EFFECT OF OWNERSHIP STRUCTURE ON THE PERFORMANCE OF SELECTED LISTED FIRMS IN NIGERIA

OSAZEE GRAHAM IMADE
Nnamdi Azikiwe University, Awka, Anambra State, Nigeria
imadeosazeegraham@gmail.com
EMMA I. OKOYE
Nnamdi Azikiwe University, Awka, Anambra State, Nigeria

Abstract

This study examined the effect of ownership structure on the performance of selected firms listed on the Nigerian Stock Exchange. Several ownership structure measures were employed - board chairman and chief executive officers shares ownership and performance measure (return on assets). The ex-post fact research design was adopted and secondary data obtained from the Annual Reports and Accounts of seventy-two (72) selected listed firms for the period 2006-2019. The data obtained were analysed using both descriptive (mean, median, standard deviation, kurtosis, skewness, Jarque-Bera) and inferential (Ordinary Least Square) statistical techniques. Findings indicated that board chairman and chief executive officers shares ownership have no significant effect on the performance of firms listed on Nigerian Stock Exchange. Given the findings, the study recommends that board chairman and chief executive officers share ownership should not be considered as problem for effective and efficient performance of firms. Consequently, board chairman and chief executive officers should be allowed to acquire as many shares as they desire.

Keywords: Board chairman shares ownership, CEO shares ownership, firm performance

JEL Classification: L25; G34; M49

1. INTRODUCTION

In recent times, there has been renewed interest on the relation between ownership structure and the performance of listed firms on the Nigerian Stock Exchange. This interest stems from the fact that stakeholders have interest in the firm's ability to maximize wealth. Okafor (2009) states that the directors and management seeking to maximize their personal benefits may be tempted to take actions that are advantageous to themselves but at the detriment of the owners of wealth. This in the view of Kajola (2008) has made corporate entities declare super profits while at the same time, still collapse in their number, leaving a trail of woes for investors, suppliers and other stakeholders.

Ongore & K'Obonyo (2011) argued that the numerous cases of corporate failures are an indictment of the effectiveness of the existing corporate governance structures. Previous studies has shown that one stream of researchers found that ownership structure were able to provide impact on firm performance (Haniffa & Hudaib, 2006; Joh, 2003), whereas, another stream of researchers found that there is no relationship between ownership structure and firm performance (Demsetz & Lehn, 1985).To reconcile these inconsistencies and inconclusive findings from previous studies, this study examined the effect of ownership structure on the performance (return on assets) of firms listed on the Nigerian Stock Exchange during the period 2006-2019. Specifically, the study seeks to:

i. ascertain the effect of board chairman shares ownership on the performance of listed firms on the Nigerian Stock Exchange;
ii. investigate the effect of CEO shares ownership on the performance of listed firms on the Nigerian Stock Exchange.

2. REVIEW OF RELATED LITERATURE

Quite a number of studies have shown that board ownership characteristics significantly affect the performance of firms, particularly in developed countries while there is dearth of empirical evidence in Nigeria. For instance, Ongoreand K'Obonyo (2011) examined the interrelations among ownership, board and manager characteristics and firm performance in a sample of 54 firms listed at the Nairobi Stock Exchange (NSE). These governance characteristics, designed to minimize agency problems between principals and agents are operationalized in terms of ownership concentration, ownership identity, board effectiveness and managerial discretion. The typical ownership identities at the NSE are government, foreign, institutional, manager and diverse ownership forms. Firm performance is measured using Return on Assets (ROA), Return on Equity (ROE) and Dividend Yield (DY). Using PPMC, Logistic Regression and Stepwise Regression, the paper presents evidence of significant positive relationship between foreign, insider, institutional and diverse ownership forms, and firm performance. However, the relationship between ownership concentration and government, and firm performance was significantly negative. The role of boards was found to be of very little value, mainly due to lack of adherence to board member selection criteria. The results also show significant positive relationship between managerial discretion and performance.

Irshad, Jinnah, Hashmi, Kausar & Nazir (2015) explored how board effectiveness and ownership structure affect corporate performance in Pakistan. Board effectiveness was gauged by independent directors, frequency of meetings, board size and CEO duality, while ownership structure by ownership concentration, institution ownership, managerial ownership and firm performance by marginal Q and ROA. The regression statistical tool was utilized in the analysis of data. The study revealed a significant positive effect of independent directors, frequency of meetings and board size on firm performance. In addition, the study showed that there is adverse effect of ownership concentration and dual role of CEO on corporate performance in Pakistan.

In Kenya, Matanda, Oyugi & Lishenga (2015) evaluated the relationship between institutional ownership and commercial bank performance using a survey of 43 commercial banks that were operational between year 2001 and 2013. The study employed three performance measures such as return on asset, equity and Tobin Q ratio whereas bank size was utilized as the moderating variable and regression statistical tool was used in the analysis of data. The study indicated that there is no relationship between institutional ownership and performance indicators (ROE, ROA and Tobin Q) of commercial banks in Kenya.

A study conducted was by Pirzada, Mustapha & Wickramasinghe (2015) on firm performance (measured by ROA, ROE, P/E and EPS), institutional ownership and capital structure (proxied by long -term debt to capital ratio) in Malaysia in the year 2001-2005. The regression statistical tool was employed. The study revealed that there is no significant association between institutional ownership and capital structure of the studied firms in Malaysia.

In a similar study done by Naijar (2015) on the effect of institutional ownership on firm performance in Jordanian listed firms. The findings of the study showed that the panel data analysis (fixed effect regression model) is the most convenient model and therefore explains strong evidence that there is a relationship between both institutional ownership and firm performance for Jordanian listed firms.

Khamis, Hamdan & Elali (2015) studied the relationship between ownership structure dimension and corporate performance in Bahrain Stock Exchange by means of regression statistical tool. The study found that ownership concentration has a negative influence on firm performance. Also, institutional and managerial ownerships were reported to have a positive and significant influence on firm performance. Also, age, size, growth, board size and liquidity were reported to significantly influence firm performance, especially ownership concentration.

Manna, Sahu & Gupta (2016) study takes into account the impact of ownership structure and board composition on corporate performance in Indian firms by means of regression statistical analysis. Variables of Tobin’s Q, market value added, cash earnings per share and return on capital employed were employed as the corporate performance measures while board size, board composition, ownership structure, multiplicity of directorship, chief executive officer (CEO) duality, CEO tenure and executive remuneration were the governance measures. The findings of their study revealed that board size and foreign promoters’ shareholdings have a positive impact on more than one corporate performance variable.

Azutoru, Obinne & Chinelo (2017) assessed the effect of corporate governance measures on financial performance of insurance firms in Nigeria. Board size, board independence, executive directors’ remuneration, non-executive directors' remuneration, directors' ownership, institutional ownership, foreign ownership and firm size were the variables of the study. The fixed effects model was used to evaluate the effect of these corporate governance measures on financial performance of insurance firms in Nigeria. Findings revealed that board size and non-executive directors' remuneration have negative and significant effect on financial performance (ROA) of insurance firms in Nigeria while board independence and institutional ownership showed a positive and significant impact on the financial performance.

A review of literature on the relationship between ownership structure and firm performance showed mixed results. We however observed that a set of literature showed positive and significant relationship between shareholders ownership and corporate performance (Haniffa & Hudaib, 2006; Joh, 2003; Khamis, Hamdan & Elali, 2015), while another set of literatures showed no significant relationship between ownership concentration and corporate performance (Irshad, Jinnah, Hashmi, Kausar & Nazir, 2015; Azutoru, Obinne & Chinelo, 2017). Consequent upon the above, there is the need to resolve and validate the above positions on the relationship between corporate governance characteristics and firm performance so as to see if such scenario exists in Nigeria. In view the above, we therefore hypothesized that:

$H0_1$: Board chairman shares ownership has no significant effect on the performance of firms listed on the Nigerian Stock Exchange.

$H0_2$: CEO shares ownership has no significant effect on the performance of firms listed on the Nigerian Stock Exchange.

3. METHODOLOGY

3.1. DESIGN

This study adopted the *ex-post facto* research design. The design was adopted because it seeks to establish the factors that are associated with certain occurrence by analysing past events of already existing conditions.

3.2. POPULATION AND SAMPLING

The population of this study comprised all firms listed on the Nigerian Stock Exchange during the period 2006-2019. However, there are 196 listed firms in Nigeria as at 31st December, 2019 (Nigerian Stock Exchange, 2019). The purposive sampling technique was adopted in selecting the sample from firms listed on the Nigerian Stock Exchange with complete dataset needed for this study. The secondary source of data used for this study includes those data obtained from Nigerian Stock Exchange Fact-book and Annual Reports and Accounts of the selected listed companies.

3.3. MODEL SPECIFICATION

The model of this study is informed by the studies conducted by Kajola (2008); Qasim (2014); Chandrasekharan(2016).In these studies, the dependent variable is corporate performance (Return on Asset), dependent variable and intervening variable as Firm Size. Kajola (2008) used the fixed effects model to evaluate the effect of corporate governance mechanism on performance of Nigerian quoted firms, using range of corporate governance mechanisms such as board size, board independence, executive directors' remuneration, directors' ownership, foreign ownership and controlled the effect of the firm size using log of total assets.

This study modified the variables of these studies by introducing corporate governance characteristics measures of board chairman shares ownership and board gender diversity. Thus, this study examined the relationship if any between ownership structure and corporate performance while controlling for firm size. Given the above, a multi-regression model was used to analyse the relationship between the variables. The statistical test of the hypotheses formulated in this study was based on the following models:

$$retoa = f(bcso, fsize) \qquad \textbf{eq.1}$$

$$retoa = f(ceosown, fsize) \qquad \textbf{eq.2}$$

Equations 1and 2 above can be rewritten in its explicit form as below:

$$retoa_{it}=\beta_0+ \beta_1 bcso+ \beta_2 fsize+\varepsilon_t \qquad \textbf{eq.3}$$

$$retoa_{it}=\beta_0+ \beta_1 ceosown+\beta_2 fsize+\varepsilon_t \qquad \textbf{eq.4}$$

Where: BCSO = board chairman shares ownership; CEOSOWN = chief executive officer shares ownership; FSIZE = firm size; RETOA = return on assets; Board Chairman Shares Ownership: This is the percentage of shares owned by the chairman *i* in time *t*; Chief Executive Officer (CEO) Shares Ownership: This is a measure of total shares of CEO divided by the total number of directors of a company; Firm Size: The nature logarithm of year-end total assets; Return on Assets: This is the ratio of operating income to total assets for company *i* in time *t*.

3.4. METHOD OF DATA ANALYSIS

The Ordinary Least Square (OLS) statistical technique was adopted in the analysis of data. This method was adopted because it enabled the researcher to examine the effect of corporate governance characteristics on firm performance. The analysis was done in sections: descriptive statistics (mean, median, standard deviation, minimum and maximum values, skewness, kurtosis, Jarque-Bera and correlation); and inferential statistics (Ordinary Least Square). The analysis was done using STATA 13.0.

4. RESULTS AND DISCUSSIONS

Table 1. *Descriptive Statistics of the Dependent and Independent Variables*

	Retoa	*bcso*	*ceosown*	*fsize*
Mean	4.2296	3.1764	10.5756	6.2418
Median	3.9031	3.0509	10.4584	5.7013
Maximum	6.7189	5.1286	15.6300	11.0746
Minimum	1.3643	1.5226	5.6330	3.2922
Std. Dev.	1.5178	1.1576	2.7715	2.3556
Skewness	0.0006	-0.0022	-0.0002	0.0072
Kurtosis	2.0206	2.0218	2.4409	2.3194
Jarque-Bera	0.0249	0.0252	0.0060	0.0070
Probability	0.0078	0.0028	0.0073	0.0043
Observations	792	792	792	792

Source: Secondary Data from STATA Output, 2020

From Table 1, we can see that none of the variables (*retoa, bcso, ceosown&fsize*) exhibited negative average values; this is expected, given the characteristics of the periods studied, as the transition to the International Financial Reporting Standards (IFRS) should impact on corporate governance and firm performance measures. The standard deviations range from 1.5% (*retoa*), 1.2% (*bcso),* 2.8% (*ceosown)* and 2.4% *(fsize)*; an indication that the corporate governance and firm performance measures of companies are not too dispersed from each other.

The variables of *retoa* and *fsize* displayed positive skewness while *bcso* and *ceosown,* negative; an indication that *retoa and fsize* skewed to the right while *bcso* and *ceosown* skewed to the left. All the variables have a normal distribution as indicated by kurtosis values, which are closer to three. More so, Jarque-Berra statistics are insignificant at 5% level based on their corresponding probability values, indicating that all variables of the study are normally distributed.

Table 2: *Correlation Matrix*

	Retoa	*Bcso*	*ceosown*	*fsize*
retoa	1.0000			
Bcso	-.31720	1.0000		
ceosown	-.42201	.42130	1.0000	
Fsize	.38457	.34348	-0.4168	1.0000

Source: Secondary Data from STATA Output, 2020

Table 2 shows the correlation matrix for ownership structure and firm performance measures. The correlations with *fsize* is positive, indicating that during the studied period, *retoa* and *fsize* moved together in similar direction while *bcsco* and *ceosown* moved in the same direction a confirmation of the results of skewness results (see Table 1). Besides, the highest correlation (.42201) is between *retoa* and *ceosown*; however did not exceed maximum threshold of 0.8; an indication of the absence of multi-collinearity among pairs of independent variables.

Table 3. *OLS Summary of Return on Asset and Board Chairman Shares Ownership*

Variables	*Obs.*	*Parms.*	*MSE*	*R-sq.*	*F*	*P*
retoa (bco, fsize)	792	3	391.17	0.587	2.58	0.0560
	Coef.	***Std. Err.***	***T***	***P>/t/***	***95% Conf. Interval***	
Retoa						
bco	-.0972	.0047	-1.99	0.058	.0081	.0018
fsize	.0472	.0019	4.17	0.000	.2361	.2169
_cons	2.146	4.140	6.88	0.000	4.260	4.413

Source: Secondary Data from STATA Output, 2020

The result for relationship between return on asset (*retoa*) and board chairman shares ownership (*bco*) of listed firms in Nigeria are presented in Table 3. The R-squared value (0.587) revealed that board chairman shares ownership (*bco*) and firm size (*fsize)* explained about 58.7% of the systematic variations in return on asset (*retoa).* However, the result showed an insignificant link between *retoa* and *bco*(f=2.58; p=0.0560), although, negative (*t*=-1.99); hence, there is no link between *retoa* and *bco* of listed firms in Nigeria. In view of the above, we therefore reject the null alternate hypothesis and accept the null hypothesis that board chairman shares ownership insignificant effect on performance of firms listed on Nigerian Stock Exchange. The implication is that board chairman shares ownership has no significant effect on the performance of firms listed on the Nigerian Stock Exchange.

Table 4. *OLS Summary of Return on Asset and Chief Executive Officer Shares Ownership*

Variables	*Obs.*	*Parms.*	*MSE*	*R-sq.*	*F*	*P*
retoa (ceosown, fsize)	792	3	616.04	0.541	1.47	0.0581
	Coef.	***Std. Err.***	***t***	***P>/t/***	***95% Conf. Interval***	
Retoa						
ceosown	-.0771	.0611	-1.14	0.059	.0072	.0018
fsize	.0439	.0412	5.24	0.000	.3313	.2718
_cons	2.067	4.009	8.13	0.000	3.187	5.726

Source: Secondary Data from STATA Output, 2020

The result for relationship between return on asset (*retoa*) and chief executive officer shares ownership (*ceosown*) of listed firms in Nigeria are presented in Table 4. The R-squared value (0.541) revealed that chief executive officer shares ownership (*ceosown*) and firm size (*fsize)* explained about 54.1% of the systematic variations in return on asset (*retoa).* Besides, the result showed an insignificant relationship between *retoa* and ceo own (f=1.47; p=0.0581), although, negative (*t*=-1.14); thus, there is no relationship between *retoa* and *ceosown* of listed firms in Nigeria. Given the above results, we therefore reject the null alternate hypothesis and accept the null hypothesis that chief executive officer share ownership has insignificant effect on the performance of firms listed on the Nigerian Stock Exchange. Impliedly, chief executive officer shares ownership has no significant effect on the performance of firms listed on the Nigerian Stock Exchange.

Prior studies have shown that ownership structure contributes significantly to firm performance in developed nations, with lack of studies in Nigeria. This study was carried out with the few to see if such relationship can be found between ownership structure and the performance of firms in Nigeria. Our results in part, conform to the studies of Kajola (2008); Enobakhare, (2010);Ongore and K'Obonyo (2011); Johl, *et al* (2015); Khamis, *et al* (2015); Azutoru, *et al* (2017); however, disagrees with studies of Irshad, *et al* (2015); Manna, *et al* (2016); the results therefore calls for policy recommendations for management of firms.

5. CONCLUSION AND RECOMMENDATIONS

In this study, the effects of ownership structure on firm performance of selected listed companies were examined during the period 2006-2019. The results revealed that measures of ownership structure (board chairman shares ownership and chief executive officer shares ownership) have no significant effect on the performance of firms listed on the Nigerian Stock Exchange. Impliedly, ownership structure does not contribute significantly to the performance of listed firms on the Nigerian Stock Exchange, particularly during the period investigated.

Conclusively, it's emphatic to state that board chairman shares ownership and chief executive officer shares ownership have no significant effects on corporate performance (return on asset). On the basis of the findings, the study recommends that board chairman and chief executive officers shares ownership should not be considered as problem for effective and efficient performance. More importantly, board chairman and chief executive officers of firms should be allowed to acquire as many shares as they desire. Future studies may consider employing other measures of corporate performance like as return on equity, earnings per share, dividend per share, Tobin Q among others in order to see the effect of ownership structure on them.

REFERENCES

Adeusi, S.O, Akeke, N.I. &Aribaba, F.O. (2013). Corporate governance and firm financial performance: Do ownership and board size matter? *Academic Journal of Interdisciplinary Studies*, *2*(3), 77-91

Akhalumeh P. & Ohiokha F. (2011).Board composition and corporate performance: An analysis of evidence from Nigeria.*Research Journal of Finance and Accounting*, *2*(4), 350-388

Azutoru, I.H.C., Obinne, U.G. & Chinelo, O.O. (2017).Effect of corporate governance mechanisms on financial performance of insurance companies in Nigeria. *Journal of Finance and Accounting*, *5*(3), 93-103

Chandrasekharan, C.V. (2016). Effect of board diversity on financial performance of listed deposit money banks in Nigeria. *Sahel Analyst: Journal of Management Sciences*, *14*(3), 1-17

Demsetz, H &Lehn, K (1985). The structure of corporate ownership: Causes and consequences, *Journal of Political Economy, 93*(6), 1155-1177.

Enobakhare, A. (2010). *Corporate governance and bank performance in Nigeria.*Research Report Presented to the Department of Business Administration, University of Stellenbosch, 1-78

Haniffa, R. &Hudaib, M. (2006). Corporate governance structures and performance of Malaysian listed companies. *Journal of Business Finance and Accounting*, *33*(7/8), 1034-1062.

Irshad, R.I., Jinnah, M.A., Hashmi, S.H., Kausar, S. &Nazir, M.I. (2015). Board effectiveness, ownership structure and corporate performance: Evidence from Pakistan. *Journal of Business Studies Quarterly*, *7*(2), 46-60

Joh, S.W (2003). Corporate governance and firm profitability: Evidence from Korea before the economic crisis. *Journal of Financial Economics*, *68*(2), 287-322.

Johl, S.K., Kaur, S. & Cooper, B.J. (2015). Board characteristics and firm performance: Evidence from Malaysian public listed firms. *Journal of Economics, Business and Management,3*(2), 239-243.

KajolaS.O. (2008). Corporate governance and firm performance: The case of Nigerian listed firms. *European Journal of Economics, Finance and Administrative Sciences*, *14(*7), 17-28.

Khamis, R., Hamdan, A.M. &Elali, W. (2015). The relationship between ownership structure dimensions and corporate performance: Evidence from Bahrain. *Australasian Accounting, Business and Finance Journal, 9*(4), 38-56.

Manna, A., Sahu, T.N. & Gupta, A. (2016).Impact of ownership structure and board composition on corporate performance in Indian companies. *Indian Journal of Corporate Governance*, *9*(1), 44-66

Matanda, J.W., Oyugi, L. &Lishenga, J.L. (2015). Institutional ownership and commercial bank performance in Kenya: Is there a relationship? *Research Journal of Finance and Accounting, 6*(16), 219-227.

Naijar, D.A. (2015). The effect of institutional ownership on firm performance: Evidence from Jordanian listed firms. *International Journal of Economics and Finance, 7*(12), 97-105.

Nigerian Stock Exchange, (2016).*Nigeria Stock Exchange Fact Book.* Lagos.

Okafor, C. (2009). *Corporate governance, introduction to business- A functional view.* Benin-City: Mindex Publishing Company Limited.

Ongore, V.O. &K'Obonyo, P.O. (2011). Effects of selected corporate governance characteristics on firm performance: Empirical evidence from Kenya. *International Journal of Economics and Financial Issues,1*(3), 99-122.

Pirzada, K., Mustapha, M.Z.B. &Wickramasinghe, D. (2015). Firm performance, institutional ownership and capital structure: A case of Malaysia. *Procedia: Social and Behavioural Sciences, 211*(9), 170-176.

Qasim, A.M.J. (2014). The impact of corporate governance on firm performance: Evidence from the UAE. *European Journal of Business and Management*, *6*(22), 118-124.