OWNERSHIP STRUCTURE AND DIVIDEND POLICY OF NIGERIAN DEPOSIT MONEY BANKS (DMBs)

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Abstract: The study investigated the impact of ownership structure on the dividend policy of selected banks in Nigeria. This was with a view to providing information on the ownership structure and possible effects on dividend policy in the Nigerian Deposit Money Banks (DMBs). The study employed the use of secondary data. The data were sourced from Banks' audited financial reports, the Nigerian Stock Exchange 'fact book' and Central Bank of Nigeria statistical bulletin. Ten (10) DMBs out of the listed banks were purposively selected based on the size of their customer and longtime of existence. Data were analyzed using percentages, random and fixed effect method. The result showed that Concentrated ownership ($t=2.2364$, $p<0.05$), Institutional ownership ($t=2.0035$, $p<0.05$) and Management ownership ($t=2.0099$, $p<0.05$) positively and significantly affect owned policy of DMBs in Nigeria. The study concluded that ownership structure greatly influences dividend policy in the Nigerian banking industry.

Keywords: Concentrated ownership, Deposit money banks, Dividend policy, Institutional ownership, Management ownership

1. INTRODUCTION

Globally, dividend policy and ownership structure have been a subject of concern for other stakeholders other than the management and have been largely researched (Al-Gharaibeh et al., 2013). Other stakeholders such as shareholders, employers, customers etc., are of the opinion that management smoothed dividend in order to achieve their private gain (Obaidat, 2018; Al-Nawaiseh, 2013). Similarly, they believe that management has first-hand information, which enables them to manipulate for their private benefit (Arshad, Akram, Amjad, & Usman, 2013; Elijah & Famous, 2019). This creates an agency problem.

In corporate finance, the agency problem usually refers to a conflict of interest between a company's management and the company's stockholders. The manager, acting as the agent for the shareholders, or principals, is supposed to make decisions that will maximize shareholders' wealth, whereas, it is in the manager's best interest to maximize personal wealth.

To solve this agency problem, researches have taken place on ownership structure and dividend policy in the developed and other developing economies aside Nigeria (Short, Zang and Keasey, 2002; Dinesh and Ritu, 2013; Leal and Carvalhal-da-Silva, 2004; Mehrani et al, 2011; Eckbo and Verma, 1994; Chen, Cheung, Stouraitis, & Wong, 2005; Wen and Jia, 2010; Jensen, Solberg, & Zorn, 1992; Kouki and Guizani, 2009; Claessens and Djankov, 1999; Mitton, 2005; Ramli, 2010; Gugler and Yutoglu, 2003). The result of these studies showed that in order to reduce this agency problem, more institutional and concentrated owners must be in the listed firms, since this class of owners serves as a watchdog to the management owners. These researches in the developing and developed economies have extensively looked at the composition of ownership structure and its effect on the dividend policy in their respective countries.

In the recent years, Nigerian banking environment has witnessed a lot of dramatic changes in the financial sector, with distressed banks like Oceanic Bank, Spring Bank, Afribank plc and First Inland bank, among others, going down the drain. This also include the taken over of the defunct Intercontinental bank by Access bank in the year 2012, despite the former's stronger asset base at the time (Njogo, Ayanwale, and Nwankwo, 2016). The latest is the merger that took place between Access bank and Diamond Bank. Consequent to this, the information asymmetries that exist between the managers of banks and its shareholders create a problem of how ownership structure influences banks' dividend policy. The concern also stressed on the financial reasonability in dividend payment in view of the banks' distressed signals in Nigeria. This scenario has become a concern to financial experts, banking authorities, scholars and other stakeholder, hence, the need to examine the impact of ownership structure on dividend policy in Nigeria.

2. REVIEW OF RELATED LITERATURE AND THEORETICAL FRAMEWORK

Gursoy and Aydogan (1998) defined ownership structure along two dimensions - ownership concentration and ownership mix. While the former refers to the percentage of shares owned by majority shareholder(s), the latter is related to the identity of the major shareholders. As in other emerging economies as related by Gursoy and Aydogan (1998), a cursory look at ownership structure of Nigerian companies suggests that they can be characterized as highly concentrated with family owned firms attached to a group of companies generally owned by the same family or a group of families. Ownership structure can be simply referred to the composition of all ownership categories that make up a firm. Ownership structure of a company are differentiated based on whether they have a direct ownership structure, a widely held-structure, a pyramidal structure or a multiple control chains structure (Kasper, 2010). The direct ownership portfolio consists of firms that have one ultimate controlling shareholder with a direct stake of at least 20% in the company. The 5 widely-held structure can be described as an ownership structure without an ultimate controlling shareholder (concentrated institutional shareholder otherwise known as block holders, managerial shareholders, institutional shareholders, state ownership and foreign institutional share ownership). The pyramidal structures and multiple control chains are financial constructions that provide the investor control rights in excess of cash flow rights (Faccio and Lang, 2002).

Campbell (2003) however, examined ownership structure from the perspective or the influence or managerial (insider) ownership; the impact of ownership concentration in general and block holders (typically institutional inventors) in particular; and more broadly the-identity of owners. Ownership structure is an influential factor on company policies, and it is a mechanism that aligns the interest of shareholders and managers (Haniffa and Cooke 2002).

Concentrated ownership refers to the structure where large number of firm's stock is owned by shareholders. Concentrated shareholders or block holders are investors who hold at least 5% of the firm's stock, and are most times concerned about the monitoring of the management decisions with the purpose of protecting their investments. The management most times give preference to the large shareholders because of their influential impact on the firm's important decisions. Shleifer and Vishny (1986) argued that concentrated ownership provide the investors with both sufficient private incentive as well as the power to monitor and control the management, and to achieve profit maximization objectives. In line with the argument of Shleifer and Vishny (1986), Prowse (1994) opined that concentration might, after all be a good way of resolving agency related problems. Agreeing to this point, Oluyemi (2006) posited that concentrated ownership is another corporate governance mechanism for preventing managers from deviating far from the owners' interest. This they always accomplish by ensuring that they elect their representatives to the board of directors as a check and balance for managerial control. Ezugwu and Itodo (2014) opined that large and well informed shareholders could demonstrate more efficiency in exercising their voting rights than an ownership structure dominated by small uninformed investors. In addition, they are better disposed to efficiently negotiate managerial incentive contracts that align with shareholders and managers' interests than poorly informed small shareholder, whose representatives on the board of directors could be manipulated by the management. On the other hand, De Angelo and De Angelo (1985) presented some problems that may emanate from concentrated ownership. Its weakness, according to them, is because large investors could exploit business relationships with other firms they own, which could profit them at the bank's expense.

Koh (2003) described Institutional investors as corporate investors who are different corporate entities like financial institutions, banks insurances, pension funds and other corporate institutions. On the other hand, Institutional shares (also called "legal person" shares) are shares owned by country's domestic legal entities, including domestic mutual funds, insurance companies, government agencies, and other enterprises. These firms are corporate bodies of their own that share the same characteristics with the companies in which they have shares i.e they are legal entities, they have perpetual succession, and they can sue and be sued and so on. Institutional shareholders are more profit-oriented and may have more incentives to monitor the firm. Institutional investors are large investors, other than natural persons that exercise discretion over investment of others. Organizations which are considered as institutional investors are insurance companies (life and non-life), pension funds, investment trusts (including unit trusts), financial institutions (including Banks, finance companies, building societies and credit cooperatives), investment companies, and other nominee companies associated with the above categories of institutions (Lang and McNichols,1999).

According to Ullah, Fida, and Khan (2012), the managerial ownership is determined by the total shares held by the managers, directors, and executives. The corporate finance literature has long suggested that managerial ownership is an important mechanism to reduce agency conflicts through the alignment of interests between management and shareholders. Jensen and Meckling (1976) argued that the relationship between managerial share ownership and corporate debt is complex. It is argued that managerial share ownership can reduce managerial incentives to consume perquisites, expropriate wealth and to engage in other non-maximizing behavior. However, as the level of managerial ownership increases, control over the firm passes from external shareholders to the managers. At some point, managerial entrenchment occurs where there will be no constraints on managerial behavior leading to an increase in managerial opportunism. At high levels of managerial ownership, risks associated with the pursuit of self-interested activities arise due to management's large exposure to the firm. Hence, at high levels of managerial share ownership there are incentives for management to decrease debt. Alternatively, Jensen and Meckling (1976) argued that there is an optimal level of internal control mechanisms required within a firm. Corporate debt and dividends are internal control mechanisms that reduce agency costs (Grossman and Hart, 1980). The obligation associated with debt reduces management's discretionary control over the firm's cash flow and their incentives to engage in non-optimal activities. At high levels of managerial ownership, the alignments of interests between management and shareholders may be strong so that there are few agency-related benefits from increased use of debt. Thus, it is generally believed that managerial shareholders have a greater control over the firm's policies as compare to other types.

According to Van Home (1971) dividend policy entails the division of earnings between shareholders and reinvestment in the firm. Decisions about when and how much of earnings should be paid as dividends are part of the firm's dividend policy. Earnings that are paid out as dividends cannot be used by the firm to invest in projects with positive net present values. To increase the value of the firm, the dividend policy that maximizes the value of the firm is said to be the optimal dividend policy. Thus, dividend policy is one of the pivotal mechanisms of firm strategies and has been viewed as interesting problems in a company to replace large ownership as monitoring tools. Furthermore, larger investors could use their influence to pocket corporate resources for their own private utilization. This could limit the dividend payments of companies which turn to be agency conflict. Consequent to this, it is important to examine the association between larger shareholders and dividend policy to expand better understanding of corporate dividend decisions (Easterbrook, 1984; Jensen, 1986; Rozeff, 1982). Dividend policy therefore, is an engine tool to control and reduce the conflicting interests between the investors and managers. Investors have interest on dividend while managers prefer retained earnings. Managers like to retain earnings for reinvestment, future more income and more control of bigger resources. Jensen (1986) and Rozeff (1982) argue that firms make use of dividend pay-out policy accordingly. In the view of these scholars, if dividends are not settle out to the shareholders, managers will use the money for their personal benefits. Jensen (1986) argues that dividend payments to shareholders decrease the power of managers to control big resources. Stouraitis and Wu (2004) suggest that the dividend could be used to compress the excess investment problems of corporations. Fama (1974) says, as a form of dividend policy, a company often set a target dividend level and tries to maintain such level. Decisions regarding to dividend is one of the fundamental components of corporate policies (Kouki and Guizani, 2009). Consequently, the dividend policy will assist in reducing the agency costs and also serve as a signal to give information to the investors about the firm's situations.

Several studies have also been conducted in the relationship between ownership and dividend policy in many developed countries as well as emerging economies, with mixed results. Short, Zhang and Keasey (2002) showed that institutional ownership has a positive association with dividend pay-out in the UK. Farinha (2002) and Mancinelli and Ozkan (2006) found that managerial ownership has a negative association with the dividend pay-out. In Malaysia, Ramli (2010) showed that shareholders own companies shares around 40% and above and influence the dividend policy to expropriate minority interests. The relationship however, turns out positive effect, if the subsequent shareholders have large shares (Ramli, 2010). Al-Nawaiseh (2013) showed that institutional ownership and foreign ownership are significantly and positively related to dividend policy while family ownership is not related. Al-Nawaiseh (2013) found that institutional ownership influences the company's policy and decisions on higher returnable investments in Jordan, while Arshad, Akram, Amjad and Usman (2013), on the other hand, did not support the association between ownership structure and dividend policy pay-out. In view of the related studies, this paper intends to fill the gap created through the investigation of the relationship beween the dividend policy and ownership structure, and to examine whether dividend policies are influenced by the nature of ownership in emerging markets such as Nigeria. The ownership structures considered in the study are concentrated ownership (CONCO) institutional ownership (INCO), and the managerial ownership (MANO).

For the theoretical background, various theories were adopted from the literature to explain the relationship between the composition of the firm ownership and how it affects the dividend policy of the firm. Such theories include agency theory, stakeholder theory and stewardship theory.

The agency theory is based on the relationship between the owners- principal, and the managers- agents (Habbash, 2010). It is the theory that explains a clear distinction between the principal and the agent. Organizations tend to have dispersed ownership structure of which the shareholders are not involved in the management of their companies and as a result, agents (management) are appointed to hold the responsibility of managing operations of these companies. This happens because of the separation of ownership and control, when the owner of the company or the board of directors (the 'principals') have to employ managers ('agents') to run the business and need to monitor their performance to ensure they act in the owner's interest. Economists Alchian and Demsetz (1972) were the first to argue that monitoring the performance of individual work effort is always a cost of any firm and that organizational inefficiencies are created when the flow of information on individual performance is decreased or blocked. This can happen if there are large teams, unsupervised professionals, or executives of corporations who act autonomously.

A stakeholder is defined as "any group or individual who can influence or is influenced by the achievement of the organization's objectives" (Schilling, 2000). Thus, the term 'stakeholder' includes anyone who has direct or indirect stake with the business (Carroll, 1993). According to Kiel and Nicholson (2003), direct stakeholders are shareholders, investors, employees, suppliers, and customers, any of those whose interests are aligned with the company; while the government, for instance, is considered an indirect stakeholder as it is indirectly affected by the company. Kiel and Nicholson (2003) explained that corporations tend to serve a broad social purpose than its responsibility towards shareholders. Wheeler & Sillanpaa (1997) also identified stakeholders that are considered part of the governance structure, such as investors, Banks, employees, managers, customers, suppliers, regulators, business groups, and local communities etc.

The stewardship theory suggests that the interests of corporate executives' stewards, are aligned with the interests of the organization and its shareholders, unlike the agency theory (Albrecht, Albrecht and Albrecht., 2004). According to Habbash (2010) theorists focus on how to empower and facilitate managers instead of how to monitor and control them, as opposed to the agency theory, and hence, they reject the idea of shareholders having to observe managers' performances by monitoring them or giving them incentives as a controlling device. The stewardship theory suggested that managers are trustworthy and behave in a good manner to protect the organization's resources that were put under their control, which makes the concept of monitoring them unnecessary (Donaldson and Davis, 1994). Since managers are not viewed to be opportunistic and seem to act in the organization's best interest, it's believed that they should be trusted to act on their own without any sort of monitoring or control to reduce the costs of monitoring. This study therefore, is anchored on stewardship theory.

3. METHODOLOGY

The population of this study consists of the listed Banks on the floor of Nigeria Stock Exchange as at 31st December 2019(CBN 2019). Purposive sampling method was employed for selecting sample size of deposit money banks because they have variables for this study in their financial statement, a large customer base and have been in existence within the period under review. The 10 banks that were purposively selected from the total population represented approximately 48 percent of the population. Secondary sources of data were used for this study. Data were extracted from the audited annual reports of the selected banks. The 'fact book' of the Nigeria Stock Exchange was also consulted to gather variables not captured by the financial statements of the selected banks.

A multiple regression model used by Soliman (2010), Ullah, Fida and Khan (2012) and Warrand, Abed, Khriasat and Al-Sheikh (2012) to study the relationship between dividend policy and ownership structure in the quoted industries in Saudi Arabia, Pakistan and Jordan respectively was adopted to test the relationship in the Nigeria banking industry.

The econometrics model below represented dividend payout policy as dependent on the ownership structure of the Nigerian Banking industry. Hence it was given as

$Y = \alpha + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 \ldots\ldots + \beta_nX_n + \varepsilon$ ……………………….1

Y = value of dependent variable

α = constant term i.e. the intercept of the equation

β = slope of the equation i.e. regression coefficient.

X = value of the independent and control variable.

ε = error term.

Hence the regression equation became:

$DP = \alpha_0 + \beta_1CONCO + \beta_2INSTO + \beta_3MANO + \beta_4FL + \beta_5FS + \varepsilon$ …………..2

Where

DP is the dividend payout policy

CONCO is the concentrated institutional ownership

INSTO is the institutional ownership

MANO is the managerial ownership

FL is the firm leverage

FS is the firm size

4. RESULTS AND DISCUSSION

Table 1 reported the result of the findings in achieving the objective of this study. The three models of fixed effect, random effect and ordinary least square were estimated. The result of the Hausman test indicated that fixed effect will be the most appropriate model and non-normality of the variables will not encourage the use of ordinary least square. Therefore, in estimating the parsimonious model of the variables, cross sectional fixed effect will be the appropriate assumption. The dividend policy of the firms was captured by the dividend pay-out variable, while the explanatory variables included concentrated ownership (CONCO), institutional ownership (INSTO), management ownership (MANO), firm leverage (FL) and firm size (FS) captured the explanatory variables. The explanatory power of the model showed that 62.16% of the variation in the dependent variable will be capture by the explanatory variables, while 50.5% will be captured by the variables after adjusting for the loss in degree of freedom. The f-statistic of the model showed that the model is statistically significant and the coefficients are different from zero.

Table 1: Regression estimate of impact of ownership structure on the dividend policy

Dependent Variable: Dividend Payout

Variable	Pooled OLS	Fixed Effect	Random Effect
CONCO	-0.137132 (0.021)	0.0401 (0.0137)	-0.0752 (0.058)
INSTO	0.0133 (0.043)	0.0872 (0.0529)	0.0561 (0.038)
MANO	0.02329 (0.0302)	0.1449 (0.057)	0.0504 (0.072)
FL	-0.0771 (0.003)	-0.1267 (0.3318)	-0.1151 (0.037)
SIZE	-0.0182 (0.0402)	-0.0732 (0.0101)	-0.0505 (0.053)
C	0.55004 (0.3026)	1.5551 (0.0077)	1.1543 (0.030)
R-squared	0.525077	0.321633	0.52228
Adjusted R-squared	0.508490	0.205815	0.50153
F-statistics	8.468150	2.777040	2.302931

p-value	0.00005	0.002035	0.00264
Durbin-Watson statistics	1.13659	1.9520	2.2023
Hausman Test	11.0174 (0.03)		
Redundant Fixed Effects Tests	3.9830 (0.0003)		

Source: Authors' Computation (2020)

The variables of concentrated ownership do have significant relationship with dividend policy with coefficient of 0.0401 and p-value of 0.0137. CONCO increases with dividend policy. INSTO exhibits positive relationship with dividend payout with coefficient of 0.087 and p-value of 0.052, showing that increase in institutional ownership of Banks will lead to rise in dividend policy. This showed that institutional investors prefer dividend distribution to cash retention in the company. This contradicted the findings of Huda and Abdullah (2013) who found out those institutional shareholders have a significant but negative impact on the dividend payout. Da Silva, Goergen, and Renneboog (2004) reported a significant negative relationship between Institutional owner and dividend per share after conducting research on German banks. In the same vein, the submission of Meherani et al. (2011) from their research on Teheran Stock Exchange in Iran where they established a negative association between institutional ownership and dividend payout, contradicts what is obtainable in Nigeria Deposit Money Banks.

Similarly, the management ownership also contributed positively to the dividend pay-out of DMBs with coefficient of 0.1449 and p-value equal to 0.05, as managerial ownership increases and managers acquire more shares capital, the free cash flow problem gets frozen out as managers continue to act in the best interest of the firm and shareholders. This will have a mutual interest with shareholders towards distributing more. Cash dividends tend to be higher where the owners' presence in the board of directors is higher. Consequently, this explains the reason why managerial ownership appears to have a significant and positive relationship with dividend distributions This is in agreement with Sharma and Wadhwa (2013), which denoted a positive relationship between ownership and dividend payout of the listed firms on Bombay Stock Exchange.

Contrary to the ownership structure variables in the model, leverage exhibit no statistical relationship with the dividend policy of the firm, while size of DMBs reported positive relationship with the dividend payout. However, according to the pecking order theory, there is a negative relationship between the size of a firm and the dividend payout. The reason being that larger companies are more closely observed and they should be more able to issue equity. Zingales (1995) supported this argument that the larger companies should have lower debt because of less asymmetric information.

5. POLICY IMPLICATIONS AND RECOMMENDATIONS

The descriptive method using percentages was used to analyse the ownership structure of DMBs in Nigeria. The results revealed that majority of banks in Nigeria are dominated by Institutional owners. Based on the findings of this study, it can reasonably be concluded that fundamental driver of dividend policy in Nigerian Market is the record and trend of past dividend. This indicated that DMBs try to woo investors to buy shares through declaration and payment of stable dividend over time. The study also showed that all the forms of Ownership structures have significant influence on dividend policy in the Nigerian banking industry. In a nutshell, it can be concluded that ownership structure of a bank has impact on its dividend payout policy. In regards to these findings, this study mad the following recommendations:

i To reduce the agency problem in the Deposit Money Banks in Nigeria, concentrated block holders and even government should invest to dilute the ownership structure, which is characterized manager-ownership and institutional owners. This can be done by management paying dividend on a regular basis, in order to encourage investor.

ii There should be a body that will always look into the dividend payout of DMBs annually in order to ascertain that they are not smoothen and also to ensure that dividend are paid out of distributable profit.

iii To reduce agency problem, the regulatory bodies of capital market in Nigeria should ensure transparency in the purchase of share capital to guide the excesses of the managerial owners.

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