OWNERSHIP STRUCTURE AND PROFITABILITY OF DEPOSIT MONEY BANKS IN NIGERIA

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ABSTRACT
This study examined the effect of ownership structure (proxied by managerial ownership, institutional ownership and foreign ownership) on profitability (proxied by ROA) of selected Deposit Money Banks in Nigeria for the period 2011-2019. The study adopted the correlation research design. Secondary data were extracted from the annual reports of selected banks and were analyzed using panel multiple regression analysis. From the analysis, the study revealed that managerial ownership and foreign ownership significantly affect profitability of listed Deposit Money Banks in Nigeria. The study however found that institutional ownership does not significantly affect financial performance of listed Deposit Money Banks in Nigeria. The study therefore recommended that Managerial ownership should be discouraged in Deposit Money Banks in Nigeria. This is necessary as large ownership of shares by managers can cause severe agency conflict where managers may tend to manage the organization in a way as to gain high yield on their shares to the detriment of other stakeholders. Furthermore, concentration of shares in the hands of foreign shareholders gives avenue for harnessing foreign ideas that can propel improved profitability of Deposit Money Banks in Nigeria.

Keywords: Ownership Structure, Profitability, Managerial Ownership, Institutional Ownership and Foreign Ownership

Introduction

The growth in economic activities globally has necessitated expansion of business organizations' operational activities. Consequently, there has been increased complexity in the ownership of organizations, with emphasis on large business organizations. It is worthy of note that ownership structure is one of the core mechanisms of corporate governance (Ogaluzor & Omesi, 2019). Ownership concentration and ownership mix over the years have been the areas that scholars tailor their explanations. Ownership concentration, which entails largest shareowner, is influenced by absolute risk and monitoring costs while ownership mix is associated with the identity of the major shareholder(s) such as foreign ownership, domestic ownership, among others (Son, Ngoc & Khanh, 2015; Rasyid, 2015; Said, 2013).

According to Ohiani; Eniola & Lateef (2018), literature on ownership structure has continued to expand after the pioneering work of Berle and Means in 1932. The pioneering work of Berle and Means dwelled extensively on the conflict of interest between the owners and the managers and concluded that with increasing ownership diffusion, the authority of the shareholders to control management is minimized. Jensen & Meckling (1976), in their construct on agency theory, argue that the more equity owned by managers, the more motivated they are to enhance firm performance. The argument by Morck, Shleifer & Vishny (1988) is consistent with the position maintained by Fama & Jensen (1983) who posited that ownership concentration and financial performance are inversely related; such that as ownership concentration of a firm increases, the profitability decreases.

According to Berle & Means (1932), Jensen & Meckling (1976), ownership concentration and ownership mix are responsible for the changes in profitability. Other studies such as Musallam (2015), Manawaduge & Zoysa (2013) as well as Gugong, Arugu and Dandago (2015) also support the existence of a linear relationship between ownership structure and corporate performance. Yet, some studies (Rasyid, 2015, Fazlzadeh, Hendi & Mahboubi, 2011) argue that ownership structure has no significant relationship with corporate performance. It is necessary to examine the effect of ownership structure on financial performance of firms, especially Deposit Money Banks in Nigeria. Deposit Money Banks in Nigeria occupy a central position in the development of the entire economy (Ezugwu & Itodo, 2014 and Murtha, Stefanie and 2016). Their intermediation role of providing financial services to investors provides foundation for economic development.

Purpose of the Study

The main purpose of this study is to examine the effect of ownership structure on profitability of listed Deposit Money Banks in Nigeria. Specifically, the study examined the association between managerial ownership, institutional ownership and foreign ownership of Deposit Money Banks in Nigeria.

Research Questions

The research questions raised sought to explore the extent to which managerial ownership, institutional ownership and foreign ownership affect profitability of deposit money banks in Nigeria.

Three hypotheses that guided the study were stated in a null form as; Managerial ownership, Institutional ownership and foreign ownership have no significant effect on profitability of Deposit Money Banks in Nigeria.

Related Literature

Theoretical Framework

Agency theory developed by Jensen and Meckling (1976) relates to the relationship which exists between the agents (managers) and the principals (shareholders) under which the principals delegate work to agents, in this case, the management of organization. This arises as a result of separation of ownership from control. According to Ismail, (2013) and Davi & Davi (2014) the Agency theory infers that the separation of ownership and control gives managers opportunities to pursue their private interests (which might be at variance with those of shareholders) more than that of the shareholders which signaled a conflict to interest. Institutional theory states that institutional environment can highly impact the growth of formal structures in an organization, often more strongly than market pressures. The stakeholder theory is traced to the famous work of Freeman (1984).The theory states that managers react to pressures put forth by owner-stakeholders because of legitimacy, power, and urgency considerations. Freeman (1984) and Kakaria, Paranimally, & Puhanudin, (2014) suggest that the firm stakeholders influence the top managers who are in charge of strategy development and implementation through resource usage and withholding mechanisms. Consequently, the profitability of the firm is driven by the dictates of the stakeholders.

Conceptual Framework

The consensus in the literature indicated that ownership structure relates to equity ownership of a firm. Jensen & Meckling (1976), maintained that ownership structure is associated with the allocation of equity (with respect to votes) capital and the equity owners' identity. This invariably involves classification of ownership structure in terms of capital contributions, comprising insider investors (managers), and outsider investors, such as debt holders and equity holders. Profitability is a vital tool for assessment of firm performance by

several stakeholders. According to Wanjugu, G. E., Kangogo, K. L., Kibet, K. S.& Kisaka, S. E. (2015), these stakeholders include shareholders and bondholders, direct competitors, regulators, financial markets, credit rating companies, depositors and other market participants. The concept of financial performance is used restrictively in this study to reflect profitability, although there are other available measures of financial performance such as liquidity, financial risk level, etc. (Zaheer, 2017 and Kakaria., Paranimally, & Puhanudin, 2014) Profit is the residue of revenue a business generates after it pays all its expenses related to the generation of the revenue. Financial performance profitability is commonly measured through a variety of ratios. These include Return on Assets (ROA), Return on Equity (ROE), Return on Capital Employed and Gross Profit Margin.

Managerial Ownership and Firm Performance

The managerial ownership is represented as the proportion of shares owned in the firm by insiders and board members or insider ownership (Mandacı & Gumus, 2010 & Khana and Palepu 2000). Insider ownership is often seen as an effective measure of corporate mechanism. Similarly, managerial ownership is considered as a signal to align the shareholders' interests with that of the managers (Jensen & Meckling, 1976). In a quite distinct line of thought, Shleifer & Vishny (1988) reveal that high managerial ownership may lead to management entrenchment as such practice leads to reduction of number of Board of Directors (BOD). The agency theory perspective by Jensen & Meckling (1976), states that managerial ownership leads to the improvement of manager-owner agency conflict as managers are also the owners of a majority of firm shares and hence they are encouraged to maximize job performance to realize superior performance. Contrary to this reasoning, Demsetz (1983), Fama & Jensen (1983) and Mokaya & Jagongo (2015) consider high managerial ownership as the cause of management entrenchment and thus leading to serious agency problems.

Institutional Ownership and Firm Performance

Institutional ownership is a variable of ownership structure that is gauged through the ratio of shareholding held by institutions to the total number of shares (Nuryanah & Islam, 2011 and Abosede and Kajola, 2011, Khanna, & Palepu, 2014).This occurs when organizations pool significant amounts of money to invest in companies for instance, banks, mutual funds, insurance companies among others. Institutional shareholders have the potential to command the board to provide shareholders' protection and enhance company governance. Directors are more inclined to commit their loyalty to corporate officers as opposed to shareholders who the directors nominally serve. The separation of ownership and control also has a significant role.

Foreign Ownership and Firm Performance

Foreign ownership is measured by the ratio of foreign ownership stake to total shareholding (Uwuigbe & Olusanmi, 2012 and Kim & Yoon, 2018). The capital contributed by foreign investors minimizes the fiscal costs of restructuring of firms (Tang, Zoli & Klytchnikova, 2000). Moreover, foreign shareholders may offer expertise in risk management and a more superior culture of corporate governance, resulting in more efficiency. Furthermore, the presence of foreign shareholders heightens competition and urges local firms to cut costs and enhance their efficiency (Claessens & Fan, 2002). NazliAnum (2010) argues that if a significant portion of the firm's shares is held by foreign shareholders, it may be an indication that foreign shareholders trust those companies which may result in the companies' higher valuation.

Empirical Studies

The relationship between ownership structure and corporate performance has been examined by Alipour &Amjadi (2011) on Tehran Stock Exchange 68 companies over the period of five years from 2006 to 2010. With the aid of regression analysis, the study reported a significant and negative relationship between the amount of ownership of biggest shareholder and firm performance. The findings of Alipour &Amjadi (2011) is in consonance with that of Musallam (2015) who examined the impact of ownership structures on corporate performance using a panel data from Malaysia listed companies over a period of 2000 to 2009. Tsegba & Ezi-Herbert (2011)further affirmed the above findings when they reported that dominant shareholding, concentrated ownership, and foreign ownership structures have no significant effect on firm performance while insider ownership is inversely related to firm performance.

Gugong, Arugu & Dandago (2015) explored the impact of ownership on the financial performance of listed insurance firms in Nigeria and reported that there is a positive significant relationship between ownership and firm's performance which is at variance with those of Alipour &Amjadi (2011) and Tsegba & Ezi-Herbert (2011). The variance may however emanate from varying methods employed. Zakaria, Palanimally & Purhanudin (2014)determined the impact of ownership structure on performance of the Malaysian listed Trading and Services firms. The study was conducted for a period of six years (2005 to 2010) using Multiple regression for analysis. The findings indicated that concentrated or managerial ownership enhances firm performance, while government ownership inversely affects performance of firms.

Method

Correlational research design was adopted for this study. The design is suitable for testing expected relationships between and among variables and the derivation of logical inferences regarding such relationships. The population consisted of fifteen deposit money banks in Nigeria as retrieved from the Nigerian Stock Exchange (NSE) Fact Book as at 31st December, 2019. The study used secondary data extracted from published annual reports of the sampled firms on the Nigerian Stock Exchange Fact Book for the relevant years (2011-2019).The major tool of data analysis was multiple regression analysis with the aid of STATA statistical software.

Model Specification

The model for the study is a panel data model. The panel methodology is adopted since the data analysed has panel attributes. The model is as follows:

$ROA_{it} = a+b_1MO_{it} +b_2IO_{it}+b_3FO_{it}+b_4SZ_{it} +e$

Where:

ROA_{it} = Return on assets for firm i in time t

MO_{it}= Managerial ownership for firm i in time t

IO_{it}= Institutional ownership for firm i in time t

SZ_{it}= Firm Size for firm i in time t

e= error term.

Results and Discussion

Descriptive Statistics

Table 1: Descriptive Statistics

Variable	Mean	Std Dev.	Minimum	Maximum	Observations
ROA	0.086	0.097	0.000	0.540	135
MO	34.703	7.086	16.754	49.212	135
IO	6.841	0.800	5.759	9.051	135
FO	4.634	2.901	0.747	17.964	135
SZ	6.526	1.080	4.122	9.051	135

Source: Stata Output

Table 1 shows the descriptive statistics for all variables. From the table, the mean value of ROA is 0.086, while the minimum and maximum values are 0.000 and 0.540 respectively. The standard deviation of ROA is 0.097, which is above the mean, and this indicates that there is high level of variability in ROA of the studied firms. MGTO has mean value of 34.703 which suggests that the average proportion of managerial ownership of the listed Deposit Money Banks in Nigeria is about 34.70%.The minimum value of MGTO is 16.754 which implies that the least proportion of managerial ownership in the listed Deposit Money Banks in Nigeria is 16.75%. Related to this, the maximum value of MGTO is 49.212, representing about 49.21%. The standard deviation of MGTO is 7.086 which is smaller than the mean, indicating that there is low rate of variability in the managerial ownership of listed Deposit Money Banks in Nigeria.

The mean value of ISTO is 6.841. This means that on average, institutional shareholders occupy about 6.84% of shares of listed Deposit Money Banks in Nigeria in Nigeria. The minimum value of ISTO is 5.759, which is slightly less than the maximum value, 9.051 by 3.29%. This suggests low variability in the pattern of institutional shareholding of listed Deposit Money Banks in Nigeria in Nigeria. A confirmation to this low variability is the standard deviation of 0.800 which is lower than the mean. FIRO represents the proportion of shares that are owned by foreigners. It has minimum value of 0.747 which can be likened to a point at which a firm has the least proportion of foreign ownership, amounting to only 0.75%. The maximum value of FIRO is 17.964 which signifies that the highest proportion of FIRO from the sampled firms is 17.96% of total shareholdings. The variability level in the proportion of shares held by foreigners is low as its standard deviation (2.901) is lower than the mean (4.634) by 1.733.

The size of the banks is represented by SIZE; and the minimum value of SIZE is 4.122 while the maximum value is 9.051.The mean of SIZE is 6.526 with standard deviation of 1.080 which is lower than the mean, implying low level of variability in the size of the firms under study. In general, the preceding analysis suggests that there is low variation in the variables among the cross-sections.

Correlation Analysis

Correlation analysis was performed to quantify the association between the variables (independent and the dependent variables). The correlation between two variables can be positive (when higher levels of one variable are associated with higher levels of the other) or negative (when higher levels of one variable are associated with lower levels of the other). The sign of the correlation coefficient indicates the direction of the association while the strength of the relationship is revealed by probability value. The result of correlation analysis is presented in form of a matrix as shown in Table 4.2.

Table 2: Correlation Matrix

Variable	ROA	MGTO	ISTO	FIRO	SIZE
ROA	1.0000				
MGTO	-0.5178	1.0000			
ISTO	0.1067	-0.2997	1.0000		
FIRO	0.5217	-0.5703	0.4257	1.0000	
SIZE	-0.1937	-0.0881	0.6563	0.1659	1.0000

Source: Stata Output

Table 4.2 shows that ROA has negative correlation with MGTO and SIZE. This indicates that return on assets and managerial ownership as well as return on assets and size, move in opposite direction. However, a positive relationship is recorded between ROA and ISTO, as well as between ROA and FIRO. This means that the variables move in the same direction. In a similar way, the table shows that MGTO and ISTO, MGTO and SIZE, MGTO and FIRO are negatively correlated, indicating that the paired variables move in opposite direction while ISTO and FIRO, ISTO and SIZE, as well as FIRO and SIZE are positively correlated. This suggests that they move in same direction. Since correlation analysis only reveals direction and strength of association between variables, causality cannot be construed. This calls for regression analysis.

Table 3: Random Effect Regression Results

Variables	Coefficient	Z- Statistics	Z Sig
Constant	0.232	2.63	0.009
MGTO	-0.003	-2.32	0.020
ISTO	0.014	1.13	0.257
FORO	0.010	3.56	0.000
SIZE	-0.029	-3.42	0.001
R^2			0.711
Wald Chi^2			50.43
Prob>Chi^2			0.000

Source: Stata Output

The results from Table 4.4 indicate that the independent variables, managerial ownership, institutional ownership, foreign ownership and firm size explained 71.13% of the total variation in the dependent variable, financial performance of listed Deposit Money Banks in Nigeria (R^2=0.7113). Furthermore, the result of the Wald Chi^2 (50.43) shows that the model is well fitted and that the variables used as surrogates for ownership structure in the study are well selected and utilized as confirmed by the Prob>Chi^2 (0.000) which is statistically significant at 1%.This is further confirmation that heteroscedasticity earlier observed does not pose threat to correct specification of variables. The coefficient of managerial ownership (MGTO) is -0.003.This is an indication of a negative relationship between MGTO and ROA. By implication, a unit increase in MGTO will lead to about a decrease in the financial performance of listed Deposit Money Banks in Nigeria by 0.003.The results of the econometric analysis also show that the coefficient of ISTO is 0.014, which implies that there is a positive relationship between institutional ownership and financial performance of listed Deposit Money Banks in Nigeria. The relationship is such that a unit increase in ISTO will lead to a corresponding increase in financial performance of listed Deposit Money Banks to the tone of 0.014. Table 4.4 further reveals that the coefficient of FIRO is 0.010. This implies a positive relationship between foreign ownership and financial performance of listed Deposit Money Banks in Nigeria. The relationship is such that a unit increase in FIRO will lead to a decrease in ROA by 0.010. In addition, the coefficient of SIZE is

-0.029. This suggests that there is negative relationship between firm size and financial performance of listed Deposit Money Banks in Nigeria. This means that a unit increase in firm size will lead to about 0.029 decrease in financial performance of listed Deposit Money Banks in Nigeria.

Conclusion

Findings from regression analysis reveal that managerial ownership and foreign ownership hold significant influence on profitability of listed Deposit Money Banks in Nigeria. Managerial ownership affects the profitability of managers. They are prone to go for their selfish pecuniary interest at the expense of the organization. This negatively affects profitability of organizations. This calls for the need for management of banks in Nigeria to be conscious of the extent of ownership of shares by managers. Institutional ownership creates platform for managers to run affairs of the organization more professionally. Foreign ownership has become an issue of intense debate among scholars. The debate notwithstanding, ownership of shares by foreign shareholders avails organizations the opportunity to garner foreign innovative ideas that can help boost profitability of the organization.

Recommendations

In line with the findings of the study, the study recommended that Managerial ownership should be discouraged in Deposit Money Banks in Nigeria. This is necessary, as large ownership of shares by managers, can cause severe agency conflict where managers may tend to manage the organization in a way as to gain high yield on their shares, to the detriment of other stakeholders.

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