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OWNERSHIP STRUCTURE AND LIKELIHOOD OF PAYING DIVIDEND IN LISTED INDUSTRIAL GOODS FIRMS IN NIGERIA

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ABSTRACT

The study evaluated the effect of ownership structure on Likelihood of paying dividend of listed industrial goods firms in Nigeria. The study employed secondary data collected from the annual reports and accounts using an annual panel dataset from 2009 to 2016. The study applied logit regression and find that *institutional and block ownership have significant effect on likelihood to pay dividend* while *managerial ownership reveals insignificant effect on the probability of dividend payment. Therefore, the study concludes that institutional ownership and block shareholding affect the probability of paying dividend in listed industrial goods firms in Nigeria.*

Keywords: Ownership Structure, Likelihood of paying dividend, industrial goods firms in Nigeria.

1. INTRODUCTION

Dividend policy is one of the important decisions taken by the management of a company. It is vital for investors, managers, lenders and other stakeholders and researchers in the area of corporate finance. It is important for investors because they consider dividends not only as a source of income but also as a way to assess firms' future prospects (Aminu, 2006). It is also the way of assessing the ability of a Company to generate positive cash flow in the future (Hussain, 2012). Dividend decision is a decision on the amount of earned profit to be retained and the amount to be paid out as dividend and the most important aspect of dividend policy is the determination of the amount of earnings to be distributed to shareholders and the amount to be retained. Dividend is the distribution of profit or portion of net income paid out to shareholders of the business as a result of the risk of committing their

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wealth in to an organization, usually made periodically either quarterly or annually (Mahira, 2012).

Propensity to pay dividend, is one of the important corporate finance issues and it is the first stage in dividend decision, because it is an issue that requires the attention of the management, which is to pay or not to pay considering changes in business conditions and regulations putting into consideration factors that are peculiar to the firm (Yang, 2014). This is because at the end of every financial year firms are expected to take decisions on whether to pay or not to pay dividend. Propensity to pay dividend is a tendency of a firm in a particular year to pay dividend otherwise it will be zero (Angelo, & Stulz, 2006)**.** that a shareholder receives (Al-Najjar & Kilincarslan, 2016).

The composition of the ordinary shareholding of a company in terms of insider, outsider, institutional and government ownership, as well as other dispersed shareholders is what constitutes corporate ownership structure (Bako, 2015). Thus, the structure can be viewed as the manner in which the ownerships of a firm's equity capital are distributed among the Institutional shareholders, managerial shareholders, foreign shareholders and the block shareholders amongst others. It also entails the potential distribution of control in corporate organisations. Given these different categories of shareholders which may have conflicting interest in relation to dividend payment, the proportion of their stake could affect dividend policy.

Among the reasons for dividend payment is to provide the stakeholders with the necessary income to compensate them for the risk they take for their investment and to promote shareholders' confidence on firms' future prospect. However, if the management decides not to pay dividend because of the firm's growth and the appetite to have more control over the resources the confidence on the firm may be eroded. According to Musa (2005) majority of the investors in Nigeria constitute retirees, civil servant and low income earners who consider dividend as a source of income. As a result of this, the need for paying dividend is likely to be high in the Nigerian context, despite the risk of sourcing external finance and consequently dilution of control that is associated with it. Thus, ownership structure is likely to play a vital role in influencing dividend policy.

Several studies have assessed the role of ownership structure in influencing dividend policy (Ullah, Fida & Khan, 2012; Thanatawee, 2013; Sakinc & Gungor, 2015; Afolayan, 2015; Al-Najjar & Kilincarslan, 2016; Ibrahim & Shuaibu, 2016). These studies placed emphasis on managerial ownership, institutional ownership, ownership concentration and foreign ownership effect on dividend policy. Thus, they are the common categories of shareholders.

The study basically examined the effect of managerial ownership, institutional ownership, foreign ownership and block shareholding on the listed Industrial Goods firms in Nigeria for the period of 8 years 2009-2016. This period is considered suitable because of the fact that it is the period within which firms in the Nigerian industrial goods are working towards strengthening their activities due to the global financial crisis of 2008 which had negatively affected the dividend policy of firms in the sector in particular, and the Nigerian Stock Market in general there by coursing instability in dividend payment in the sector.

This paper is structured with five sections starting with 1.Introduction, 2. Literature Review, 3. Methodology, 4. Data analysis and finally 5. as Conclusion and Recommendations.

2. LITERATURE REVIEW

Dividend is the return on investment to shareholders be it equity or preference. Dividend policy refers to the decision on the fraction of profit that should be paid out to the shareholders and the proportion to be retained by the firm for reinvestment purpose (Abu-khalaf, 2012). It can also be viewed as practice that management follows in making decisions on dividend payout. (Lease, John, Kalay, Loewenstein, & Sarig, 2000). The most important aspect of dividend policy is ascertaining the amount of earnings to be shared to shareholders and amount to be retained (Aminu, 2006).

2.1 Managerial Ownership and Dividend policy

Managerial shareholding comprises stock owned by the Executive officer, persons in the board of directors and other decision makers and supporters that take part in the company's management, either by their presence or by way of representation in the board of directors or combination of the two. Prior studies have established mixed findings on the effect of managerial ownership on dividend policy. Aliyu, Musa and Shika (2016) studied ownership structure and payout policy of listed deposit money banks in Nigeria. For the period of five years (5) ranging from 2009-2013. The regression model was run to investigate the deterministic relationship of the dividend and Ordinary least square (OLS) was employed as a technique of analysis. However, result shows tha ownership structure has significant positive impact on the dividend policy at 1% level of significance. Managerial shareholding has no significant impact on the dividend policy of listed deposit money banks in Nigeria. The major short coming of the study is the use of a very small sample size which might be the reason for the finding of insignificant association.

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Juhandi, Sudarma, Aisjah and Rofiaty (2013) empirically investigated the effects of ownership structures on dividend policy on companies value. A study on manufacturing company listed on the Indonesia stock Exchange for the period of six years ranging from 2005-2010. Smart PLS was employed as a technique of analysis of the study. The study however found that managerial ownership has no effect on dividend policy. Among the shortfall of this study is that the sample of the study is too small to make generalization in the entire manufacturing company in Indonesia. In line with the aforementioned literature, this study hypothesized that:

Ho1: Managerial shareholdings has no significant effect on propensity to pay dividend of listed Industrial goods firms in Nigeria

2.2 Institutional ownership and dividend policy

Mossadak, Fontaine and Khemakhem (2016) carried out an investigation to identify the relationship between ownership structure and dividend policy in the context of emerging markets. The sample of the study comprised of companies listed on the Casablanca stock exchange between the period of three years (3) ranging from 2011-2013 of the 74 companies initially listed. The result, however, showed that institutional ownership did not show a significant relationship with dividend policy. However, apart from the geographical differences, the findings of the study cannot be extended to the Nigerian industrial goods firms because it focused on the firms in the financial sector which have different operational peculiarities, hence the need for this study.

In another development, Arief, Shuhadak and Daminto (2014) examined the role of corporate governance, dividend policy and capital structure on ownership structure toward the firm value. The sample of the study consists of all the manufacturing firms listed at Indonesia stock exchange. The empirical result of the study revealed that institutional ownership structure is the cause of agency problems, which can be mitigated by corporate governance mechanism and dividend policy, thereby increasing the value of the company. It can be seen from the above that findings from the previous studies on the relationship between ownership structure and dividend policy are faced with varied pit falls. This may be as a result of differences in research domain and disparity in political settings.

In a similar manner, Thanatawee (2013) examined the effect of ownership structure on dividend policy of firms in Thailand for the period of nine (9) years ranging from 2002 - 2010. The technique of analysis employed in the study is binary logit regression. However, Tobit regression is utilized to eliminate biases from OLS estimation. When the dividend of Thai firms is analyzed in two steps that is decision

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to pay or not to pay and how much to pay, the result shows that when institutional ownership hold more percentage of shares and also found that both the likelihood of paying dividends and the magnitude of dividend payouts increase (decrease) with higher institutional ownership of domestic investors. However, because of the difference in operating culture, economic conditions and regulatory structure across countries, the findings of this study may not be suitable for extension in the Nigerian context, hence the need for our study.

ated significant positive association between institutional ownership and dividend yield. This is an indication that institutional shareholders are indeed more prone to affects firms dividend policies positively which confirms the results obtained from previous studies such as Thanatawee (2012). The study was conducted in Swedish firms. Therefore, a different outcome is expected from this study which will focus on non-financial sector in Nigeria.

In line with the aforementioned literature, this study hypothesized that:

Ho2: Institutional shareholdings have no significant effect on propensity to pay dividend of listed Industrial goods firms in Nigeria.

2.3 Foreign ownership and Dividend policy

In another development Sakinc and Gungor (2015) examine the relationship between ownership structure and dividend policy of Istanbul stock exchange for the period of eight (8) years ranging from 2004-2011. The sample of the study comprised of 271 real and banking sectors companies. The empirical result reveals that there was a significant and positive relationship between dividend payout ratio and foreign ownership. The time frame of the study constitutes it is limitations.

Ullah, Fida and Khan (2012) conducted a study on the impact of ownership structure on dividend policy. Evidence of Emerging market KSE - 100 index Pakistan. The population of the study comprised the sample selection of seventy (70) firms from Karachi stock exchange for the period of eight (8) ranging from 2003 to 2010. The empirical result reveals that there has been a positive relationship between foreign share ownership. However, this finding is an indication that the higher there share holdings the higher will be the dividend payouts which will by extention reduce the availability of cash flows. Among the shortfall of this study is that some of the cited works in the study were not referenced.

Mossadak, Fontaine and Khemakhem (2016) conducted study on the relationship between ownership structure and dividend policy in the context of Emerging market a Moroccan study. The sample of the study comprised of companies listed on the

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Cassablanca stock exchange between the periods of three (3) years. Ranging from 2011-2013 of the 74 companies initially listed. The empirical result however, shows that there is a positive and significant relationship between foreign ownership and dividend policy. The findings of this study may not be suitable for extension to the Nigerian industrial sector, owing to the fact that there are differences that exist in the operating domain, economic conditions and geographical barriers among other factors.

Andow and David (2016) studied ownership structure and the financial performance of listed conglomerate firms in Nigeria. For the period of the sample of the study comprises of all the conglomerate firms listed on the Nigerian stock Exchange as at 31st December, 2013. The study used regression as a tool of analysis. Findings reveal that foreign ownership has negatively impacted on the performance of listed conglomerate firms within the study period, however, because of the differences in operating culture, economic conditions and regulatory structure. The findings of this study may not be extended to the industrial goods firms in Nigeria. Hence, In line with the majority and also the aforementioned literature, this study hypothesized that:

Ho3: Foreign shareholdings has no significant effect on propensity to pay dividend of listed Industrial goods firms in Nigeria.

2.4 Block ownership and dividend policy

In a related study Ramli (2008) examine the relationship between various forms of ownership structure and dividends in Malaysia for the period of four years (4) ranging from 2002 to 2005 the sample employed by the study consists of 406 firms using multiple regression analysis. The empirical result reveals that ownership concentration has a significant positive impact on dividend. El-Masry and Elsegini (2008) studied the effect of ownership structure on corporate dividend policies. The study employed the use of a sample of top Egyptian listed companies. However, the study reveals that block ownership has significant association with dividend payout. The study was conducted for firms in Egypt. Therefore, a different outcome may be expected from this study which will focus on the Nigerian industrial goods firms in Nigeria.

The study conducted by Yordying (2013) investigated the relationship between ownership structure and dividend policy in Thailand. The sample of the study consists of 1,927 observations The empirical finding of the study reveal that Thai firms are more likely to pay dividends when they have higher ownership concentration or the largest shareholder. However, with higher institutional ownership the likely hood of paying dividend is higher. The findings of this study may not be suitable for extention

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to Nigeria in view of the differences in economic conditions, regulatory frameworks and operating domain among others.

In another development, Zhong (2007) examine two competing views on the relationship between ownership concentration and dividend policy. The study shows that small block shareholding can easily sell their stocks quickly if they are not pleased with the performance of managers, whereas large block shareholding found it hard to sell a large block of stock without it having considerable impact on the firm, including lowering its stock price. However, large block shareholding put pressure on managers to report a favourable financial performance. The outcome of this study may not be valid for policy decisions in the present economic conditions because the period covered was even before the period of global economic crisis of 2008. Therefore, extending the study to a more recent period may produce a different and a better result which can be used for investment decision and policy making. Hence, In line with the majority and also the aforementioned literature, this study hypothesized that:

H04: Block shareholdings has no significant effect on propensity to pay dividend of listed industrial goods firms in Nigeria.

Underpinning Theory

Agency theory is adopted as the best that shows the nexus between ownership structure and dividend policy due to its relevance in explaining the nature of the relationship. Agency theory is preferred in this paper because it elaborates the nature of relatiship between managers(agent) and Shareholders(principal) of the any firm. Furthermore, the divergent views is that some of the shareholders are interested in getting there dividend and managers are of the view of retaining the earnings for the growth of the firm as well as for their personal benefit

The diagram below is the research framework that shows the relationship among the variables of the study.

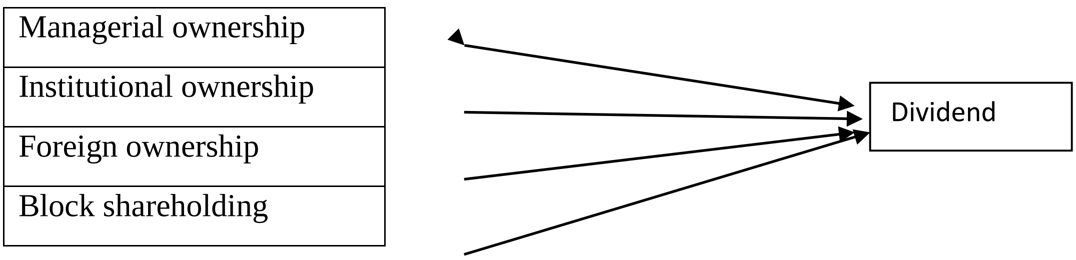

Figure 1: Research Framework

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3. METHODOLOGY

The study adopts correlational research design to examine the extent to which the independent variables relate statistically to the dependent variables. The choice of this design allows for not only the establishment of an association between ownership structure and dividend policy but also an estimation of the extent of the association or variability in two or more variables. The design is informed by the positivist research paradigm. The data for this study were derived and collected from secondary sources only. This is due to the nature of the study, which is quantitative that is situated in the positivist paradigm through the use of financial reports and accounts of the selected firms.

Population of this study consisted of all the fifteen (15) industrial goods firms listed on the floor of the Nigerian stock exchange (NSE) as at 31 December, 2016 and are operating during the period of the study. The study adopted panel multiple regression technique to examine the influence of the independent variables on the dependent variable and the relationship that exist among the variables. Binary-Logit and Regression was used in estimating the coefficients of the model. Binary-Logit was used given the measurement of the first decision in dividend policy is to pay or not to pay and '1' was assigned to a firm that pays and 0' otherwise and the use of Ordinary Least Squares (OLS) will be biased in capturing such effect. The models of this paper is presented as thus:

Binary Logit model for estimating propensity to pay dividend. The following linear function was derived between the dependent and independent variables in order to specify the model of the study.

PPD_{it} {0/1}= β_0 + β_1 INOWN+ β_2 $MGOWN_{it}$+ β_3 $FROWN_{it}$ + β_4 $BLOWN_{it}$ + $Ʒ_{it}$ ……………….(i)

Where:

PPD_{it} is the propensity to pay dividend, $INOWN_{it}$ is institutional ownership of firm i in year t

$MGOWN_t$ is managerial shareholdings of firm i in year t, $FROWN_{it}$ is foreign share holdings of firm i in year t, $BLOWN_{it}$ is block share holdings of firm i in year t, E_{it} = error term

β_0= constant, β_1-β_4= parameters to be estimated, {0/1 }= Binary number zero and 1(i.e. the variable can only take '0' or '1')

The measurements of both dependent variable of the study is proxied by propensity to pay dividend) and the independent variable is ownership structure (proxied by managerial ownership, institutional ownership, foreign ownership and block shareholding). The measurements of the variables used to achieve the research objectives are presented in table 3.1 as follows;

Table 1: Variables Measurement

Variable	Acronym	Measurement	Source
Propensity to pay Dividend	PPD	If firms pays dividend one (1) and zero (0) otherwise.	Thanatawee (2013) and Al-Najjar and Kilincarslan (2016)
Managerial shareholding	MGSH	the ratio of total equity ownership by managers to total equity share capital outstanding	Aliyu, Musa and Shika (2016), Miko and Kamardin (2015) and Al-Najjar and Kilincarslan (2016)
Institutional ownership	INSH	Percentage of total equity ownership by corporate entities and organizations (non-individuals equity ownership) scaled by the total numbers of shares outstanding	Miko and Kamardin (2015) and Al-Najjar and Kilincarslan (2016) and Kulathunga and Azeez (2016).
Foreign shareholding	FRSH	Defined as the total equity ownership by foreign investors (individuals and corporations). Measured as the ratio of total equity ownership by foreign investors to total equity share capital outstanding	Al-Najjar and Kilincarslan (2016)
Block share holdings	BLSH	Percentage of individuals owning at least 5% share of the total number of shares outstanding	Aliyu, Musa and Shika (2016)

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4. RESULTS AND DISCUSSIONS

This section is presenting and analyzing the study's descriptive statistics and correlations of variables.

4.1 Descriptive Statistics

The summary statistics of the variables where mean, standard deviation, minimum, and maximum of the data for the variables used in the study are described in Table 2.

Table 4.1 Descriptive Statistics

Variable	OBS	Mean	St. Dev	min	Max
PAY	120	0.617	0.488	0	1
MOWN	120	18.274	25.447	0.010	77.481
IOWN	120	54.407	23.088	5	95
BOWN	120	59.965	21.455	10	95
FO	120	22.638	27.220	0	80
WN					

Source: Author's computation using STATA

From the table it can be seen that pay has a minimum of 0 and a maximum of 1 with a mean value of 0.6167 which signifies that on the average, the sample firms have paid 62% of the selected firms as dividend payers during the period. The standard deviation value of 0.4882 indicated that the likelihood of paying dividend values have not deviated much from the mean. The result further revealed that managerial ownership has a minimum of 0.0104 and a maximum of 77.4805 with a mean value of 18.2741 meaning that the average of managerial ownership across the sampled industrial goods firms is 18% of issued share capital. The standard deviation of 25.4465 gives an indication of the extent of the variability of managerial ownership from its average. Institutional ownership has a minimum of 5 and a maximum of 95 with a mean value of 54.4067 these indicate that institutional shareholders on the average owned more than 50% of total issued share capital of the industrial good firms in Nigeria. The wider dispersion of the institutional holdings values is indicated by a standard deviation of 23.0876.

The table also revealed that the average block shareholding (BLSH) in the listed industrial goods firms in Nigeria is about 60% with a standard deviation of 21.4548 and minimum value of 10 and 95 as the maximum block shareholding during the

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period. This suggests that the average equity share holdings by the block shareholders of listed industrial goods firms in Nigeria during the period of the study is 5.90% and the deviation from the mean 2.145% , the minimum and maximum block share holdings are 10% and 95% respectively.

The table 2 further revealed that the average foreign share holdings (FOWN) in the listed industrial goods firms in Nigeria is 22.638 with standard deviation of 27.220, and the minimum value of 0 and the maximum value of 80%.

The correlation analysis matrix shows the relationship between the explanatory variables and also the relationship among all the pairs of independent variables themselves. It is useful in discerning the degree or extent of the relationship among all the independent variables as excessive correlation could lead to multicollinearity, which could consequently lead to misleading findings and conclusions. The correlation matrix does not lend itself to statistical inference but it is relevant in deducing the direction and extent of association between the variables.

Table 4.2 Correlational matrix of variables

Variables	Pay	Mown	Iown	Bown	Fown
Pay	1.0000				
Mown	-0.1010	1.0000			
Iown	0.0363	-0.1580	1.0000		
Bown	-0.0935	-0.0157	0.9204	1.0000	
Fown	0.0021	-0.0544	0.4277	0.3203	1.0000

Source: Author's computation using STATA

Table 4.2 shows that there is a positive correlation between the dependent variable, DPS and two of the explanatory variables IOWN, BOWN with coefficient of 0.26 and 0.17 respectively. This implies that the two explanatory variables move in the same direction with dividend policy, which means that the higher their values the higher the dividend per share. In addition, as these explanatory variables increases at individual levels, dividend per share increases. The table also revealed that MOWN and FOWN exhibit negative correlations with DPS, with coefficient of -0.27 and -0.21. This means that this explanatory variable and the outcome variable move in opposite directions. Thus, as the variables increases DPS is likely to declines.

From the table 4.2 above, it can be seen that all correlation coefficients are all below 0.80 except for the value of 0.9204 for institutional ownership (IOWN) against

BOWN suggesting that there a likelihood of multicollinearity between the variables. In order to detect and correct this problem a VIF test was conducted on OLS estimate of the data and the result is presented and discussed under robustness test.

After all the descriptives and data cleansing processes, this paper further analyzed the hypothesized relationships between the study's variables as follows;

The regression result on the effect of ownership structure on payment decision is presented in table 4.3 The result presented in the table is that of pooled Logit model after testing against random effect Logit. The result of the test between pooled and random logistic showed that, the pooled logistic regression has an AIC (155.971) and BIC (169.909) while the random effect model has an AIC (87.452) and BIC (104.177). Though, the random effect model has the lowest AIC and BIC but the result is not significant. Therefore, the model is not fitted. In this regard we take the pooled logistic regression to be the best model since the first condition has not been satisfied by the result. Logistic regressions result on the propensity to pay dividend is presented in table 4.3

Table 4.3 (Model 1)

Hypotheses	Relationship		**Coefficient**	**Z value**	**P Value**
H1	MOWN -→ PPS		0.0021	0.25	0.804
H2	IOWN → PPS		0.0838	3.20	0.001
H3	BOWN → PPS		- 0.0899	- 3.34	0.001
H4	FOWN → PSS		0.0082	-0.99	0.323
			1.4658	2.25	0.024
	Pseudo R-square (R^2)	0.0863			
	LR chi2 (4)	13.79			
	Prob > chai2	0.0080			

SOURCE: : Author's computation using STATA

Managerial ownership has no significant effect on propensity to pay dividend of listed industrial goods firms in Nigeria. From the result, the regression coefficient of managerial ownership is 0.0021 with a z-value of 0.25 which is not significant at all levels of significance (as indicated by the p - value 0.804. The result of this study therefore supports that managerial ownership has no significant effect on the magnitude of paying dividend in listed industrial goods firms in Nigeria. The results corroborate with Al-Najjar and Klinkarslan (2016) who also found family control through the board by family members has no significant effect on the probability of paying dividends of listed firms in Turkey.

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Additionally, This result reveals that Institutional Ownership is statistically significant at 1 % level of significance with a coefficient of 0.0838 and a z-value of 3.20 (as indicated by the p - value of 0.001). This suggests that when institutional ownership increases by 1%, likelihood of paying dividend increases by 08.37k. The results therefore provide evidence for the rejection of Hypothesis which states that Institutional ownership has no significant effect on propensity to pay dividend of listed industrial goods firms in Nigeria. Therefore the study concludes that likelihood of paying dividend is likely to increase when institutional holds more share in listed industrial goods firms in Nigeria. The finding however contradicts Thanatawi (2014) who posited that the magnitude of dividends payment decreases when institutional holds more shares. In addition the result contradict Al-Najjar and Klinkarslan (2016) who concluded that institutional ownership has no significant effect on the propensity to pay dividend in Turkish Market.

Also, Block Shareholding was found to be statistically significant at 1 % level of significance with a coefficient of - 0.0899 and a z-value of -3.34 (as indicated by the p - value of 0.001). This suggests that when block shareholding increases by 1%, the likelihood of paying dividend decreases by 08.99k and this implies decrease in likelihood of paying dividend. The results therefore provide impetus for the rejection of Hypothesis which states that block shareholding has no significant effect on dividend policy of listed industrial goods firms in Nigeria. The finding contradict the findings of Thanatawee (2014) who found that the relationship between probability of paying dividend and block holdings is positive significant. It also contradicts Abu-Khalaf (2012) who found that large institutional ownership has no significant effect of probability of paying dividend.

Finally, foreign ownership had a coefficient of -0.0257 with t-value of -4.19, which is statistically significant at 1% level of significance (as indicated by a P - value of 0.000). The result implies that for every 1% increase in foreign ownership of listed industrial goods firms in Nigeria there will be a decrease of 02.57k. Thus, based on the results substantial statistical evidence exist to rejects the null hypothesis which says Foreign ownership has no significant effect on propensity to pay dividend of listed industrial goods firms in Nigeria. This implies that higher foreign ownership leads to lower likelihood of paying dividend .This is consistent with Thanatawee (2014) and Al-Najjar and Klinkarslan (2016) but contradicts.

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5. CONCLUSION AND RECOMMENDATIONS

The study has empirically provided statistical evidence on the effect of managerial ownership, institutional ownership, foreign ownership and block shareholding on dividend policy of listed industrial goods firms in Nigeria is significant. The study concludes that propensity to pay dividend of listed industrial goods firms in Nigeria is significantly and positively affected by institutional ownership. However, block ownership has a significant and negative effect on the chances of paying dividend in the selected firms. Therefore, this study recommended that more shares should be sold to majorly institutional shareholders while block shareholdings and managerial ownership should be strongly discouraged since they can’t pay dividends.

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