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IMPACT OF OWNERSHIP STRUCTURE ON FIRM PERFORMANCE: EVIDENCE FROM LISTED MANUFACTURING FIRMS IN NIGERIA

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Abstract

Ownership structure of any company has been a serious agenda for corporate governance and that of performance of a firm. How ownership affect firm performance, has been a topic investigated by researchers for many decades and the debate is still on-going. This article intends to contribute to the debate by examining the impact of share ownership in the Nigerian manufacturing sector. The research used the descriptive cross sectional survey design. Data was collected by secondary method. Ten firms were sampled for analysis using audited annual reports and accounts for eleven years covering 2005 to 2015. The fixed effect model of the regression analysis was found most suitable and employed in estimating the variables of the study. We found that there is no significant effect between the institutional and individual shareholders and the financial performance of manufacturing firms in Nigeria. We conclude based on the sampled firms that other factors rather than type of share ownership affect financial performance in Nigerian manufacturing sector. This can be attributed to the nature of shareholding in the manufacturing sector where ownership is mainly held by individual investors. Where firms are held by other firms, that firm's shareholding will not be widely dispersed. The government in its policy making function, should direct its searchlight on other areas rather than the type of shareholding in order to monitor and control the firms as a means of improving their financial performance.

Keywords: Ownership structure, Financial performance, Corporate Governance, Firms

1. Introduction

There are two forms of ownership distribution; first, dispersed ownership, and second, concentrated ownership. Ownership structure of any company has been a serious agenda for corporate governance and that of performance of a firm. It is a serious concern for both business leaders and regulators all over the world. Who owns the firm's equity and how ownership affect firm performance, has been a topic investigated by researchers for many decades. Shareholders (principal) are always regarded as

the owners of the business while directors are their agents or representatives who are supposed to allocate business resources in a way to increase their wealth. The motivation of many shareholders for investment in businesses is profit not control (Kadivar, 2006). The principles of corporate governance include issues like measure of management, level of control and manner of interaction between the large and little shareholders. Though the modern organization emphasizes the divorce of management and ownership; in practice, the interests of the group managing the company can differ widely from the interests of those that supply the capital to the firm. This notion originally derives from Berle and Means, (1932) and has been much propagated after the seminal work by Jensen and Meckling (1976).

Shareholders of publicly held companies are so widely dispersed that they are unable to effectively control the decisions of the management team, and thus cannot be assured that the team represents their interests. Many solutions to this problem have been proffered, and these include inter alia; the disciplining effect of the takeover market, the positive incentive effects of the management shareholding stake and the benefits of large monitoring shareholders. A different problem, however, arises in firms with concentrated shareholders. Since a large controlling shareholder has both the incentives and the power to control the management team's actions, management's misbehaviour becomes a second order problem when such a large shareholder exists. Instead, the main problem becomes controlling the large shareholder's abuse of minority shareholders.

In other words, holders of a majority of the voting shares in a company, through their ability to elect and control a majority of the directors and to determine the outcome of shareholders' votes on other matters, have tremendous power to benefit themselves at the expense of minority shareholders. Thus, the type of owners as well as the distribution of ownership stakes will undoubtedly have an impact on the performance of firms. However, most studies on ownership structure was conducted in developed economies, and their results generalized without paying much attention to contextual idiosyncrasies. The contextual settings of developed countries such as the USA and the UK differ vastly from those of emerging markets (Nam and Nam, 2004). There is an increasing awareness that the theories originated based on the evidence collected on developed countries may have limited applicability to emerging market due to the vast differences in political, socio-cultural and business contexts between the developed and developing countries. In general emerging markets have distinct political, economic, cultural and institutional characteristics which limit the application of an empirical model originated in developed markets.

Recent studies on corporate governance suggest that social, economic and cultural factors of a country affect corporate ownership structure which in turn impacts on a firm's performance (Zeitun and Gary, 2007). Very little is known about the performance implications of ownership structure in emerging markets, and there is a dearth of studies in this area. This issue, combined with the divergent results produced by similar previous studies conducted in developed economies, creates a vacuum in the academic literature on corporate governance practices in emerging markets. This study helps to fill this gap by examining the impact of ownership structure. This will provide invaluable information to top policy makers and assist the government on the restructuring of the Nigerian manufacturing sector.

2. Literature Review

Governance issues arise when ownership of a legal entity is separated from its management (Tricker, 2000). This intensifies the need to search for good governance practices, as identified by Berle and Means (1932). Jensen and Meckling, (1976), pointed out that potential conflicts of interest arise between corporate managers and dispersed shareholders when managers do not have an ownership interest in the firm. As such shares held by the managers in a firm helps to align the interests between shareholders and managers. Central to this analysis is agency theory. Jensen and Meckling (1976) argue that relative to the amount of ownership held by insiders, managers are provided with incentives to pursue activities to serve their own benefits, which in turn are aligned also to enhance the firm value. According to their hypothesis, both a firm's value and its performance increase with the level of insider ownership. The market based economies are largely characterized by the existence of a widely dispersed ownership structure, highly liquid stock markets due to good investor protection and control of companies by professional managers on behalf of scattered shareholders (Bhasa, 2004). In these economies, corporate management has more power to make decisions, and these decisions may frequently be in their own interest, which may give rise to an agency cost. Agency theory argues that ownership concentration may improve firm performance by decreasing agency costs (Shleifer and Vishny, 1986).

Theoretically, it can be argued that the ownership concentration may improve performance by decreasing monitoring costs or decline due to the possibility that large shareholders use their control rights to achieve private benefits (Shleifer and Vishny, 1986). The relationship between ownership structure and firm performance has been investigated by many researchers among whom are; Mak and Kusnadi (2005), Krivogorsky (2006), Kapopoulos and Lazaretou (2007) and Cho and Kim (2007). Thomsen et al., (2006) and Zeitun & Gary, (2007) also posit that performance can decline if large shareholders use their control rights to achieve private benefits. Gugong, Arugu and Dandago (2014) find that ownership structure has a positive impact on firm performance.

Jensen and Meckling (1976) claim that agency costs consist of three different components: monitoring costs, bonding costs and residual loss. Monitoring costs are the control costs incurred by the principal to mitigate the deviant behaviour of the manager. Bonding costs are incurred to ensure that the manager takes decisions beneficial to the principal. Residual loss is a political cost that occurs when both the above kind of costs fails to control the divergent behaviour of the manager. Further, Jensen and Meckling (1976) showed formally how the allocation of shares among insiders and outsiders can influence the agency cost and value of the firm. Since then, the relationship between ownership and firm performance has attracted special attention. The institutional ownership of shareholding is another internal governance factor held to have a monitoring role on the management of firms. Shares owned by other companies, investment Trusts, cooperatives, pension funds and other similar organisations are jointly called institutional owners. Shareholding can be classified according to the quantum of shares held or the category of shareholders. These are; concentrated shareholding, dispersed shareholding on the one hand and Institutional shareholding and Individual shareholding on the other. It is noteworthy that the institutional shareholders are usually large investors. They play an effective role at monitoring management than the individual investors. Concentrated institutional ownership creates the incentives to monitor management, which overcomes the free-rider problem associated with dispersed ownership whereby small shareholders

have not enough incentives to incur monitoring costs for the benefits of other shareholders. The investment size and the resources at the disposal of the institutional owners enhance their incentive and capabilities to collect and evaluate information pertaining to their investments. The clout to discipline management and even bring about the changes when management performs inadequately is also at their disposal and thus improving firm performance by decreasing monitoring costs.

Nevertheless, some extant literatures find little evidence that high ownership concentration directly affects performance. Welch (2003), Villalonga and Amit (2006), Abor and Biekpe (2007), Lefort and Urzúa (2008) and Belkhir (2009) find that ownership structure is negatively related to firm performance since excessive managerial ownership may allow managerial consumption of perquisites and reduce probability of bidding by outside agents, thus reducing the firm value. There is also evidence that ownership concentration has no relationship with or in fact reduces firm value. Cho (1998), Demsetz and Villalonga (2001), Dalton et al. (2003) and Nuryanah and Islam (2011) find no conclusion on the relationship between ownership structure and firm performance. It is also held that a continuous increase in ownership concentration may create controlling ambition and capability for large shareholders to manipulate the firm and expropriate minority shareholders. Researchers have to date not reached a consensus on the effect of the type of shareholding on firm performance.

2.1 Institutional Ownership

Institutional ownership is another internal corporate governance mechanism which aims at mitigating agency problems. The nature of a company's ownership structure plays a significant role in influencing its performance. The company's share ownership structure could either be widely-dispersed as prevail in US and UK where shares of large number of publicly-traded firms are widely-held (Dennis and McConnell, 2003) or concentrated ownership where the firm's shares are owned by few largest shareholders, mostly by institutions. According to Krivogorsky (2006), more than 50% of shareholdings in listed industrial companies in Australia, Belgium, Germany and Italy are held by large block holders. The free-rider problem is minimized and internal constrains on managerial discretion can probably be imposed if ownership is concentrated in the hands of a large block of institutional shareholders irrespective of whether they are organizations or investment funds. In this event, the returns to monitoring will increase monitoring activity, which may also be subject to economies of scale.

Moreover, large shareholders will be more likely to be able to utilize their voting power to influence managerial behaviour, although, as Shleifer and Vishny (1996) note, this does require shareholding voting rights. The presence of large shareholders in a firm's capital structure would greatly impact the firm's performance positively. This is because these shareholders are able to influence management decision and also have the resources to monitor management activity and the power to remove non-performing managers from office. This leads to the proposition that large shareholders will exercise more effective corporate governance; a finding that has been supported by a host of studies on developed market economies. For example, Franks and Mayer (1994), in a study of German Private Enterprises find that concentrated share ownership is associated with high rates of turnover of directors.

According to Kyereboah-Coleman (2007) depending on the involvement and influence, institutional shareholding is a key signal to other investors of the potential profitability of the firm which could lead to increase demand for the firm's shares and improve its market valuation. In the study of Japan, Kaplan and Milton (1994) find that the existence of large shareholders raises the probability that managers of poorly performing firms will be replaced. La Porta, Rafael, López-de-Silanes, Shleifer and Vishny, (1999) posit that high concentration could minimize agency costs since it could serve as a substitute for legal protection. "Even without strong legal institutions, large investors have the means and the incentives to monitor managers, large investors have the means and the incentives to monitor managers, though they bear the cost of undiversified risk". However, the cost here is that large shareholders may use their control rights to expropriate minority interests. Nevertheless, there is no consensus yet as to the impact of ownership concentration on performance. In some countries, such as Austria, the Netherlands and Spain, companies with dispersed ownership perform inadequately than those with concentrated shareholdings, while in others the reverse seems to be true (Gugler 2001). On the contrary, Holderness and Sheehan (1988) find little evidence that high ownership concentration directly affects performance. The composition of ownership may also matter for performance. Institutional investors have been very active in the firm level corporate governance.

Frydman, Cheryl, Gray, Hessel, and Rapaczynski (1999), examined the impact of private ownership on corporate performance in the transition economies. The study reports that private ownership dramatically improves the most 'essential aspects of corporate performance in the countries undergoing post-communist transition. Furthermore, the study also reports that outsider-owned firms perform better than insider-owned firms on most performance measures. Jensen and Meckling (1976) suggest that agency costs can be reduced through the concentration of ownership and control within one single owner-manager. However the possibility of interplay between incentive alignment effect and entrenchment effect suggest a non-monotonic relationship between managerial stock ownership and firm value.

3. Methodology

The study uses the descriptive cross-sectional survey design. Uniform information is collected across the selected firms over the period of eleven years (2005 to 2015) from all the desired elements. Panel data employed as the research design requires that the effect of the independent variable on the dependent variable be measured using the formulation of causal correlation hypotheses. The target population for this study consists of all the seventy (70) manufacturing companies (firms) listed in the Nigerian stock exchange as at 2015.The use of quoted manufacturing firms is due primarily to data availability and reliability because these are required by law to provide end of year financial statements. This study employs the stratified sampling method. To eliminate some of the firms that have no complete records of all the data needed for measuring the variable of the study within the period, a three-point filter approach was adopted in the selection of the samples as follow; (i) firm must be listed by the Stock Exchange throughout the period of the study, (ii) firm must have declared positive profit throughout the period and (iii) firm must have a consistent board of directors all through the period. This is to reduce any problem associated with validity and reliability.

Secondary method is employed to gather the data for this study. The secondary sources consist of historical data already prepared or existing and authenticated. These are obtained from publications and websites of recognized institutions. The secondary sources of data collection for the purpose of this research are the audited annual Reports and Accounts of the sampled individual firms in the manufacturing sector. Nigerian Securities & Exchange Commission, Nigerian Stock Exchange (NSE), National Bureau of Statistics (NBS) and other similar oversight organisations' publications were other sources of data relevant for the analysis. Some of the annual reports that were not available in the NSE fact book were either collected from the corporate offices of concerned companies or downloaded from the companies' corporate websites.

3.1 Model Specifications

This study employed a modified version of the econometric model of Miyajima et al (2003) and Coleman and Nicholas-Biekpe (2006). The Econometric model of Miyajima et al (2003) and also adapted by Oki (2015), is represented as;

$$Y_{it} = \beta_0 + \beta_1 G_{it} + \beta_2 C_{it} + e_{it}$$

The modified version is stated as;

$$ROA_{it} = \beta_0 + \beta_1 BLK_{i,t} + \beta_2 FMZ_{i,t} + e_{i,t}$$

Where;

ROA= Return on Assets (i.e. a proxy for firm financial performance).

Blk= Block ownership

FMZ = Firm Size

β_0 = Intercept of the model

β_1 = Coefficient of block ownership

β_2 = Coefficient of the control variable (firm size)

e = the error term which account for other possible factors that could affect the dependent variable not captured in the model.

$_i$ = 1, 2,3,.....10 indicating the number of firms used for the study

$_t$ = 1,2,3,.....11 indicating the time period used for this study (2005- 2015)

The **apriori** is such that:

$\beta_1, \beta_2, \beta_3 > 0$. The implication of this is that a positive relationship is expected between explanatory variable ($BLK_{i,t}$) and the dependent variable. The size of the coefficient of correlation will help us explain various levels of relationship between the explanatory variables.

3.2 Regression Analysis

In analysing the variables of this study, the panel data methodology was adopted. This is because the study combined time series and cross sectional data. The study made use of both descriptive and inferential panel regression analyses. The descriptive analysis has been executed to summarise and describe the data set. However, the inferential panel regression analysis explains the effect of block ownership and the control variable on the financial performance of manufacturing firms. Serial correlation test will be conducted to determine which of Random effect (GLS) model and Pooled effect (OLS) is most appropriate for estimating the parameters under study.

3.2.1 Pooled Regression versus Random Effect Models

The Breusch and Pagan Langragian multiplier test usually called the LM test is adopted for the comparison. The Pooled regression assumes that there is no individual effect in the series. The Random Effect on the other hand assumes that there is panel effect in the series. The model that eventually emerges as the most appropriate between the pooled regressions and random is then adopted in analysing the static equation formulated in the study. If the Pooled regression (representing the non-existence of panel effect in the series) is preferred, the ordinary least square (OLS) regression method will be used to analyse the data. The choice of the Random Effect model will necessitate the use of generalised least square (GLS) regression method to analyse the data.

The hypothesis for the Breusch and Pagan Langragian multiplier test is stated as:

$\mathbf{H_0}$: There is no panel effect

$\mathbf{H_a}$: There is panel effect

The decision criterion in the selection process is to accept the alternative hypothesis which hypothesized that there is panel effect in the series, if p-value is less than the critical value at 5% ($p<5\%$) level of significance and reject the null hypothesis which posits that there is no panel effect. If otherwise, we do not reject the null (pooled regression).

3.2.2 Random Effect versus Fixed Effect

The choice of the random effect will lead to a further test to determine if the panel or individual effect in the series is fixed or random. The Hausman Taylor test will be employed to make the appropriate choice between random effect and fixed effect. The hypothesis for the Hausman's test is therefore stated as *follows;*

$\mathbf{H_0}$ = Difference in coefficients not systematic (Random is Preferred)

$\mathbf{H_a}$ = Difference in coefficients systematic (Fixed is Preferred)

The decision criterion is to reject the null hypothesis and therefore the random effect model if the p value is less than 5% ($P<5\%$) and accept the alternative hypothesis which states that fixed effect is preferred. If however the $P> 5\%$ then the null hypothesis which states that Random is preferred will be accepted and the alternative hypothesis will be rejected.

A hypothesis will be formulated for testing. This is;

Ho: *There is no significant effect of the type of share ownership on financial performance of manufacturing firms in Nigeria.*

From the null hypothesis above, we posit that there is no significant effect irrespective of the type of ownership (Institutional or dispersed) and the financial performance of manufacturing firms.The model earlier defined in the previous chapter is restated as;

$ROA_{it} = \beta_0 + \beta_1 BLK_{i,t} + \beta_2 FMZ_{i,t} + e_{i,t}$

3.3.1 Determination of the Choice of Analytical Method

Prior to carrying out the regression analysis, two tests will be conducted. These are the Breusch and Pagan Lagrangian multiplier (LM) test and the Hausman Taylor test. The need for the latter test will be determined by the outcome of the former. If the result of the former test prefer the pooled regression to the Random Effect, the Hausman Taylor test would not be necessary.

3.3.2 Serial Correlation Test

A serial correlation test would need to be conducted to determine whether random effector pooled regression is more appropriate for estimating the parameters. This is to test whether the individual effects are homogeneous across the cross-sectional units or not. The Breusch and Pagan Lagrangian multiplier (LM) test would be employed to test for the model. The STATA package version 13 is employed to analyse the data.

The hypothesis for the test is stated as *follows;*

H_0: There is no panel effect (accept OLS)

H_a: There is panel effect (accept GLS)

The decision criterion: Reject the null hypothesis if the calculated p-value is less than the level of significance at 5% and accept the alternative. This implies that the random effect model estimated using GLS technique is preferred to the pooled regression model estimated using the technique of OLS. The test results are presented on the table below;

Table 1: LM Test Showing the Result of Random Effects Model against the Pooled in the Model

ROA	U	E
137.01	43.51	54.35
11.70	6.59	7.37
$X^2 = 44.07$		
P- Value = 0.0000		

Note: ROA = return on assets, U = the specific error term or the idiosyncratic error term, E = the disturbance Term, X^2 = Chi-square and P- value = probability value.

Source: Outcome Author's Field work using STATA Window 13.

Decision: The decision is based on the P-value with a value of 0.0000. Since the observed p-value is less than the critical value at 5% (0.05), the null hypothesis is rejected and the alternative is accepted. The random effect therefore is more suitable than the pooled regression model.

3.3.3 The Hausman Taylor Test

Since the Random Effect model is selected, it is then tested against the Fixed Effect model. Both Random and Fixed effects models assume the presence of individual effect in the series. However it is important to identify whether this individual effect is fixed or random across the units. The model that eventually emerges as the most appropriate between the random effect and fixed effect is then adopted in analysing the hypothesis in the study. The process of arriving at hausman's result is via STATA Window 13 and the formula is; xtreg roa, blk, logfmz, fe. Then "estimate store fixed". This is followed by "xtreg roa, blk, logfmz, re "estimate store random". The result is then obtained with the command "hausman fixed random". The hypothesis is stated as follows;

H_0: Difference in coefficients not systematic (Random Effect is preferred)

Decision Rule: If the p-value is less than 5% reject null hypothesis which means that random effect is rejected but if otherwise, then accept null hypothesis and reject alternative hypothesis. The table showing the result of hausman's test is presented below;

Table 2: Hausman's Test Showing the Result of Random Effects against Fixed in Model Five

Variable	fixed	random	Difference	S.E.
blk	-0.097	-0.077	-0.020	0.047
logfmz	-15.477	0.303	-15.780	3.426

$X^2 = 29.38$

P- value (X^2) =0.0000

Note: roa = return on assets, (dependent variable) blk = block shareholding, logfmz = the log of the firm size. S.E. = standard error.

Source: Outcome Author's Field work using STATA Window 13.

Decision: The result shows that the critical value at 5% level of significance is higher than the computed p-value (0.05>0.0000). The author therefore rejects the null hypothesis and accepts the alternative which states that fixed is preferred. The hypotheses in the model will therefore be analysed based on the fixed effect model.

Test of the Hypothesis

The method that will be used is the Fixed Effect model using the GLS method to analyse the result. Model five as stated in chapter three will be applied to this hypothesis. The model is restated as ***follows;***

$$ROA_{it} = \beta_o + \beta_1 BLK_{it} + \beta_2 FMZ_{it} + v_i + e_{i,t}$$

The formula to use is via code "xtreg roa blk logfmz, fe" which will be entered into computer package STATA Version 13. The data to use is the proportion of institutional ownership of shares on the total number of shares issued and ranking for dividend for each of the sampled firms earlier

computed on Excel computer package which is exported to STATA 13 attacched as an appendix on pages 192 to 194. The result is summarised in table 21 below;

Table 3: Showing the Results of Fixed Effects Model on the Relationship between Block Share Ownership and Financial Performance-Model Five.

Variable	Coef.	Std. Err.	t	p
blk	-0.097	0.079	-1.24	0.219
logfmz	-15.477	4.514	-3.43	0.001
cons	86.275	17.963	4.80	0.000

R^2 0.241
Rho= 0.867
P value= 0.0005
F-test =8.18 0.0005 .

Note: The dependent variable is retutn on assets (roa), while the independent variables are block share ownership (blk) and firm size (fmz).
Source: Author's estimate using STATA window 13

$ROA_{it} = \beta_o + \beta_1 BLK_i + \beta_3 FMZ_{it}$

$ROA_{it} = 86.27 - 0.097BLK_{it} - 15.47FMZ_{it}$

Std E.= 17.96 0.0794.51

t-test = 4.8 -1.24-3.43

p-value = 0.0000.001 0.219

N =110 R^2 = 0.241F-test = 8.81 Prob > chi2 = 0.0005

Interpretation
If all the independent values are zero the predicted value of the intercept will be 86.27. The coefficient of the institutional share holding (block holding) (BLK) is -0.097 and the t-test is -1.24. The critical t-statistic is 0.05, (that is 5 percent level of significance). The correlation coefficient (rho) and the coefficient of determination (R^2) are respectively 0.867 and 24.1%. These show that all the variables are positively correlated. Besides, the p value is 0.0005.The value of the firm size is -15.47. The negative position implies that there is idle capacity in the firms indicating poor use of the assets. This shows that the revenue generated was not commensurate with the capital employed.

Decision: Since the p value of 0.0005 is less than the critical value at 5% level of significance we accept the alternative hypothesis which states that there is significant effect of the type of share ownership on the financial performance of manufacturing firms.

4. Discussion of Findings

The hypothesis was set up to determine whether there is significant effect of the type of share ownership and financial performance of manufacturing firms in Nigeria. In other words, the hypothesis was tested to ascertain if either of institutional or individual share ownership would have effect on financial performance more than the other. We found that there is no significant effect

effect on financial performance more than the other. We found that there is no significant effect between the institutional and individual shareholders and the financial performance of manufacturing firms in Nigeria. The marginally negative coefficient shows that there is no difference between the two types of holding and performance.

This finding is consistent with the works of Alzeaideen and Al-Rawash, 2014, Fazlzadeh et al, (2011) and Seutner and Berezetcki, (2008). They concluded that the effect of concentrated institutional ownership on firm performance is negative. Our finding is however not in tandem with the works of Heydari et al. (2015), Manawaduge and Zoysa, (2013) and Aman, (2011). Manawaduge and Zoysa, (2013) held that the study provide evidence for a strong positive relationship between ownership concentration and accounting performance measures. This suggests that a greater concentration of ownership leads to better performance. Heydari et al (2015), showed that there is positive and significant relationship between institutional ownership and performance using two criteria ROE and Tobin's Q. There isn't however significant relationship between institutional ownership and ROA. We conclude based on the sampled firms that other factors rather than type of share ownership affect financial performance in Nigerian manufacturing sector. This can be attributed to the nature of shareholding in the manufacturing sector where ownership is mainly held by individual investors. Where firms are held by other firms, that firm's shareholding will not be widely dispersed. The government in its policy making function, should direct its searchlight on other areas rather than the type of shareholding in order to monitor and control the firms as a means of improving their financial performance.

5. Conclusion and Recommendation

In conclusion, ownership structure is very important when considering firm's financial performance. Firm size proxy by annual sales of the firms was found to be moderating these relationships, indicating the critical role being played by firm size in the design and role of corporate boards. We conclude based on the sampled firms that other factors rather than type of share ownership affect financial performance in Nigerian manufacturing sector. This can be attributed to the nature of shareholding in the manufacturing sector where ownership is mainly held by individual investors. Where firms are held by other organisations, that firm's shareholding will not be widely dispersed. We recommend that the government in its policy making function, should direct its searchlight on other areas rather than the type of shareholding in order to monitor and control the firms as a means of improving their financial performance.

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