THE RELATIONSHIP BETWEEN OWNERSHIP STRUCTURE AND FIRM PERFORMANCE: EVIDENCE FROM NIGERIAN LISTED COMPANIES[1]

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ABSTRACT
This paper examines the relationship between ownership structure and performance from the perspective of listed Nigerian companies. Although there is a large literature on the relationship between ownership structure, corporate governance and firm performance, there is no consensus about the nature of this relation. This situation is prominent in emerging countries, like Nigeria, which have embarked on wholesale privatization of state-owned enterprises (SOEs) as part of their economic reform agenda and, in the process, adopted a variety of ownership structures with significant implications for corporate governance and, consequently, firm performance. The sample consists of 73 companies listed on the Nigerian Stock Exchange, covering the period 2001 to 2007. The postulated hypotheses were tested, using Ordinary Least Squares (OLS) analysis. The empirical results provide evidence that dominant shareholding, concentrated ownership, and foreign ownership structures have no significant effect on firm performance. We also provide evidence which suggests that insider ownership is inversely related to firm performance. The broad conclusions from this study raise two policy implications for Nigeria. First, since ownership structures such as dominant shareholding, concentrated ownership, and foreign ownership have no significant effect on firm performance, government emphasis on them is misplaced. Second, insider ownership of Nigerian firms is to be monitored closely by shareholders due to the adverse effect it has on firm performance.

Key words: Corporate Governance, Ownership Structure, Dominant Shareholder, Concentrated Ownership, Insider Ownership, Foreign Ownership, Firm Performance, State-owned Enterprises, Nigeria.
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I. INTRODUCTION

Nigeria has, over the years, adopted changing and conflicting corporate ownership structures in an attempt to address, amongst others, the dismal performances of the state owned enterprises (SOEs) and enhance firm value to prospective stakeholders. For instance, prior to independence and up to the late 1960s, foreign ownership was dominant in corporate Nigeria. In the early 1970s, Nigeria embarked on large scale indigenization programme which reduced foreign participation in the ownership of some SOEs (Federal Government of Nigeria, 1972). In the late 1980s, the thumb shifted to ownership restructuring of the SOEs to pave way for private holdings and diversification of investor base among Nigeria's geopolitical zones. In the late 1990s, there was a policy shift towards promoting ownership concentration and increased foreign participation. Within this period too, the concept of a core investor (dominant shareholder) was introduced into Nigeria's privatization lexicon.

Extensive empirical literature exists globally on the relationship between ownership structure and firm performance, but the results are rather mixed (see, for example, Demsetz & Lehn, 1985; McConnel & Servaes, 1990; Demsetz & Villalonga, 2001; Pivovarsky, 2003; Welch, 2003; Farooque et al., 2007). Unfortunately, the empirical assessment of the relationship between ownership structure and firm performance in Nigeria has been sparse. The few known studies that have examined the relationship between a few corporate ownership structures (such as concentrated and insider ownership) and firm performance in Nigeria have also produced conflicting results (see Adenikinju & Ayorinde, 2001; Sanda, Mikailu & Garba, 2005). It is, therefore, possible that corporate ownership structure per se may not adequately address the recurring problem of dismal performance of Nigeria's privatized SOEs. The main objective of this paper, therefore, is to ascertain whether changes or variations in ownership structure have significant impact on the performance of Nigerian firms.

This paper is divided into five main sections including this introduction as section one. Section two presents the theoretical framework, reviews the theoretical and empirical literature on ownership structure and firm performance; it also states the hypotheses to be tested. Section three presents the research methodology, while section four reports the empirical results. Section five concludes the paper and makes recommendations.

II. LITERATURE REVIEW

A. Theoretical Framework

Most research on the relationship between ownership structure and firm performance/value is rooted in the agency framework (Farooque et al., 2007). The framework presumes fundamental tension between shareholders and corporate managers (Jensen & Meckling, 1976). A basic assumption of the

agency theory, therefore, is that managers will act opportunistically to further their own interest before shareholders; and the basic conclusion is that the value of the firm cannot be maximized because managers possess discretions which allow them to expropriate value to themselves (Turnbull, 1997). A collection of strictly self-interested actors implicit in the agency framework implies conflicts of interest that must be resolved through incentives, monitoring, or regulatory action (Cohen & Holder-Webb, 2006), which entail additional cost to the firm. Jensen and Meckling (1976) summarize these agency costs as being the sum of the cost of: monitoring management (the agent); bonding the agent to the principal (stockholder/'residual claimant'); and residual losses. The focus of corporate governance is to minimize these costs and enhance firm performance. It becomes imperative that management is constantly monitored to ensure it does not pursue policies that are inimical to the prosperity of the enterprise. This monitoring task rests squarely with the board whose composition reflects the ownership structure of the firm.

B. Corporate Ownership Structure

The corporate ownership structures identified in the extant literature include the dominant/largest shareholder, concentrated ownership, insider (board or managerial) ownership, foreign ownership, institutional ownership, and government ownership. This study, however, focuses on the first four ownership structures, because they majorly emerged from Nigeria's changing and conflicting policies on corporate ownership, either through indigenization processes or privatization programmes.

The extant literature suggests that the presence or absence of a dominant/largest shareholder with material interest in the firm "affects substantially the way in which, and the ends towards which, a corporation will be governed" (Bebchuk & Roe, 1999 p.129). For instance, if ownership starts as diffuse, the presence of a dominant shareholder might mitigate the free-rider problem (Barako & Tower, 2006) which emerges in highly disperse shareholder structures, due to the imbalance existing between the effort required to control management behavior and the benefits such monitoring entails (Jensen, 1986). Furthermore, the dominant shareholder has the potential to curb 'tunneling', a term that is used to describe the transfer of resources out of the firm for the benefit of the controlling shareholders (see Johnson et al., 2000).

Pedersen and Themsen (1999) posit that the study of ownership concentration is meaningful only when it is possible to compare the efficacy of the ownership structures in extracting cost and benefits for the firm's economic function. The extant literature seems to support ownership concentration. For instance, Demsetz and Lehn (1985) support ownership concentration in terms of its control potential which is the wealth gain achievable through more effective monitoring of managerial performance by firm owners. Pivovarsky (2003) contends that a high concentration of shares into the hands of a few large shareholders tends to create more pressure on managers to behave in ways that are value-maximizing. This is underscored

by the proposition that owners can hire and fire management. However, a major argument against concentrated ownership highlighted by Bai et al. (2005) is that it gives the largest shareholders too much discretionary powers of using firm resources in ways that serve their own interest at the expense of other shareholders.

The debate on the need for ownership of shares by insiders (such as the board & management) stems from the potential conflicts of interest that could arise between corporate managers and dispersed shareholders when managers do not have an ownership interest in the firm they manage. This agency conflict may, however, be eliminated by simply requiring that managers return the entire equity stake in the assets they manage but this would lead to inefficient risk sharing, since wealth–constrained owner-managers are likely to be assuming large amounts of idiosyncratic risk when their wealth is concentrated in the firm they manage (Capozza & Seguin, 2003). The consequence of allocating a greater ownership structure to managers may be that they choose to reduce the risk level of the firm in order to reduce their own level of idiosyncratic risk. A major conclusion that may be drawn from these arguments is that insider ownership is a double edged sword that may affect firm performance in either direction.

The literature on foreign ownership, which is construed as the participation in the ownership structure of a firm by non nationals, is rather sparse. However, there are two main arguments that support foreign ownership of firms in emerging economies. First, foreign firms are adjudged to possess more business experience and entrepreneurship than local firms and are, therefore, more dynamic in their management style. For instance, Laing and Weir (1999) contend that firms managed by dynamic foreign chief executives (CEOs) tend to perform better than other categories of firms. Second, foreign firms have easier access to technical expertise, capital, spare parts and a host of other inputs which could provide support to the smooth running of firms located in transition economies.

C. Empirical Literature on the Relationship between Ownership Structure and Firm Performance

Following Berle and Means' (1932) thesis, which drew attention to the adverse consequences of the separation of ownership and management in a modern corporation, a number of studies have investigated the relationship between ownership structure and firm performance/value. A summary of the results of some of these studies is presented in Table 1.

Table 1 - Summary of some Prior Studies Examining the Relationship between Ownership Structure and Firm Performance/Value

Authors	Title of Research	Ownership Structure	Results
Demsetz and Lehn (1985)	The Structure of Corporate Ownership: Causes and Consequences	Concentrated ownership	No significant relationship between concentrated ownership and firm value.
Morck, Shleifer and Vishny (1988)	Management Ownership and Market Valuation: An Empirical Analysis	Insider ownership	Significant non-monotonic relationship between insider ownership and market value.
McConnell and Servaes (1990)	Additional Evidence on Equity Ownership and Corporate Value	1.Insider ownership 2. Concentrated ownership	Significant curvilinear relationship between firm performance and insider ownership. A positive but insignificant relationship between firm performance and concentrated ownership
Demsetz and Villalonga (2001)	Ownership Structure and Corporate Performance	1. Insider ownership 2. Concentrated ownership	No significant relationship between concentrated ownership and firm performance. Negative relationship between firm performance and insider ownership.
Pivovarsky (2003)	Ownership Concentration and Performance in Ukraine's Privatized Enterprises	Concentrated ownership	Significant positive relationship between concentrated ownership and firm performance.
Welch (2003)	The Relationship between Ownership Structure and Performance in Listed Australian Companies	1.Concentrated ownership 2. Insider ownership	Significant positive relationship between insider ownership based on accounting profit. No relationship based on Tobin's Q.
Sanda, Mikailu and Garba (2005)	Corporate Governance Mechanisms and Firm Financial Performance in Nigeria	1. Insider ownership 2. Concentrated ownership	Significant positive relationship between concentrated ownership and firm performance. Significant negative relationship between insider ownership and firm performance.
Bai et al.(2005)	An Empirical Study on Corporate Governance and	1. Largest shareholder 2.Concentration	Concentrated ownership and foreign ownership is positively related to firm value.

	Market Valuation in China	ownership 3. Insider ownership 4. Foreign ownership	Negative relationship between the largest shareholder and firm value. Insider ownership is not related to firm value.
Farooque et al. (2007)	Ownership Structure and Corporate Performance: Evidence from Bangladesh.	Insider ownership	Ownership does not have significant impact on firm performance. However, performance has significant negative impact on ownership.
Alonso-Bonis and Andrés-Alonso (2007)	Ownership Structure and Performance in Large Spanish Companies: Empirical Evidence in the Context of an Endogenous Relation	1.Concentrated ownership 2. Insider ownership	Positive systematic and significant relation between ownership concentration and firm performance. Positive and significant relation between insider ownership and firm performance.

The major conclusions that can be drawn from these studies are summarized as follows: (1) the effect of the dominant/largest shareholder on firm performance/value has received sparse attention in the empirical literature; (2) the relationship between concentrated ownership and firm performance/value has received fair attention in the empirical literature. Out of the 10 studies reviewed, 8 relate to this ownership structure; (3) a majority of the studies (8 out of 10) have investigated the relationship between insider ownership and firm performance/value; and (4) the impact of foreign ownership structure on firm performance/value has received scant attention in the empirical literature.

This paper tests four hypotheses related to the phenomenon of interest:

H_1: There is no significant relationship between the shares held by the dominant shareholder and firm performance.

H_2: There is no significant relationship between concentrated ownership and firm performance.

H_3: Insider ownership of shares is not significantly related to firm performance.

H_4: There is no significant relationship between foreign ownership and firm performance.

III. METHODOLOGY

A. Sample

The sample for this study comprises 73 firms listed on the Nigerian Stock Exchange (NSE) for the period 2001 to 2007. The main criteria used for inclusion of a firm in the sample are availability of data related to ownership structures and firm performance measures, and uninterrupted operation throughout the period. These criteria portend possible bias. However,

overcoming sample selection bias is empirically difficult for studies focusing on the impact of corporate governance mechanisms on ex post firm financial performance measures (reported by management) such as earnings per share, or externally determined by market forces, like market prices. The main argument is that researchers cannot generate firm performance measures on their own; they have to rely on what is available in the public domain, which is an indication of good corporate governance practices.

B. Variable Definitions and Measurement

Two sets of variables, namely, dependent and independent variables are used. The dependent variables represent the measures of firm performance that may be affected by corporate ownership structure, namely market price per share (MPS) and earnings per share (EPS). The independent variables are the corporate ownership structures investigated. They include dominant shareholder (DOMSHR), concentrated ownership (CONOWN), insider ownership (INSOWN), and foreign ownership (FOROWN). Table 2 below sets out how each variable is measured and sourced.

Table 2 - Variable Measurement and Sources

Variable	Measurement	Source
MPS	Market price per share	NSE daily performance reports
EPS	Net profit after tax divided by the number of shares in issue	Annual reports and accounts
DOMSHR	Percentage of shares held by the dominant shareholder	Firm registrars/Annual reports and accounts
CONOWN	Minimum number of shareholders that jointly control the firm	Firm registrars/Annual reports and accounts
INSOWN	The percentage of shares held by directors	Firm registrars/Annual reports and accounts
FOROWN	The percentage of shares held by foreign owners	Firm registrars/Annual reports and accounts

C. Specification of Empirical Models

This study utilizes descriptive statistics to show the different characteristics of ownership structures and firm performances. The main empirical model adopted in the study is regression analysis which is carried out on SPSS version 16.0

Regression models

The Ordinary Least Squares (OLS) model is used to examine the relationship between ownership structure and firm performance. This model is given as:

$$PERF_i = ß_0 + ß_1 DOMSHR_i + ß_2 CONOWN_i + ß_3 INSOWN_i + ß_4 FOROWN_i + ei$$

where

$PERF_i$ represents firm performance; DOMSHR represents dominant shareholder structure; CONOWN represents concentrated ownership

structure; INSOWN represents insider ownership structure; FOROWN represents foreign ownership; $ß_0, ß_1, ß_2 ... ß_n$ are the correlation coefficients; and e_i is the random variable.

Checks for Normality and Multicollinearity

The OLS method adopted in this study is a parametric statistical test that is based on a number of assumptions, the violation of which could affect the reliability of the results. Two of the most commonly encountered problems addressed in this study relate to normal distribution of the variables, and multicollinearity of the independent variables. The Jarque-Bera (JB) test for normality is used in this study because it is adjudged to be best suited for large samples (Gujarati & Sangeetha, 2007). Furthermore, skewness ratio analysis is used to compliment the JB tests. A summary of the results of the JB test and skewness ratio analysis, carried out on the data is presented in Table 3. The results indicate that apart from DOMSHR and FOROWN, the other variables are not normally distributed. As suggested by Burns and Burns (2008), a log transformation has been taken of the non-normally distributed variables in order to normalize them.

Table 3 - Jarque-Bera Test and Skewness Ratio Analysis Results

Variable	Jarque-Bera (JB)	Skewness	Standard Error of Skewness	Skew Ratio
MPS	118.79**	2.613	0.281	9.299
EPS	136.50**	2.570	0.281	9.146
DOMSHR	49.40	-0.265	0.281	-0.943
CONOWN	885.63***	4.183	0.281	14.886
INSOWN	104.58**	2.471	0.281	8.794
FOROWN	62.21	-0.037	0.281	-0.132

*Significant at 10% level; **Significant at 5% level; ***Significant at 1% level.

Table 4 contains a summary of correlations between the independent variables. The highest correlation is between DOMSHR and FOROWN (Pearson correlation = 0.724). The suggestion in the empirical literature is that correlation between the independent variables is considered undesirable for multivariate analysis only if it exceeds 0.8 (see Barako & Tower; 2006; Gujarati & Sangeetha, 2007). Multicollinearity does not, therefore, present a challenge in this investigation.

Table 4 – Correlation Matrix

Variable	DOMSHR	CONOWN	INSOWN	FOROWN
DOMSHR	1.000			
CONOWN	-0.394	1.000		
INSOWN	-0.317	-0.091	1.000	
FOROWN	0.724	-0.300	-0.284	1.000

4. EMPIRICAL RESULTS

A. Descriptive Statistics

Table 5 contains the minimum, maximum, mode, and mean values for all the dependent and independent variables, alongside their standard deviations.

Table 5 – Descriptive Statistics

Variable	Minimum	Maximum	Mode	Mean	Standard Deviation
MPS (kobo)	66	15,874	221	1,968	3,564
EPS (kobo)	-196	882	-34	97	190
DOMSHR (%)	8.64	70.77	60	40.63	17.67
CONOWN (No.)	1	411	1	24	70
INSOWN (%)	0.02	72.70	0.05	7.93	14.56
FOROWN (%)	0	84.70	0	31.99	26.72

The descriptive statistics suggest that: (1) single shareholders predominantly control Nigerian firms. (2) Insiders do not hold significant shares in Nigerian firms. (3) Foreign ownership is not a dominant feature of Nigerian firms. (4) Both highly and lowly priced firms, indicated by MPS, are included in the study. (5) Both healthy and non-healthy firms, revealed by EPS statistics, are investigated.

B. Regression Results

The results of the regressions are presented in Table 6 below. The explanatory power of the models, the adjusted R^2, is 32% for MPS and 19.2% for EPS. The F-statistics, which is used to assess the reliability of the regressions, are significant at 1% level for both measures of firm performance (i.e. MPS and EPS).

Table 6 – Summary of Regression Results

Variable	MPS	EPS
DOMSHR	0.098 (0.528)	-0.095 (-0.470)
CONOWN	0.185 (1.251)	0.089 (0.549)
INSOWN	-0.558 (-4.654)***	-0.414 (-3.168)***
FOROWN	0.045 (0.316)	0.239 (1.521)
Adjusted R^2	0.320	0.192
F-Statistics	9.474***	5.282***

*Significant at 10% level; **Significant at 5% level; ***Significant at 1% level; t-statistics in parentheses.

This study finds an insignificant positive relationship between DOMSHR and MPS, but a negative and insignificant relationship between DOMSHR and EPS. The first hypothesis (H_1) is, therefore, accepted. The *a priori* expectation, based on theoretical arguments, is that a significant positive relationship should subsist between DOMSHR and firm performance. The evidence provided by this study is at variance with *a priori* expectation. It may

be that Nigerian dominant shareholders are invariant to pursuing policies that could promote firm performance for the benefit of all shareholders.

The positive relationship reported between CONOWN and both firm performance measures suggests that performance is negatively related to ownership concentration (based on the measure of ownership concentration adopted in this paper). It can, therefore, be inferred that a negative but insignificant relationship exists between CONOWN and firm performance (MPS & EPS) which is inconsistent with the a priori expectation. The second hypothesis (H_2) is, therefore, accepted. This finding is consistent with the findings of Demsetz and Lehn (1985), McConnel and Servaes (1990), Demsetz and Villalonga (2001), Adenikinju and Ayorinde (2001), but inconsistent with the results of studies which find a significant positive relationship between concentrated ownership and firm performance (see Pivovarsky, 2003; Welch, 2003; Bai et al., 2005; Sanda, Mikailu & Garba, 2005; Alonso-Bonis & Andrés-Alonso, 2007).

Furthermore, the evidence suggests that a significant negative relationship exists between INSOWN and firm performance (MPS & EPS). The third hypothesis (H_3) is, therefore, rejected. This finding is consistent with the hypothesized negative relationship between insider ownership and firm performance (see Morck, Shleifer & Vishny, 1988). The finding is also consistent with the evidence provided by Sanda, Mikailu and Garba (2005) and Farooque et al. (2007). The latter argue that the negative relationship between insider ownership and firm performance among Bangladesh firms is because directors elect to sell shares during good times (at higher market prices), expecting good performance to be followed by poor performance. This argument could be extended to Nigerian directors. The evidence generated from this study also suggests that an insignificant positive relationship exists between FOROWN and firm performance. This evidence is consistent with that provided by Bai et al. (2005) who find a positive but insignificant relationship between foreign ownership and firm value among Chinese firms.

V. CONCLUSIONS AND RECOMMENDATIONS

This paper is motivated by the desire to ascertain whether a significant relationship exists between corporate ownership and performance among Nigerian firms. The evidence generated in this paper could be summarized as follows: (1) an insignificant relationship subsists between the dominant shareholder structure and firm performance; (2) a negative but insignificant relationship exists between concentrated ownership and firm performance; (3) insider ownership of shares is inversely and significantly related to firm performance; and (4) there is positive but insignificant relationship between foreign ownership and firm performance.

Two major conclusions, which have implications for policy makers and corporate Nigeria, are explicit from this paper. First, the use of ownership structures such as dominant shareholding, concentrated ownership, and

foreign ownership as corporate governance mechanisms should be reconsidered in subsequent policies aimed at addressing the dismal performances of the SOEs since these structures do not have significant impact on firm performance. Second, since the study evidences a significant negative relationship between insider ownership and firm performance, insider ownership of Nigerian firms is to be monitored closely by shareholders. This study, however, calls for further investigations into the relationship between ownership structure and firm performance among Nigerian firms, because knowledge of this relationship is very important to corporate Nigeria, far too important to be left to the results of a few studies. Further investigations should involve a larger sample size, and include particularly the banking sector that is the pivot of economic growth in Nigeria.

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