

ABSTRACT

This study empirically investigates the impact of ownership structure on risk taking behavior of banks, profitability of banks and lending practices of banks. The study considers ownership concentration and different categories of ownership as separate dimensions of ownership structure. The study further splits the ownership structure into seven categories of ownership (managers/directors, individuals/families, foreigners, public owners, banks, non-banking financial institutions, and non-financial institutions), having different risk taking incentives.

The study has employed unbalanced panel data of 23 commercial banks of Pakistan for the period of 2005-2011. The fixed and random effect regression models and pooled regression models are used to examine the relationship among risk taking behavior, profitability, lending practices and ownership structure.

Controlling for various factors, the results of the study reveal that the ownership structure is significantly related with risk taking behavior and profitability of banks while it has no significant relation with lending behavior of banks. On the whole, a higher equity stake of either managers/directors or families/individuals is associated with a decrease in risk taking of banks. Also, the involvement of public owners and foreign owners in ownership structure seems to increase the risk taking of banks. The study further finds that institutional ownership increases the profitability of banks, whereas, foreign ownership decreases the profitability of banks. Finally, the findings of the study suggest that ownership concentration is associated with high risk taking and low profitability, which support the "Entrenchment Hypothesis" in banking sector of Pakistan.