The Impact of Block Holders' Existence as Governance Mechanism on Firm Value Applied Study

تأثير وجود تكتلات حملة الأسهم كآلية حوكمة على قيمة الشركة: دراسة تطبيقية

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Abstract

All the previous studies may be valid to construct the theoretical framework of this research as they share approximately the common results on the studied firms in the foreign countries such as Malaysia, Indonesia, Germany, U K, and USA but none of these studies analyze the situation in Egypt and how the businesses in Egypt may benefits from the results of such research as it is derived from the real analysis in the Egyptian practices and the block holders influence on the value of the registered corporations in EGX30.

Keywords: Block Holders - Governance - Firm Value

المستخلص
قد تكون جميع الدراسات السابقة صالحة لبناء الإطار النظري لهذا البحث لأنها تشترك تقريبًا في النتائج المشتركة على الشركات المدروسة في الدول الأجنبية مثل ماليزيا وإندونيسيا وألمانيا والمملكة المتحدة والولايات المتحدة الأمريكية ولكن قليل من هذه الدراسات يحلل الوضع في مصر وكيف يمكن للشركات في مصر الاستفادة من نتائج هذا البحث لأنه مستمد من التحليل الحقيقي في الممارسات المصرية وتأثير حاملي الكتل على قيمة الشركات المسجلة في EGX30.
الكلمات المفتاحية: تكتلات حملة الاسهم – الحوكمة – قيمة الشركة

Chapter One: An Overview of The Study

1.1Introduction

Businesses are working in a very dynamic environment which impose the managers and decision makers to employ the most effective and efficient strategies that enable the business to achieve superior results that may empower the financial position of this business in the market and satisfy the financial expectations of the basic stakeholders; workers through adequate compensations and rewards, and the existing and potential investors and stockholders through the reasonable dividends and gradual improvements in the value of the stocks in the market. (Tang; 2007)

Since the active implementation of the Agency Theory in the management of the businesses by B.O.D as an agent for the principal owners of the business; the shareholders. The unique task and mission of financial experts and professional in the business is to maximize the wealth of those stockholders through

the packages of either financial, investment, and dividends decision strategies employed or decisions made. (Aviv; 2010)

Corporate governance may be the most common tool that shows an increased calls to be implemented voluntarily or through imposed regulations by the federal laws or international standards to balance among the diversified interests of the stakeholders of the businesses. (David; 2017)

Block holders is another tool for the controlling on the authorities of the B.O.D which can be defined as those shareholders whom own a reasonable portions in the equity or the debts of the business that empower their ability to influence or guide the decision making process of these businesses through the voting rights or threats to sell their shares in the stock market. (Mona; 2018)

Those block holders may perceived as the "Activists" as they can use their power to lobby for change at the company through their open letters for the management to spot the highlights for inefficient or weak areas in the performance of the firm to enhance the performance and the value of the firm as a natural result. (Steen; 2003).

Ownership concentration has emerged as a crucial subject of study in the field of corporate governance since the work of Berle and Means (1932). The favorable impact of large block holders on firms is one of the topics being brought to light in this field. (Abdel, 2022).

Scholars have specifically proposed three ways that the presence of many block holders can enhance firm value. The process of forming a coalition to maintain control over the company is the first channel. The possibility of leaving through trade is the second route.

The third channel, in conclusion, emphasizes the function of non-controlling block holders in monitoring controlling block holders. (Guluma, 2021)

The presence of blockholders can have a positive or negative impact on the value of a company. This effect depends on several factors, including the nature of blockholders, their degree of commitment to corporate governance, and their investment objectives. In general, it is believed that the presence of active blockholders can have a positive impact on the value of a company (Konijn, et al,2009)

The impact of the presence of blockholders on company value can be observed in many global companies. For example, the South Korean company LG has the Kookmin Group as its largest shareholder, with a 52.9% stake. Kookmin is known as an active shareholder of LG, playing an active role in the company's governance. This positive influence of Kookmin on LG's governance is believed to have been one of the factors that contributed to the company's growth and success. (Soh,2022)

On the other hand, the American company Facebook has Mercury Capital Group as its largest shareholder, with a 12.9%

stake. Mercury Capital is known to be a passive shareholder in Facebook, where they abstain from exercising their rights as shareholders. This negative influence of Mercury Capital on Facebook's governance is believed to have been one of the factors that contributed to the company's decline in value and reputation. (Mercury Capital Report,2023)

1.2 Research Problem

The companies that are most profitable are those that have been able to increase the involvements, engagements and participation of all their stakeholders in order to improve the performance of the business. This will eventually lead to higher profitability as a short-term goal and therefore the direct result of these participations in the long run is to maximize stockholder wealth. In addition, these participations will lead to an effective and efficient financial management, and from these participations are the Block holders Participations'. Beside the efficient and effective financial management, Block holders with long-term investment goals might encourage companies to give high-quality financial information in order to minimize information asymmetry and increase transparency, which indicate that these companies have good governance and can eventually be valuable to the company and its shareholders. And as a result of the above-mentioned advantages associated with Board of Directors, Corporate Governance, and block holders' cooperation, it encouraged the Researcher to properly define or design the

research problem as "Investigation of the impact of the block holder's existence as a mechanism of corporate governance on the firm's value."

Based on the previous discussion, the research problem is concluded in the following research questions:

1. What is the real impact(s) of the block holders as a mean of governance mechanism which enable to direct or guide the Board of Directors' strategies employed to improve or enhance the Firm's value?
2. Are the Block holders in the company able to reduce agency conflicts between shareholders and management?
3. Are the Block Holders seeking to influence the Board of Directors' decisions which will ultimately have an impact on the minority shareholders?
4. Do the Exit of the Block holders will have an impact on the Firm's Value?

1.3 Research Objectives

The main objectives of this research:

1. investigate the impact(s) of block holders' existence as a governance mechanism on firm's value
2. investigate about the firms affected by shareholders size and its consequences on continuity
3. investigating about if block holders may also worsen governance by extracting private benefits of control or pursuing objectives other than firm value maximization

1.4Research Importance

1.4.1 Academic Importance

The importance of this research academically derived from either the shortage in this field in the Arabic library and the need to show the nature of the relationship between the block holders and the value of the firm and state the various factors or variable that should be focused on to increase the effectiveness and positively of the blockholders to not only a way to enhance or improve the corporate and overall performance of the business, but also to sustain and enhance its value in the market.

1.4.2 Practical Importance

The practical importance of this study emerged from the fact that block holders play the most significant role in the firms and due to this role; the performance can be enhanced by the presence of the block holders. Also, as their presence affects the firm's performance their exit has an impact on the trading activities operations which arises from the "information symmetry". The study also highlights the role of block holders as a mechanism contributing in reduction of agency problem as the BOD have an unsatisfying stakes in their firms and when a firm's managers are distinct from its ultimate owners, they haven't any incentives to maximize the firm's value.

1.5 Research Hypothesis

As the objectives of the research as to investigate the impact of Blockholders existence as governance mechanism on firm value of companies listed on the Egyptian Stock Exchange, the hypothesis will be as follows:

H1: There is a significant relationship between Block holders Existence and the Quality of corporate governance in the Egyptian stock market (EGX30).

H2: the Quality of corporate governance has a significant and positive impact on Firm's Value in the Egyptian stock market (EGX30).

H3: The Blockholders Existence has a significant and positive impact on Firm's Value in the Egyptian stock market (EGX30).

1.6 Research Plan

To achieve the research objectives, the study is divided into the following chapters:

- Chapter (1): Research Framework
- . Chapter (2): The theoritical background of Blockholders
- .Chapter (3): Firm Value measurements and Corporate Governance quality Blockholders relationship with firm value
- . Chapter (4): Research Methodology, Hypotheses Testing and Results
- Chapter (5):Conclusion, Recommendations and implications Future Researches

• References

Chapter Two: Theoretical Background of Blockholders

2.1 Introduction

The term "Blockholder" refers to an individual or entity possessing a large stake in a company's shareholding structure. While there's no universal definition, the U.S. Securities and Exchange Commission (SEC) considers anyone holding 5% or more of a company's outstanding common stock a blockholder. However, depending on the context and industry, the threshold for being considered a blockholder can vary. (Alex Edmans, Clifford G. Holderness,2018)

Blockholders are shareholders who own a large share of stock in a company, giving them significant influence in the management of the company. This influence is known as "mass power." Blockholders can be a variety of people or organizations, including individuals, families, companies, or investment funds. They may be long-term or active investors. (Jason Gordon,2022), Blockholders enjoy many advantages over other shareholders, including (Fuxiu Jiang, el at,2020): Voting right, Representation on the Board of Directors, Access to Management.

In some cases, Blockholders can have a positive impact on the company. For example, they can use their influence to push the company to make financially wise decisions or to improve governance practices. However, in other cases, blockholders can

have a negative impact on the company. For example, they can use their influence to push the company into making unethical decisions or to take advantage of other shareholders.

Blockholders can be divided into several main categories, based on the nature of their ownership and their investment objectives, which are as follows:(Gholamreza Zandi, Alireza Shahabi,2014)

1. Individuals: Individual investors who own shares in a company. These investors are often looking to make financial gains through an increase in the value of their shares.
2. Institutional investors: These are legal entities, such as hedge funds or asset management companies, that own shares in multiple companies. These institutions often have specific investment objectives, such as achieving a stable investment return or contributing to sustainable development.
3. Strategic investors: They are investors who buy shares in a company with the aim of controlling it or influencing its policies. These investors are often other companies or individuals who want to take advantage of business opportunities available in the target company.

The relevance of blockholders rests on several pillars (Alex Edmans and Clifford G. Holderness, 2018)

1. Control and Influence: By commanding a significant voting power, blockholders can influence crucial company decisions like acquisitions, board appointments, and dividend policy.

Their presence serves as a check and balance to management, safeguarding shareholder interests.

2. Investor Confidence: Substantial blockholders signal to the market a sense of trust and commitment to the company's long-term success. This can attract further investments and boost the company's value.
3. Active Engagement: Blockholders often possess valuable expertise and industry knowledge. Their active engagement in strategic discussions and oversight can prove insightful for the company's growth and direction.

Assessing the influence of blockholders involves a multi-faceted approach:(Amir Amel-Zadeh et al,2022)

1. Size and Type of Holding: The percentage of shares held directly impacts voting power and potential influence. Additionally, the type of holding (common stock, preferred stock, or bonds) determines voting rights and involvement in specific decisions.
2. Activism and Engagement: Activist blockholders actively seek to influence company direction through proxy battles, board nominations, or public campaigns. Their influence is amplified by their engagement level.
3. Reputation and Network: Blockholders with established reputations and extensive networks can exert influence beyond formal voting power. Their connections and sway

within the industry can impact the company's image and access to resources.

The powers of blockholders in companies vary depending on the type of company and its statute. In general, blockholders have more power than common shareholders, because they have greater control over the company. In publicly traded companies, blockholders have the right to vote on all important decisions made by the company, including selecting the board of directors, chairman of the board of directors, and other board members, approving the company's budget, and distributing profits. They also have the right to submit proposals to the general assembly of shareholders. In private joint-stock companies, blockholders have more powers than in public joint-stock companies, because they are not subject to the strict regulatory controls imposed by corporate laws. Blockholders in private joint-stock companies can impose their own conditions on the company, including terms for appointing board members and distributing profits. (Becht M, el at ,2003).

In Egypt, Companies Law No. 159 of 1981 regulates the powers of block owners in companies. The law stipulates that a shareholder who owns 10% or more of a company's shares has the right to vote on all important decisions made by the company. The law also stipulates that a shareholder who owns 20% or more of the company's shares has the right to submit proposals to the General Assembly of Shareholders. (Law No.159/198)

There are a few instances of the influence that blockholders have in companies. Blockholders have the power to set their own requirements for the company, including stipulations for selecting board members and profit distribution. They can manage the company by selecting board directors who are accountable to them. Additionally, blockholders can affect company choices by exercising their voting rights on significant matters. It is important to note that the powers of blockholders can change depending on the company's statute. Therefore, it is important to read the company's articles of association carefully before investing in the company (R. Christopher Small,el at,2014).

Chapter Three: Firm Value, Firm Value Measurements, and Blockholders Relationship to Firm Value

3.1 Introduction

The concept of "value" in a business context is central to corporate finance, investment analysis, and strategic decision-making. Firm value represents the worth of a business as perceived by its owners, investors, and other stakeholders, encapsulating both its current performance and its potential for future growth. This value is more than just an arbitrary figure; it is a comprehensive indicator of a company’s financial health, operational success, and ability to sustain growth over time. Understanding firm value is essential for anyone involved in the business, from shareholders looking to assess returns on their investments to managers aiming to align company strategy with

shareholder interests. Firm value encompasses the broader financial and non-financial factors that contribute to a company's overall worth, reflecting everything from profitability and cash flow to competitive positioning and market reputation. When accurately measured, firm value provides insight into a company's capacity to generate profits, withstand risks, and meet long-term objectives in a dynamic and competitive marketplace (Lindgreen, et al ,2012).

Calculating firm value is a critical component in understanding a company's financial health, competitive position, and growth potential. To accurately capture the multifaceted nature of firm value, various financial models and methods are employed, each offering a distinct approach to valuing different aspects of a business's finances and market environment. The most widely used models include Market Capitalization, Enterprise Value (EV), Discounted Cash Flow (DCF) Analysis, Price-to-Earnings (P/E) Ratio, and Economic Value Added (EVA). Each model serves unique decision-making needs for investors, analysts, and corporate managers, providing them with valuable insights from different perspectives and offering flexibility depending on the business context (Lemmon & Lins, 2003).

Market Capitalization: This measure is one of the simplest and most common measures of firm value, particularly for publicly traded companies. It is calculated by multiplying the current stock price by the total number of outstanding shares, providing a

snapshot of the company's perceived worth based on market sentiment and investor confidence. While Market Capitalization is a useful gauge of company size and the strength of investor sentiment, it only accounts for the company's equity value and does not consider its debt or cash reserves. Thus, while it is a quick and accessible measure of value, Market Capitalization alone may not capture the full financial health or intrinsic worth of a company, particularly in situations where debt obligations or substantial cash reserves could influence a company's true valuation (Permata & Alkaf, 2020).

Enterprise Value (EV): extends beyond Market Capitalization by including debt and cash reserves, making it particularly useful for understanding the total cost of acquiring a company. EV is calculated by adding Market Capitalization to total debt and then subtracting cash and cash equivalents, offering a comprehensive view that factors in financial obligations and liquidity. This approach provides a clearer picture of the company's capital structure and risk profile and is particularly valuable in mergers and acquisitions, where acquiring parties seek to understand the full value of the company, including its debt burden and cash on hand. Although EV offers a more detailed look at company value, it still reflects current market conditions without necessarily accounting for the company's future growth potential, a limitation for investors looking for long-term valuation perspectives (Bhullar & Bhatnagar,2013).

Discounted Cash Flow (DCF) Analysis: This measure is one of the most rigorous and comprehensive methods of calculating firm value, as it projects future cash flows and discounts them to the present value using a specified discount rate, usually the company's weighted average cost of capital (WACC). By focusing on future cash flows, DCF analysis emphasizes intrinsic value based on expected earnings and growth prospects, making it a particularly valuable tool for assessing firms with stable, predictable revenue streams. However, DCF analysis is highly sensitive to its inputs, such as growth rate assumptions and the choice of discount rate, which means that even minor changes in these assumptions can significantly impact the resulting valuation. Despite its complexity and reliance on accurate forecasting, DCF remains a preferred model for investors and analysts aiming to understand a company's underlying value beyond immediate market fluctuations, offering a long-term perspective on firm value grounded in operational fundamentals (Shrieves & Wachowicz ,2001).

Price-to-Earnings (P/E) Ratio: This is another widely used model, especially valuable for comparing firms within the same industry. The P/E ratio is calculated by dividing the current stock price by the earnings per share (EPS), offering a market-based perspective on how much investors are willing to pay for each dollar of a company's earnings. High P/E ratios generally suggest high investor confidence and growth expectations, while low P/E

ratios can indicate undervaluation or concerns about the company's growth potential. While the P/E ratio is straightforward and useful for relative valuation, it may be less effective for companies with inconsistent or negative earnings and lacks the depth of models like EV or DCF, as it does not factor in debt, cash flows, or intrinsic growth potential. Nevertheless, the P/E ratio remains a commonly employed model for quickly gauging investor sentiment and making comparisons across similar companies (Freihat, 2019).

Economic Value Added (EVA): provides a unique approach by measuring value creation over and above the company's cost of capital. EVA is calculated by subtracting the cost of capital from the company's net operating profit after taxes (NOPAT), directly measuring management's success in generating returns that exceed the cost of invested capital. This model focuses on operational efficiency and profitability, rewarding companies that manage their resources effectively and generate value for shareholders. EVA is especially insightful for companies that prioritize internal value creation and can act as an indicator of management performance in resource allocation. However, it requires a detailed understanding of the company's cost structure and capital costs, making it more complex than straightforward market-based models like Market Capitalization or the P/E ratio. EVA's focus on the firm's efficiency in generating returns aligns

with long-term strategies that emphasize sustainable growth and shareholder value creation (Sharma & Kumar,2010).

Each of these models brings unique strengths and limitations to the task of valuing a company. While Market Capitalization and P/E ratio offer quick, market-based assessments, models like EV, DCF, and EVA provide deeper insights into a company's financial structure, operational efficiency, and long-term growth potential. Selecting the appropriate model—or a combination of models—depends on the specific business context, the availability of reliable financial data, and the intended use of the valuation. By employing these models in a complementary way, investors, analysts, and managers can gain a well-rounded view of firm value, enhancing strategic decision-making, informing investment choices, and aligning corporate strategies with long-term financial goals. Through these models, firms and stakeholders alike are better equipped to navigate the complexities of market conditions, operational challenges, and future growth opportunities.

The relationship between blockholders and firm value has been a central theme in corporate governance literature, with numerous studies exploring how the presence, type, and interaction of blockholders impact firm performance and shareholder wealth.

Thomsen, Pedersen, and Kvist (2006) analyzed the effects of blockholder ownership on firm value in both market-based and control-based governance systems. Their findings suggest that

blockholders play a significant role in enhancing firm value by closely monitoring management, but the impact varies depending on the governance environment. In market-based systems, blockholders act as external checks on management, while in control-based systems, they often align their interests with management to safeguard their investments. These dynamics highlight the contextual nuances in how blockholder influence is exerted across different governance frameworks.

Basu, Paeglis, and Rahnamaei (2016) further investigated the role of multiple blockholders, emphasizing how their interactions influence firm value. They concluded that having multiple blockholders can enhance firm value by fostering a balance of power, reducing the risk of expropriation by any single dominant shareholder. However, the study also noted potential conflicts among blockholders that may lead to inefficiencies if their interests diverge. Konijn, Kräussl, and Lucas (2011) expanded on this by examining blockholder dispersion and its implications for firm value.

Their research revealed a non-linear relationship: moderate blockholder dispersion is associated with higher firm value due to enhanced monitoring and reduced entrenchment risks, whereas excessive dispersion dilutes the monitoring effect, potentially undermining firm performance.

Kyaw, Thomsen, and Treepongkaruna (2022) linked blockholder influence to economic sustainability and firm value. Their study

underscored the moderating role of blockholders in driving sustainable practices, which in turn bolster firm value. Blockholders with a long-term orientation often promote investments in sustainability initiatives, aligning with broader stakeholder interests and enhancing the firm's reputation and financial performance. Similarly, Russino, Picone, and Dagnino (2019) provided insights into closely held firms, emphasizing the role of multiple blockholders in mitigating risks associated with concentrated ownership. Their findings suggest that the presence of diverse blockholders encourages strategic decision-making and fosters value creation by ensuring accountability.

Santos, Moreira, and Vieira (2013) explored the identity and institutional context of blockholders, shedding light on how these factors influence firm value. Institutional and foreign blockholders were found to positively impact firm value due to their ability to introduce best practices and global standards of governance. Conversely, family and insider blockholders often displayed mixed effects, depending on whether their interests aligned with or diverged from minority shareholders. The study highlighted the importance of institutional context, noting that governance systems and cultural factors significantly mediate the blockholder-value relationship.

Collectively, these studies underline that the impact of blockholders on firm value is multifaceted and contingent on factors such as the number of blockholders, their identity,

governance systems, and the interplay of their interests. The findings contribute to a nuanced understanding of how blockholders can be both a driving force for value creation and a source of potential conflict within firms.

The results from the reviewed studies collectively highlight the complex and multifaceted relationship between blockholders and firm value, emphasizing that this dynamic is influenced by various contextual and structural factors.

Thomsen, Pedersen, and Kvist (2006) found that the presence of blockholders significantly enhances firm value, particularly in control-based governance systems where blockholders act as active monitors. However, their impact is context-dependent. In market-based systems, blockholders contribute to firm value by providing external oversight, while in control-based systems, their involvement often aligns closely with management, ensuring that their interests are protected. The results highlight that the effectiveness of blockholder monitoring varies across governance frameworks.

Basu, Paeglis, and Rahnamaei (2016) demonstrated that the presence of multiple blockholders tends to improve firm value by fostering a balance of power and reducing the risk of expropriation by any single Blockholder. This distribution of influence creates a system of mutual checks and balances, minimizing conflicts and inefficiencies. However, their study

also noted that excessive diversity among blockholders could lead to coordination challenges, potentially eroding firm value.

Konijn, Kräussl, and Lucas (2011) found a non-linear relationship between blockholder dispersion and firm value. Moderate dispersion improves firm value by enhancing monitoring and reducing entrenchment risks. Conversely, excessive dispersion dilutes the monitoring benefits as no single blockholder has sufficient influence to exert meaningful oversight, which may lead to weaker governance and lower firm performance.

Kyaw, Thomsen, and Treepongkaruna (2022) highlighted the positive impact of blockholders on firms' potential for economic sustainability. Blockholders with a long-term perspective are more likely to support investments in sustainable practices, which not only align with broader stakeholder interests but also enhance firm value by improving the firm's reputation, operational efficiency, and resilience to environmental risks.

Russino, Picone, and Dagnino (2019) observed that multiple blockholders in closely held firms contribute to firm value by promoting accountability and reducing the risks associated with concentrated ownership. Their findings emphasize that diverse blockholder representation ensures a more balanced approach to strategic decision-making, fostering a culture of transparency and improved performance.

Santos, Moreira, and Vieira (2013) highlighted that the identity and institutional context of blockholders play a crucial role in determining their impact on firm value. Institutional and foreign blockholders positively influence firm value by introducing global governance practices and fostering higher transparency. In contrast, family and insider blockholders show mixed results, with their influence heavily mediated by cultural and institutional norms.

Chapter Four: Research Methodology, Hypothesis Testing and Results

4.1 Introduction

This research is considered as quantitative explanatory study. The quantitative of the research is due to its dependency on the quantitative data analysed through various statistical techniques about the selected firms in the EGX 30. The explanatory is mainly due to the specific nature of the research as it seeks to investigate the nature of the relationship between the independent variable; the block holders and the dependent variable; the value of the firms.

This study is considered also an empirical or applied study as it is directed to implement the evaluation techniques; capitalization or earnings ratio on the selected Egyptian firms registered in the stock Egyptian market and mainly in the EGX-30. (Index of the greatest 30 corporations registered in the Egyptian stock market).

4.2 Study population and sample

The Researcher will apply on the Companies in Egypt listed in the Egyptian Exchange The Researcher will implement the evaluation techniques; capitalization or earnings ratio on the selected Egyptian firms registered in the stock Egyptian market and mainly in the EGX-30. The sample will be selected intentionally according to the availability and quality of the required data related to the independent and dependent variables.

4.3Variables of the Study

4.3.1 The independent variable

In this study the independent variable (block holders and corporate governance) the block holders which direct and guides the relationships with the dependent variables. In other words, the changes in this independent variable will lead to the changes in the dependent variable. This independent variable, the block holders will be assigned in this study with the "B"

4.3.2 The Moderating variable

Corporate governance: They are the laws and standards that define the relationship between the company's management on the one hand and shareholders, stakeholders or parties associated with the company (bondholders, workers, suppliers, creditors, consumers) on the other hand and the application of corporate governance is expressed in the financial reports of the study sample companies, Regarding the moderating variable, we follow

the approach suggested by Al-Gamrh et al. (2018) and corporate governance quality using a composite CGQ index.

The index comprises 9 questions, each question is assigned a score of 1 if the answer is "yes", and 0 otherwise. Consistent with Al-Gamrh et al. (2018), questions are grouped into three categories:

A- Ethics and conflicts of interest (3 questions), 2- board composition and functioning (3 questions), and 3- disclosure (3 questions).

Consequently, the overall index is derived for each firm using the following equation:

$$\text{CGQ Index} = \frac{\sum weighted\ Average\ of\ the\ three\ categories}{3}\ X\ 100$$

4.3.3 The dependent variable

In this study is the value of the firms registered in the stock market. The dependent variable will be signed with "V". This dependent variable may be measured through;

- Market capitalization model which states that, the value of the firm can be attained through the following equation; price of the stocks × total no. of shares outstanding. This model is the simplest technique to evaluate the value of the firm. (Yusheng; 2020)
- Earning multiplier model or P/E ratio. This model enables the researcher to evaluate the Company's value through; market

value per share / EPS or earning per share. This model reveals the ratio of valuing the firm which measures its current market price relative to EPS ratio (Earning per share ratio). (Loretta; 2014), this method is used to get more accurate picture of the real value of the firm.

4.4 Hypothesis of the Study

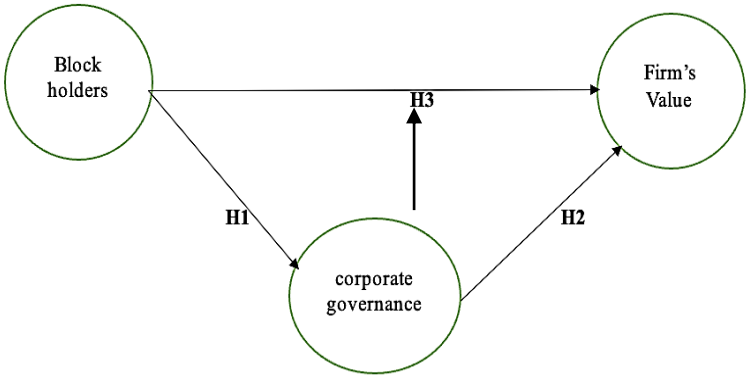
H1: There is a significant relationship between Block holders Existence and the Quality of corporate governance in the Egyptian stock market (EGX30)

H2: the Quality of corporate governance has a significant and positive impact on Firm's Value in the Egyptian stock market (EGX30)

H3: Block holders Existence has a significant and positive impact on Firm's Value in the Egyptian stock market (EGX30)

4.5 Research Framework

Figure (3.1) Research Framework



4.6 Research Models

In order to test the study hypotheses, the simple linear regression model was used as follows:

H1: There is a significant relationship between Block holders Existence and the Quality of corporate governance in the Egyptian stock market (EGX30)

$Y = a + b_1 X + e$ (Model 1)

Y = corporate governance

X = Block holders

A = Equation constant

B_1= Regression coefficient

E = error

H2: the Quality of corporate governance has a significant and positive impact on Firm's Value in the Egyptian stock market (EGX30)

$Y = a + b_2 X + e$ (Model 2)

Y = Firm's Value

X = corporate governance

A = Equation constant

B_2= Regression coefficient

E = error

H3: Block holders Existence has a significant and positive impact on Firm's Value in the Egyptian stock market (EGX30)

$Y = a + b_3 X + e$ (Model 3)

Y = Firm's Value
X = Block holders
A = Equation constant
B_3= Regression coefficient
E = error

4.7 Statistical methods used

The study adopted the Statistical Package for the Social Sciences (SPSS25) program and E-Views program to process the data and to test the study hypotheses after translating the indicators, ratios, and data in order to apply the following statistical methods and indicators:

- Descriptive Statistic Measures: to extract means, standard deviations, the largest value, the lowest value, Skewness, Kurtosis and Jarque-Bera
- Simple linear regression analysis: to test the effect of the independent variables on the dependent variable and to test the study hypotheses
- Standard tests: such as the expanded Dickey-Fuller test, the causality test, the cointegration test to test the relationship between the variables, and the interval test. Time lag and an error correction model was used to determine the type of relationship between variables in the long and short-term using the E-Views program to calculate the standard relationships between the independent variables and the dependent variables during the study period

4.8 Study Tool

The study will use the financial reports of Egyptian companies listed on the Egyptian Stock Exchange to collect data related to the study variables.

4.9 Results of the Applied Study

The following table presents a descriptive analysis of study variables

Table (4.1) Descriptive statistics for dependent and independent variables

	Block holders	Corporate governance	Firm's Value
Mean	.8671	.8384	1.4917
Median	.8955	.8240	1.7000
Std. Deviation	.08356	.07676	.41927
Skewness	.594	.461	.979
Std. Error of Skewness	.637	.637	.637
Kurtosis	1.279	1.084	.058
Std. Error of Kurtosis	1.232	1.232	1.232
Minimum	.73	.74	.60
Maximum	.95	.97	1.89
Jarque-Bera	49.3626	33.3696	27.5639
Probability	0.001**	0.001**	0.001**
Observations	360	360	360

The above table (1) shows the descriptive statistics of the research variables, it includes the mean, median, maximum, minimum, standard deviation, skewness, kurtosis, Jarque- Bera and probability. According to table (1), Block holders have a mean of .8671, median of .8955, a maximum value of .95 and a minimum value of .73, and with a standard deviation of .08356 and probability of a significant level less than 0.001, In addition,

Corporate governance have a mean of .8384, median of .8240, a maximum value of .97and a minimum value of .74, and with a standard deviation of .07676 and probability of a significant level less than 0.001 In addition, Firm's Value have a mean of 1.4917, median of 1.7000, a maximum value of 1.89 and a minimum value of .60, and with a standard deviation of .41927and probability of a significant level less than 0.001

In addition, it can be revealed that the normality distribution of research variables in terms of Block holders, corporate governance, and Firm's Value, by using the Jarque-Bera test is at a significant level greater than (0.05). Moreover, since the Pearson skewness coefficient is less than or equal (1) or greater than or equal (-1), it can be concluded that the data are not significantly skewed (Allan G.Bluman, 2012).

2 - The standard relationship between the Block holders and corporate governance during the study period

2 .1 Unit root test

To measure the stability of the model variables, the developed Dickey-Fuller test (ADF) was used, and it was found that the Block holders was unstable at its level, and stability occurred after taking the second difference, so the series became integrated of the second order, and it was also shown that the corporate governance. at its level and stabilization occurred after taking the first difference, so the series becomes integrated of the first degree. Because the two series are not integrated at the same

degree, Ardel cointegration is used in order to conduct the cointegration test between them.

Table (4.2) Results of the developed Dickey-Fuller (ADF) test for the relationship between Block holders and corporate governance

Variables	Level			1st Difference			2nd Difference		
	ADF	Sig.	Result	ADF	Sig.	Result	ADF	Sig.	Result
Block holders	٠.١٧١٢	٠.٧١٥	No stationary	-0.6654	0.403	No stationary	-3.014	0.007	stationary
corporate governance	1.3305	0.942	No stationary	-2.765	0.011	Stationary			

Source: E-views calculation results

2 – 2 - Causality Test

It is clear that there are no two-way causal relationships between the Block holders and corporate governance at a significance level of 0.05, as the one-way causal relationship directs from the Block holders to the corporate governance at a significance level of 0.05

Table (4.3) Causality Test between Block holders and corporate governance

Null Hypothesis:	Obs	F-Statistic	Prob.
Y1 does not Granger Cause X1	10	0.25954	0.7812
X1 does not Granger Cause Y1		6.52684	0.0404

Source: E-views calculation results

2.3 - Bounds Test

It turns out that there is a cointegration between the Block holders and corporate governance at a significance level of 0.05

Table (4.4) Co-integration test between Block holders and corporate governance

Test Statistic	Value	K
F-statistic	6.808005	1
Critical Value Bounds		
Significance	I0 Bound	I1 Bound
10%	4.04	4.78
5%	4.94	5.73
2.5%	5.77	6.68
1%	6.84	7.84

Source: E-views calculation results

2 – 4 - Test the number of time lags

It turns out that the optimal number of time lag periods is one time period for the corporate governance, and there is no time lag period for the Block holders

Table (4.5) Testing time lag periods between Block holders and corporate governance

Variable	Coefficient	Std. Error	t-Statistic	Prob.*
Y1(-1)	0.187161	0.299113	0.625722	0.5489
X1	0.616013	0.247988	2.484043	0.0379
C	476356.0	285364.6	1.669289	0.1336
R-squared	0.903073	Mean dependent var		2704949.
Adjusted R-squared	0.878841	S.D. dependent var		1105626.
S.E. of regression	384844.5	Akaike info criterion		28.78607
Sum squared resid	1.18E+12	Schwarz criterion		28.89458
Log likelihood	-155.3234	Hannan-Quinn criter.		28.71766
F-statistic	37.26824	Durbin-Watson stat		2.051610
Prob(F-statistic)	0.000088			

Source: E-views calculation results

2 – 5 -Long-run and short-run error correction vector model

In order to determine the value of the relationship parameters in the long run and the short run, the error correction vectors were estimated, and it turns out that the error term correction factor reached a value of ٠.٨١٢٨٣٩, which is significant at a significance level of 0.05, meaning that there is a correction from the short run to the long run with a speed of ٠.٨١٢٨٣٩, while the long-run equation indicates that there is an effect For correction in the long run because X1 is significant at a significance level of 0.01

Table (4.6) Error correction vector test results between Block holders and corporate governance

Cointegrating Form				
Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
D(X1)	**0.616013**	**0.247988**	**2.484043**	**0.0379**
CointEq (-1)	**-0.812839**	**0.299113**	**-2.717498**	**0.0264**
Cointeq = Y1 - (0.7579*X1 + 586040.1779)				
Long Run Coefficients				
Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
X1	**0.757854**	**0.108902**	**6.959021**	**0.0001**
C	**586040.177929**	**374822.139200**	**1.563515**	**0.1566**

Source: E-views calculation results

3 - The standard model of the relationship between corporate governance and Firm's Value

3 – 1 - Unit root test

To measure the stability of the model variables, the developed Dickey-Fuller test (ADF) was used, and it was found that the corporate governance. at its level and stabilization occurred after taking the first difference, so the series becomes integrated of the first degree, and it was also shown that the Firm's Value was unstable. at its level and stabilization occurred after taking the second difference, so the series becomes integrated of the second degree. Because the two series are not integrated at the same degree, Ardel cointegration is used in order to conduct the cointegration test between them.

Table (4.7) Results of the developed Dickey-Fuller (ADF) test for the relationship between relationship between corporate governance and Firm's Value

Variables	Level			1st Difference			2nd Difference		
	ADF	Sig.	Result	ADF	Sig.	Result	ADF	Sig.	Result
corporate governance	1.3305	0.942	No stationary	-2.765	0.011	Stationary			
Firm's Value	4.886	0.999	No stationary	-1.068	0.238	No stationary	-3.682	0.002	Stationary

Source: E-views calculation results

3.2 Causality Test

It is clear that there are no two-way or one-way causal relationships between corporate governance and Firm's Value at a significance level of 0.05

Table (4.8) Causality Test between relationship between corporate governance and Firm's Value

Null Hypothesis:	Obs	F-Statistic	Prob.
Y2 does not Granger Cause X1	10	0.57404	0.5965
X1 does not Granger Cause Y2		1.84754	0.2507

Source: E-views calculation results

1 – 3 - Bounds Test

It turns out that there is a cointegration between the corporate governance and Firm's Value at a significance level of 0.05

Table (4.9) Co-integration test between corporate governance and Firm's Value

Test Statistic	Value	K
F-statistic	6.706525	1
Critical Value Bounds		
Significance	I0 Bound	I1 Bound
10%	4.04	4.78
5%	4.94	5.73
2.5%	5.77	6.68
1%	6.84	7.84

Source: E-views calculation results

2.4 - Test the number of time lags

It turns out that the optimal number of time lag periods is one time period for the Firm's Value, and there is no time lag period for the corporate governance

Table (4.10) Testing time lag periods between corporate governance and Firm's Value

Variable	Coefficient	Std. Error	t-Statistic	Prob.*
Y2(-1)	0.739636	0.164831	4.487238	0.0020
X1	0.002496	0.000975	2.559215	0.0337
C	-1526.567	1192.381	-1.280268	0.2363
R-squared	0.981540	Mean dependent var		14944.87
Adjusted R-squared	0.976925	S.D. dependent var		9422.752
S.E. of regression	1431.354	Akaike info criterion		17.59763
Sum squared resid	16390186	Schwarz criterion		17.70615
Log likelihood	-93.78696	Hannan-Quinn criter.		17.52922
F-statistic	212.6864	Durbin-Watson stat		2.284471
Prob(F-statistic)	0.000000			

Source: E-views calculation results

3 – 5 - Long-run and short-run error correction vector model

In order to determine the value of the relationship parameters in the long run and the short run, the error correction vectors were estimated, and it turns out that the error term correction factor is not significant at a significance level of 0.05, meaning that there is no correction from the short run to the long run, while the long run equation indicates that there is an effect of the correction in the long run. Because X1 is significant at a significance level of 0.01

Table (4.11) Error correction vector test results between corporate governance and Firm's Value

Cointegrating Form				
Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
D(X1)	**0.002496**	**0.000975**	**2.559215**	**0.0337**
CointEq(-1)	**-0.260364**	**0.164831**	**-1.579584**	**0.1529**
Cointeq = Y2 - (0.0096*X1 -5863.1983)				
Long Run Coefficients				
Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
X1	**0.009587**	**0.002839**	**3.377423**	**0.0097**
C	**-5863.198344**	**4264.959593**	**-1.374737**	**0.2065**

Source: E-views calculation results

2 - The standard model of the relationship between Block holders and Firm's Value

4 – 1 - Unit root test

To measure the stability of the model variables, the developed Dickey-Fuller test (ADF) was used, and it was found that the Block holders was unstable at its level, and stability occurred

after taking the second difference, so the series became integrated of the second order, and it was also shown that the Firm's Value was unstable. at its level and stabilization occurred after taking the second difference, so the series becomes integrated of the second degree. Because the two series are integrated at the same degree, Ardel cointegration is used in order to conduct the cointegration test between them.

Table (4.12) Results of the developed Dickey-Fuller (ADF) test for the relationship between Block holders and Firm's Value

Variables	Level			1st Difference			2nd Difference		
	ADF	Sig.	Result	ADF	Sig.	Result	ADF	Sig.	Result
Block holders	٠.١٧١٢	٠.٧١٥	No stationary	-0.6654	0.403	No stationary	-3.014	0.007	stationary
Firm's Value	4.886	0.999	No stationary	-1.068	0.238	No stationary	-3.682	0.002	Stationary

Source: E-views calculation results

3 – 2 - Causality Test

It is clear that there are no two-way causal relationships between the Block holders and Firm's Value at a significance level of 0.05, as the one-way causal relationship goes from the Firm's Value to the Block holders at a significance level of 0.05. Table (4.13) Causality Test between Block holders and Firm's Value

Null Hypothesis:	Obs	F-Statistic	Prob.
Y2 does not Granger Cause X2	10	10.6023	0.0159
X2 does not Granger Cause Y2		0.22806	0.8039

4 – 3 - Bounds Test

It turns out that there is no cointegration between the Block holders and Firm's Value at a significance level of 0.05

Table (4.14) Co-integration test Block holders and Firm's Value

Test Statistic	Value	K
F-statistic	2.276759	1
Critical Value Bounds		
Significance	I0 Bound	I1 Bound
10%	4.04	4.78
5%	4.94	5.73
2.5%	5.77	6.68
1%	6.84	7.84

Source: E-views calculation results

4 – 4 - Test the number of time lags

It turns out that the optimal number of time lag periods is one time period for the Firm's Value, and there is no time lag period for the value variable of the Block holders

Table (4.15) Testing time lag periods between Block holders and Firm's Value

Variable	Coefficient	Std. Error	t-Statistic	Prob.*
Y2(-1)	1.098348	0.107643	10.20365	0.0000
X2	0.008238	0.016787	0.490726	0.6368
C	459.3897	1186.110	0.387308	0.7086
R-squared	0.967408	Mean dependent var		14944.87
Adjusted R-squared	0.959260	S.D. dependent var		9422.752
S.E. of regression	1901.898	Akaike info criterion		18.16609
Sum squared resid	28937721	Schwarz criterion		18.27461
Log likelihood	-96.91351	Hannan-Quinn criter.		18.09769
F-statistic	118.7301	Durbin-Watson stat		2.278690
Prob(F-statistic)	0.000001			

Source: E-views calculation results

3 – 5 - Long-run and short-run error correction vector model

In order to determine the value of the relationship parameters in the long run and the short run, the error correction vectors were estimated. It turns out that the error term correction factor is not significant at a significance level of 0.05, meaning that there is no correction from the short run to the long run, while the long run equation indicates that there is no effect of the correction in the run. Long because X٢ is not significant at a significance level of 0.0٥

Table (4.16) Error correction vector test results Block holders and Firm's Value

Cointegrating Form				
Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
D(X2)	**0.008238**	**0.016787**	**0.490726**	**0.6368**
CointEq(-1)	**0.098348**	**0.107643**	**0.913653**	**0.3876**
Cointeq = Y2 - (-0.0838*X2 -4671.0575)				
Long Run Coefficients				
Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
X2	**-0.083761**	**0.245599**	**-0.341046**	**0.7419**
C	**-4671.057485**	**14211.030565**	**-0.328692**	**0.7508**

Source: E-views calculation results

5 - Testing the study hypotheses

The first hypothesis: There is a significant relationship between Block holders Existence and the Quality of corporate governance in the Egyptian stock market (EGX30)

Table (4.17) impact of the value of Block holders Existence on the Quality of corporate governance in the Egyptian stock market (EGX30)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	404062.0	234935.9	1.719882	0.1162
X	0.789403	0.077162	10.23042	0.0000
R-squared	0.912787	Mean dependent var		2550701.
Adjusted R-squared	0.904065	S.D. dependent var		1181859.
S.E. of regression	366060.8	Akaike info criterion		28.61000
Sum squared resid	1.34E+12	Schwarz criterion		28.69082
Log likelihood	-169.6600	Hannan-Quinn criter.		28.58008
F-statistic	104.6615	Durbin-Watson stat		1.928336
Prob(F-statistic)	0.000001			

Source: E-views calculation results

The significance of the model as a whole was revealed, as the value of F was significant at the level of 0.01, and the impact of the value of Block holders Existence on the Quality of corporate governance in the Egyptian stock market (EGX30) was significant at the level of 0.01. It was found that the independent variable (the value of Block holders) explains 90.4% of the dependent variable (the Quality of corporate governance in the Egyptian stock market (EGX30)). It was found that whenever the value of Block holders increased by 1%. The Quality of corporate governance in the Egyptian stock market (EGX30) increased by 0.789403%. Which shows the correct of the first hypothesis of the study

$$Y = 404062.0 + 0.789403$$

Y = corporate governance

X = Block holders

The second hypothesis: the Quality of corporate governance has a significant and positive impact on Firm's Value in the Egyptian stock market (EGX30)

Table (4.18) impact of the value of Quality of corporate governance on Firm's Value in the Egyptian stock market (EGX30)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	532734.0	1039816.	0.512335	0.6242
X	0.534429	0.192859	2.771086	0.0077
R-squared	0.970689	Mean dependent var		2550701.
Adjusted R-squared	0.953941	S.D. dependent var		1181859.
S.E. of regression	253644.3	Akaike info criterion		28.01959
Sum squared resid	4.50E+11	Schwarz criterion		28.22164
Log likelihood	-163.1175	Hannan-Quinn criter.		27.94479
F-statistic	57.95541	Durbin-Watson stat		2.013407
Prob(F-statistic)	0.000019			

Source: E-views calculation results

The significance of the model as a whole was revealed, as the value of F was significant at the level of 0.01, and the impact of the value of Quality of corporate governance on Firm's Value in the Egyptian stock market (EGX30) was significant at the level of 0.01. It was found that the independent variable (the value of Quality of corporate governance) explains 97.1% of the dependent variable (the Firm's Value in the Egyptian stock market (EGX30)).

It was found that whenever the value of Quality of corporate governance increased by 1%. The Firm's Value in the Egyptian stock market (EGX30) increased by 0.534429%. Which shows the correct of the second hypothesis of the study

$$Y = 532734.0 + 0.534429$$

Y = Firm's Value

X = corporate governance

The third hypothesis: Block holders Existence has a significant and positive impact on Firm's Value in the Egyptian stock market (EGX30)

Table (4.19) impact of the value of Block holders on Firm's Value in the Egyptian stock market (EGX30)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-3287.805	1620.162	-2.029307	0.0699
X	0.006392	0.000532	12.01255	0.0000
R-squared	0.935192	Mean dependent var		14094.58
Adjusted R-squared	0.928711	S.D. dependent var		9454.761
S.E. of regression	2524.423	Akaike info criterion		18.65642
Sum squared resid	63727118	Schwarz criterion		18.73724
Log likelihood	-109.9385	Hannan-Quinn criter.		18.62650
F-statistic	144.3013	Durbin-Watson stat		0.615301
Prob(F-statistic)	0.000000			

Source: E-views calculation results

The significance of the model as a whole was revealed, as the value of F was significant at the level of 0.01, and the impact of the variable of the Block holders Existence has a significant and positive impact on Firm's Value in the Egyptian stock market (EGX30) was significant at the level of 0.01. It was found that the independent variable (the value of the Block holders) explains 92.9% of the dependent variable (Firm's Value in the Egyptian stock market (EGX30)). It was found that whenever the

value of Block holders increased by 1%. The Firm's Value in the Egyptian stock market (EGX30) increased by 0.006392%. Which shows the correct of the third hypothesis of the study

Chapter Five: Conclusion, Recommendations, Limitations and Implications for Future Research

5.1 Conclusion

The dynamic environment in which businesses operate necessitates that managers and decision-makers adopt effective strategies to achieve superior results that enhance the financial position of the company and meet stakeholder expectations. This includes providing adequate compensation and rewards for employees and delivering reasonable dividends and stock value improvements for investors. Since the adoption of Agency Theory, which assigns the Board of Directors (B.O.D.) as agents for shareholders, financial experts have aimed to maximize shareholder wealth through strategies in finance, investment, and dividends. However, the monopolistic practices of the B.O.D., particularly when restrictions on their authority are absent, can lead to decisions favoring their interests at the expense of other stakeholders, emphasizing the need for mechanisms like corporate governance to regulate their influence and balance interests. Furthermore, block holders—shareholders owning substantial equity or debt portions—emerge as an additional tool to influence decision-

making through voting rights or by threatening to sell shares, often acting as "activists" who spotlight inefficiencies to improve firm performance.

The role of block holders as governance mechanisms has been extensively debated. Proponents argue that block holders mitigate agency issues between owners and managers by limiting managerial decisions and reducing agency costs, thus enhancing firm value. For example, active block holders monitor management and require decisions aligned with shareholder interests, often leading to higher growth rates and investment returns. Conversely, critics highlight potential conflicts where block holders prioritize personal interests over minority shareholders, reducing firm value. Such governance conflicts arise from power imbalances between controlling and non-controlling shareholders, leading to disputes over personal control benefits. Multiple block holders can help mitigate these issues by fostering coalitions, offering exit options, and monitoring each other, thereby contributing to better corporate governance and improved firm value.

While active block holders typically enhance firm governance and value, passive block holders can harm governance by refraining from exercising their rights, resulting in inefficiencies and reduced company value. Empirical studies illustrate these dynamics: active block holders in companies like LG have positively influenced governance and growth,

while passive block holders, as seen in Facebook's case, have contributed to declines in value and reputation. This study aims to examine the impact of block holders on corporate governance and firm value, focusing on the top 30 companies listed on the EGX 30 index. By analyzing ownership concentration and its influence on governance practices, this research seeks to provide insights into the dual-edged role of block holders and their implications for corporate success.

The results from the reviewed studies collectively highlight the complex and multifaceted relationship between blockholders and firm value, emphasizing that this dynamic is influenced by various contextual and structural factors.

5.2 Limitations

The results of this study were applied to one country, which is Egypt, which may reduce our ability to generalize the results to the rest of the countries, but it can be said that the study is the beginning of other studies that can be applied on a wide scale to achieve the desired benefit and reach results that can be generalized

5.3Recommendations

1- Interest in working on applying the principles of governance effectively and efficiently in companies and institutions listed on the Egyptian Stock Exchange (EGX30)

2- Working to encourage companies and institutions listed on the Egyptian Stock Exchange (EGX30) to focus on improving the company's value and increasing performance efficiency.
3- Working to expand the application of economic models through which the company's value can be measured.

5.4 Scope for Future Research

- Expanding the procedures of studies related to the impact of applying governance on the financial performance of companies and institutions listed on the Egyptian Stock Exchange (EGX30)
- Expanding the procedures of studies related to the value of the company in the Egyptian Stock Exchange (EGX30) and the factors affecting it
- Expanding the procedures of studies related to the effects of the presence of shareholders on the financial performance of companies and institutions listed on the Egyptian Stock Exchange (EGX30)

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