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Article

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Effect of Ownership Structure on Financial Performance of Deposit Money Banks in Nigeria

Khadijat Yahaya[1], Rodiat Lawal[2]

Abstract: Objectives: This study examined the effects of ownership structure on firm value of Nigerian deposit money banks. It also evaluated the relationship between ownership structure variables (concentrated, managerial and foreign) on firm value (Return on Equity and Return on Asset). **Prior Work:** Few research works have covered ownership structure and corporate governance in Nigeria. As a company's ownership structure changes and ownership is separated from control, incentive alignment problems become evident and the need for more research. **Approach:** The study used a sample of fifteen (15) banks quoted on the Nigerian Stock Exchange. The study employed secondary data which was obtained from Audited Report of Nigerian deposit money banks for a period of nine years (2008-2016). The data obtained were subjected to System Generalised Moment Method. **Results:** Findings reveal that only institutional ownership has positive and significant effect on financial performance while others have insignificant effect. **Implications:** This empirical study provided fruitful implications that there exist a significant effect between ownership structure and financial performance of Nigerian deposit money banks. **Value:** This study recommends that institutional shareholders should continuing using their resources and expertise to exercise control over management abuse of power which can affect the performance of the company.

Keywords: Concentrated; Generalised Moment Method; Managerial; Return on Asset

JEL Classification: G32

Introduction

The relationship between corporate governance mechanism (ownership structure) and the performance is a vital and continued subject in the field of financial management (Ezazi, Sadeghishari, Alipour & Amjadi, 2011). Ownership structure is one of the important factors employed in shaping the corporate governance system of a firm. In analyzing this relationship, up to now different aspects of ownership structure are considered, for instance being managerial or non-managerial shareholders, shareholders concentration or dispersion, being whole or retail, being internal (domestic) or being foreign shareholders, being institutional or individual shareholders.

As ownership increases over time, many researchers have looked to these shareholders (managerial, institutional, concentrated and foreign) as potential monitors due to their monitoring advantage over diffuse shareholders. As they are increasing their shareholdings and their aim is to maximize their return on investment, thus, may create a new management discipline. Ownership structure is closely connected with the conflicts that can affect the operating performance of the firm. Anderson, Mansi and Reeb (2003) asserted that ownership structure will lead to conflict. Morey, Gottesman, Baker and Godridge (2008) opined that this conflict of interest might cause agency problems. As a company's ownership structure changes and ownership is separated from control, incentive alignment problems become evident.

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Prior studies (Afang & Bature, 2016; Marouan & Moez, 2015; Benjamin, Love & Kabiru, 2014; Ibrahim, 2012; among others) have examined the relationship between ownership structure and firm value or performance in other contexts including the Nigeria context. The results were mixed and inconclusive because it has not been clearly established as to whether or not there is any relationship between ownership structure and financial performance. These researchers used techniques like Ordinary Least Square, Least Square Regression method, Two-Stage least Square, Pooled OLS etc. None of these studies have examined the relationship using Generalised Moment Method (GMM). This is because it accommodates firm level characteristics and has the ability to address endogeneity bias. It proves to be the best and most efficient estimator since it uses both level and lag values as instruments. The question still remains whether there is any significant relationship between ownership structure and financial performance of DMBs in Nigeria.

Literature Review

Shareholders and Stock Ownership Structure

As Okabe (2007) explains, shareholders exercise two types of influence over management. First, shareholders have a role in controlling internal management at Annual General Meetings (AGM). By exercising their vote at the meetings, shareholders are able to monitor and influence management by criticizing their performance, electing board members, fixing Auditor's annual remunerations and approving or disapproving measures brought to the meeting. Second, a publicly quoted company is monitored by capital markets. When the business performance of a company is deteriorating, shareholders express their disapproval to the management by selling their shares. On the other hand, the management has a possibility to be controlled by another company through a hostile takeover. Nishizaki and Kurasawa (2002) suggest that the effectiveness of shareholder monitoring on corporate governance depends on stock ownership structure.

The investors differ in terms of wealth, risk aversion and the priority they attach to shareholder value relative to other goals. This is because shareholder interests influence owner preferences and investment choices, (Kibuthu, 2005). For each of these stakeholders, preferences regarding company strategy will involve a trade-off between the pursuit of shareholder value and other goals. Ezazi *et al*. (2011) posited that firm performance is positively related to the majority shareholder. This single shareholder controls more than half of a corporation's shares, or sometimes, one of a small group of shareholders who collectively control more than half of a corporation's outstanding shares. According to Imam and Mahfuja (2007) majority shareholder has a negative influence on firm performance. Their reasons were that firms having single ultimate owner operate under strong ownership and therefore experience higher productivity growth.

Ownership Structure and Financial Performance

Alfariah, Alanezi and Almujamed (2012) investigated the effect of institutional ownership on performance of firm listed in Kuwait Stock Exchange. They used institutional ownership a independent variable and firm performance as dependent variable and firm size, firm leverage, dividend payout and board size as control variable. By applying two multivariate regression models, they found significantly positive relationship between firm performance (ROE and tobin's q) and institutional ownership. In the same vein, Ibrahim (2012) examined the effects of ownership structure on the performance of listed companies on the Ghana stock exchange. The study covers a period of

2005 to 2009, and the Pearson's Product Moment Correlation and Logistic Regression was applied on performance indicators such as return on asset (ROA), return on equity (ROE) and dividend yield (DY) while foreign ownership, institutional ownership and ownership concentration was used to measure ownership structure. The study found that there is a significant negative relationship between ownership concentration and firm's performance while insider ownership and institutional ownership has positive relationship with performance of listed companies on Ghana stock exchange. Also, Anthony (2012) investigated the effect of ownership structure on financial performance of companies listed in Nairobi stock exchange. The study is conducted based on a sample of 62 listed companies during the period of 2009 to 2013 using the regression analysis and correlation method to test the relationship between ownership structure and firm performance. The findings revealed that concentration ownership has positive relationship on firm performance (ROE) while managerial ownership and control variable (leverage) was not significant. Moreover, Alexander, Moses and Ransford (2014) examined the effects of Ownership Structure on the performance of listed Companies on the Ghana Stock Exchange from 2008 - 2012 using financial companies listed on Ghana stock exchange. The study employed Pearson's Product Moment Correlation and logic regression. The study found that there is a significant negative relationship between ownership concentration and firm performance (ROE and ROA) while manager (Insider) ownership and foreign ownership have positive and significant effect on firm performance (ROE and ROA).

Gayan and Shanika (2016) investigate the effect of ownership structure on firm performance of listed manufacturing companies in Sri Lanka. The sample of the study was 20 companies and data were analysed using correlation analysis and Multi- variant analysis. The study found that the block ownership have negative and insignificant relationship with ROE. Institutional ownership has positive and insignificant relationship with ROE, and also firm size has positive and significant relationship with ROE. However, Berķe-Berga, Dovladbekova, and Abula (2017) examined on the relationship between managerial ownership and firm performance, using regression analysis. The study sampled 52 listed companies on Nasdaq Riga, Nasdaq Tallinn and Nasdaq Vilnius stock exchanges, in Baltics from 2010-2015. The results reveal that there is positive relationship between managerial ownership and internal performance measure (ROA).

In Nigeria, very few studies were conducted concerning ownership structure and firm value. Uhomoibhi (2007) examined the impact of ownership structure on bank profitability in Nigeria, using 98 commercial and merchant banks for the period of 15 years (1989-2004). The study used Pooled Regression technique and t-test in the analysis and the study use institutional ownership, managerial ownership and private ownership to measure the ownership structure and return on equity was used to measure bank profitability. The study finds that ownership structure has no significant impact on ROE in Nigeria.

Benjamin, Love and Kabiru (2014) examined the impact of ownership structure on the financial performance of listed insurance firms in Nigeria. The study uses panel data for seventeen (17) firms for the period 2001 – 2010 (10 years) using least square regression method. The study focuses on two aspects of two independent variables to measure ownership structure which are managerial ownership and institutional shareholding while Firm's performance has been measured through Return on Asset (ROA) and Return on Equity (ROE). Findings indicate that there is a positive significant relationship between ownership structure (institutional and managerial) and firm's performance as measured by ROA and ROE. Afang and Bature (2016) assessed the impact of ownership structure on the financial performance, using listed conglomerate firms in Nigeria. A panel data multiple regression model is

used for analysis of data. Findings show that managerial and foreign ownership has negatively impacted the performance of listed conglomerate firms within the study period, while firm size positively impacted the firm performance.

Theoretical Framework

Agency theory

The principle underlining the issue of corporate governance is the agency theory developed by Jensen and Meckling (1976) resulting out of the separation of ownership and control. Under this theory, the main concern is to develop rules and incentives, based on implicit or explicit contracts, to eliminate or at least, minimize the conflict of interests between the owners and the managers (Akpan & Riman, 2012). This theory also suggests that different types of ownership could have different effects on the performance of a firm. It has been recognised that modern firms are seen to suffer from separation of ownership and control and hence professional managers (agents) run these firms and they cannot be held accountable by dispersed shareholders (Kyereboah-Coleman, 2008). To minimize these shortcoming various governance mechanisms aimed at aligning the interests of agents with those of principals, including equity ownership by few individuals, managers, institutions or foreign, may be considered. The agency theory as formalized by Jensen and Meckling (1976) asserted that the ownership structure can affect firm performance. Based on this, the study formulated the hypothesis:

H_0: There is no significant relationship between ownership structure and financial performance of deposit money banks in Nigeria

Methodology

The model employed in this study was panel data model employed by Benjamin *et al*. (2014). For each cross section unit *i* and period *t*, the following model is estimated:

$$PERFORMANCE_{it} = \beta_0 + \beta_1 MOWN_{it} + \beta_2 INOWN_{it} + \varepsilon_{it}$$

Where: Where: $PERFORMANCE_{it}$ stand for dependent variable (Return on Equity and Return on Asset), B stand for the model parameters $MOWN_{it}$ is managerial ownership *and* $INOWN_{it}$ is institutional investors.

This model was then modified as below:

$$PEFORMANCE_{it} = \beta_0 + \beta_1 PEFORMANCE_{it-1} + \beta_2 CONC_{it} + \beta_3 INOWN_{it} + \beta_4 MOWN_{it} + \beta_5 FOWN_{it} + \beta_6 SIZE_{it} + \beta_7 DEBT_{it} + \beta_8 GROWTH_{it} + \beta_9 DPS_{it} + \varepsilon_{it}$$

Where:

Performance	= `	Financial performance (proxy with ROE and ROA)			
FOWN	=	Foreign Ownership	MOWN	= Managerial Ownership	
INOWN	=	Institutional Ownership	CONC	=Ownership Concentration	
SIZE	=	Company Size	DEBT	= Debt ratio,	
GROWTH	=	growth ratio	DPS	=Dividend per share	

β_0 = the intercept/constant; β_1- β_9= are the parameters; μ = error term; i = Number of firms; t = Time period 11years (2008-2016)

A priori expectation is that β_1, β_2, β_3, β_4 and $\beta_9 > 0$

Table 4.1. Variables Definition and Measurements

Variables	Measurements
Return on Equity	This is calculated by dividing earnings after interest and tax into total equity which is based on this study of Tian and Zeitun (2007)
Return on Asset	This is calculated by dividing earnings after interest and tax into total assets which is based on the study of Jiraporn and Liu (2008)
Ownership Concentration	This is measured in line with Thomsen (2004) as the number of shares held by the largest shareholders divided by the total ordinary shares issued.
Institutional Ownership	This is measured in line with Kouki and Guizani (2009) and Lamba and Stapledon (2001) as proportion of shares held by institutional investors to the total number of shares issued (those that held 5% and above)
Managerial Ownership	This is measured in line with Salehi, Mohmoud and Heydari (2012) as the proportion of shares held by managers and executive directors divided by the total number of shares issued
Foreign Ownership	This is measured in line with Salehi, Mohmoud and Heydari (2012) as the total of shares held by foreigner divided by the total number of shareholdings.
Size	This is measured as natural logarithm of total assets and in line with Salehi, Mohmoud and Heydari (2012)
Growth	The study uses percentage of variation assets of firm in year t into year t-1 and in line with Salehi, Mohmoud and Heydari (2012).
Debt	This is measured in line with the study of Salehi, Mohmoud and Heydari (2012) as the ratio of total debts (long term and short term debts) to total assets
DPS	Dividend paid divided by the total number of share holding issued as used by Berķe-Berga, Dovladbekova and Abula (2017).

Source: Author's Computation, 2017

The study employed ex-post facto research design because it allows for the collection of past and multi-dimensional data which provide basis for the full establishment of the relationship between ownership structures on the value of DMBs in Nigeria. The choice of this sector was based on the fact that its instability might leads to a contagion effect, which usually affects a class of banks or even the entire financial system and the economy. The target population is the nineteen (19) deposit money banks in Nigeria. The data covers the period of 2008-2016 (9 years). The choice of year 2008 is because of the financial crisis that happened which shook the NSE, thereby affected ownership structure of firm. As at the time of research, 2017 annual report cannot be assessed. The sample of the study is fifteen (15) quoted deposit money banks on the Nigeria Stock Exchange (NSE) as at 31st July 2017 using purposive non-probability sampling method by selecting only DMBs quoted on the NSE. The data for this research were collected from secondary sources by assessing the selected DMBs audited annual reports. The study employed the System generalised method of moments (SYSGMM) estimator. According to Schultz, Tan, and Walsh (2010) the dynamic generalized method of moments (GMM) panel specifications, as developed by Holtz-Eakin, Newey, and Rosen (1988) and Arellano and Bond (1991), can overcome the estimation problems caused by unobservable heteroskedasticity, simultaneity, and dynamic endogeneity, and produce unbiased and consistent estimates by employing valid internal instruments during estimation.

Results

Regression Analysis

Effect of Ownership Structure on Financial Performance (ROE and ROA) of Deposit Money Banks

The two measures of Profitability in this research work are Return on Asset (ROA) and Return on Equity (ROE). In ROA model, size, debt, growth and DPS are instrumented because of endogeneity problem while in ROE model each of the ownership structures (i.e. managerial, institutional, concentrated and foreign ownership structures) and DPS are instrumented because they are suspected to be endogenous. The regression result that shows the effect of ownership structure on profitability of DMBs using ROA and ROE and controlling for Size (Total Asset), Debt, Growth ratio and Dividend per share (DPS), is presented in the table 4.2.

Table 4.2. Effect of Ownership Structure on Financial Performance of Deposit Money Banks

	(1)		(2)	
VARIABLES	ROA	p-value	ROE	p-value
L.ROA	-0.0781	0.460		
	(0.106)			
L.ROE			-0.134***	0.008
			(0.0502)	
CONC	-0.000120	0.692	-0.00268	0.408
	(0.000302)		(0.00324)	
L.CONC			0.000957	0.638
			(0.00204)	
INOWN	0.000570*	0.062	-0.00195	0.570
	(0.000306)		(0.00342)	
L.INOWN			0.00706	0.156
			(0.00497)	
MOWN	-0.000573	0.144	-0.00180	0.506
	(0.000393)		(0.00271)	
L.MOWN			0.00393	0.403
			(0.00470)	
FOWN	-0.000128	0.405	0.00273	0.564
	(0.000154)		(0.00473)	
L.FOWN			-0.00515	0.328
			(0.00527)	
DPS	-3.47e-05	0.428	-0.00300	0.209
	(4.38e-05)		(0.00239)	
L.DPS	4.54e-05	0.443	0.000928	0.381
	(5.91e-05)		(0.00106)	
SIZE	-0.00699	0.173	-0.0379	0.521
	(0.00512)		(0.0591)	
L.SIZE	-0.0110*	0.088		
	(0.00642)			
DEBT	-0.0297	0.220	-0.366	0.310
	(0.0242)		(0.361)	
L.DEBT	0.0403	0.410		
	(0.0489)			
GROWTH	0.00141	0.916	0.440	0.240
	(0.0133)		(0.374)	
L.GROWTH	0.0330**	0.015		
	(0.0136)			
Constant	0.0949	0.158	0.741	0.334
	(0.0673)		(0.768)	
Observations	105		102	
Wald Chi^2	324.51***		5.94e+09***	
p-value	0.000		0.000	
Sargan Test	67.68496		63.96953	
p-value	0.1572		0.9907	
AR test (2)	-.51		-1.0889	
p-value	0.6101		0.2762	

Source: Author's Computation, 2017

Robust standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1

The Sargan test of over identifying restrictions conducted for the two models shows chi-squared values of approximately 67.68 and 63.97 and p-values of 0.1572 and 0.9907 respectively. The results show that there is no sufficient evidence to reject the null hypothesis as each of the p-values are greater than the conventional significance levels (i.e. 0.01, 0.05, 0.1). Not rejecting the null hypothesis in the two models implies that the set of instruments used are valid. The Arellano and Bond test for autocorrelation is applied to the differenced residuals and has a null hypothesis of no autocorrelation. The first and second order tests were considered but only the second other was reported. The result shows that there is no sufficient evidence to reject the null hypothesis of no second order autocorrelation for both models. The goodness of fit of the model is measured with the Wald Chi-squared and the result shows that the two models fit the data well since there is sufficient evidence to reject its null hypothesis of joint insignificance of all independent variables. Interpretations of individual variables are as follows.

Lagged ROA: Under ROA model, one lagged value of ROA is seen to have an insignificant influence on its current value. Its p-value being greater than all conventional levels of significance indicates that there is no sufficient evidence to reject the null hypothesis that its effect is not different from zero.

Lagged ROE: Under ROE model, one lagged value of ROE is seen to influence its current value negatively and significantly. The result shows that it is significant at 1% level of significance. This is evident from its p-value of 0.008. Its significant negative coefficient value indicates that a unit increase in ROE in the last period results to a decrease in ROE this period by 0.134 units. In other words, if ROE increases by a unit this year it results to 0.134 units decrease in it next year. **Concentrated Ownership:** this entered ROE model alongside its one period lagged value while only its contemporaneous value entered ROA model. However, both its contemporaneous and lagged values are found to be statistically insignificant in ROE model. Similarly, its contemporaneous value is found to be statistically insignificant in ROA model. All these are indicated by each of their p-values being greater than all conventional levels of significance. This implies that concentrated ownership is not a factor determining ROA and ROE of deposit money banks and invariably it is not a determinant of profitability of deposit money banks in Nigeria. **Institutional Ownership:** this also entered ROE model alongside its one period lagged value while only its contemporaneous value entered ROA model. However, both its contemporaneous and lagged values are found to be statistically insignificant in ROE model. Contemporaneous value of institutional ownership is seen to be statistically significant in ROA model and this is at 10% level of significance. This is evident from its p-value of 0.062. Its contemporaneous value has a positive effect on ROA. Statistically significant coefficient value of contemporaneous institutional ownership indicates that increasing it by a unit brings about approximately 0.0006 increase in ROA. In other words, a unit increase in institutional ownership this period leads to a rise in ROA this period by about 0.0006. **Managerial Ownership:** It entered ROE model alongside its one period lagged value while only its contemporaneous value entered ROA model. However, both its contemporaneous and lagged values are found to be statistically insignificant in ROE model. Similarly, its contemporaneous values is found to be statistically insignificant in ROA model. All these are indicated by each of their p-values being greater than all conventional levels of significance. This implies that managerial ownership is not a factor determining ROA and ROE of deposit money banks and invariably it is not a determinant of profitability of deposit money banks in Nigeria. **Foreign Ownership**: Similarly, foreign ownership entered ROE model alongside its one period lagged value while only its contemporaneous value entered ROA model. Similar to managerial

and concentrated ownership structures however, both its contemporaneous and lagged values are found to be statistically insignificant in ROE model. Similarly, its contemporaneous values are found to be statistically insignificant in ROA model. All these are indicated by each of their p-values being greater than all conventional levels of significance. This implies that foreign ownership is not a factor determining ROA and ROE of deposit money banks and invariably it is not a determinant of profitability of deposit money banks in Nigeria. **Control Variables:** The control variables in the two models are Size (Total Asset), Debt, Growth ratio and Dividend per share (DPS). Each of them entered ROE model in their contemporaneous values except DPS. In ROA model on the other hand, all control variables entered alongside their respective lagged values. However, only lagged values of size and growth are found to statistically significant in ROA model and this is at 10% and 5% levels of significance respectively. This is evident from each of the p-values of 0.088 and 0.015 respectively. All their contemporaneous values and lagged values of debt and DPS are found to be statistically insignificant. In ROE model on the other hand, all control variables and lagged value of DPS are found to be statistically insignificant. Lagged size is found to affect ROA negatively while lagged growth ratio is found to affect ROA positively. Statistically significant coefficient values of lagged size and growth in ROA model indicate that increasing each of them by a unit brings about approximately 0.0110 and 0.0330 units decrease and increase in ROA respectively. In other words, a unit increase in size this period leads to a decline in ROA next period by about 0.0110 units and a unit increase in growth this period leads to a rise in ROA next period by about 0.0330 units.

Discussion of Findings

Results from table 4.2., show that ownership structure does not have significant effect on ROE. This means that shareholders have no capacity to monitor managers or influence decision making or due to their passive role in monitoring managers leading to insignificant influence on ROE of DMBs in Nigeria. This consistence with the findings of Uhmoibhi (2007); Almujamed (2012); Sebastine *et al*. (2014) and Gayan and Shanika (2016) but against the works of Ibrahim (2012) and Benjamin *et al.(*2014). Moreover, concentrated ownership does not effect on ROA. This implies that concentrated ownership is not a factor determining ROA. This is consistence with the works of Ibrahim (2012); Alexander *et al.* (2014) but against the finding of Sebastine *et al*. (2014).However, institutional ownership contemporaneous value has a positive significant effect on ROA. This means that the existence of institutional shareholders might discipline management for better performance, due to their power to influence board decisions, absorb the cost of effective monitoring, and engage in active ownership. This supported by Ibrahim (2012); Benjamin *et al. (*2014) and Zuriawati *et al.* (2014)

While, managerial ownership does not have significant effect on ROA. This implies that managerial ownership is not a factor determining ROA of DMBs in Nigeria. It may due to low motivation to work by the managers or a weak sense of belonging towards the business success. This is consistence with the finding of Anthony (2012) but against the work of Mahmud *et al.* (2010). Similarly, foreign ownership does not have statistically significant effect on ROA. Invariably it is not a determinant of ROA of deposit money banks in Nigeria. This is supported by Zuriawati *et al.* (2014). For control variables, Lagged size is found to affect ROA negatively while lagged growth ratio is found to affect ROA positively. This means that previous growth opportunities of DMBs in Nigeria influence the current profitability of the banks. This is consistence with the findings of Zuriawati *et al.* (2014).

Conclusion and Recommendations

The study concludes that institutional ownership have positive significant effect on financial performance of DMBs in Nigeria. Other ownership have insignificant effect on financial performance. Based on the conclusion the study therefore recommends that Institutional shareholders should continuing using their power, resources and expertise to exercise control over management abuse of power which can affect the performance of the firm.

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