., Lopez-De-Silanes, F., Shleifer, A., & Vishny, R. (2002). Investor Protection and Corporate Valuation. *The Journal of Finance*, *57*(3), 1147–1170.

Li, Y., Armstrong, A., & Clarke, A. (2014). Relationships of corporate governance mechanisms and financial performance in Islamic banks: A meta-analysis. *Journal of Business Systems Governance and Ethics*, *9*(1), 50-63.

Moin, M. S. (2008). Performance of Islamic banking and conventional banking in Pakistan: a comparative study.

Mollah, S., & Zaman, M. (2015). Shari'ah supervision, corporate governance and performance: Conventional vs. Islamic banks. *Journal of Banking & Finance*, *58*, 418-435.

Najid, N. A., & Rahman, R. A. (2011). Government ownership and performance of Malaysian government-linked companies. *International Research Journal of Finance and Economics*, *61*(1), 1450-2887.

Naushad, M., & Malik, S. A. (2015). Corporate Governance and Bank Performance: A Study of Selected Banks in GCC Region. *Asian Social Science*, *11*(9), 226.

Ongore, V. O., & Kusa, G. B. (2013). Determinants of financial performance of commercial banks in Kenya. *International Journal of Economics and Financial Issues*, *3*(1), 237.

Sarkar, J., & Sarkar, S. (2000). Large shareholder activism in corporate governance in developing countries: Evidence from India. *International Review of Finance*, *1*(3), 161-194.

Srairi, S. (2013). Ownership structure and risk-taking behavior in conventional and Islamic banks: evidence for MENA countries. *Borsa Istanbul Review*, *13*(4), 115-127.

Singh, M., & Davidson III, W. N. (2003). Agency costs, ownership structure and corporate governance mechanisms. *Journal of Banking & Finance*, *27*(5), 793-816.

Tarawneh, M. (2006). A comparison of financial performance in the banking sector: Some Evidence from Omani Commercial Banks. *International Research Journal of Finance and Economics*, *3*(3), 101-112.

Tomar, S., & Bino, A. (2012). Corporate governance and bank performance: evidence from Jordanian banking industry. *Jordan Journal of Business Administration*, *153*(655), 1-40.

Zeitun, R., & Gang Tian, G. (2007). Does ownership affect a firm's performance and default risk in Jordan? *Corporate Governance: the international journal of business in society*, *7*(1), 66-82

Zeitun, R., & Gang Tian, G. (2007). Does ownership affect a firm's performance and default risk in Jordan? *Corporate Governance: The international journal of business in society*, *7*(1), 66-82.

Zourari, B. S., & Taktak, B. N. (2014). Ownership structure and financial performance in Islamic banks: Does bank ownership matter? *International Journal of Islamic and Middle Eastern Finance and Management*, *7*(2), 146-16