

EFFECT OF OWNERSHIP STRUCTURE ON DIVIDEND POLICY OF LISTED OIL AND GAS FIRMS IN NIGERIA

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Abstract

The study analyzed the effect of ownership structure on the dividend policy of listed oil and gas corporations in Nigeria from 2011 to 2020. The independent variable, ownership structure, was proxied by managerial ownership, institutional ownership, ownership concentration and foreign ownership. while dividend policy was estimated as dividend pay-out ratio. Secondary data was collected from the annual financial reports of the sampled eight (8) oil and gas firms. Using the panel least square regression, it was found that managerial ownership and ownership concentration exerted a significant and positive influence on dividend pay-out of listed oil and gas firms in Nigeria. while institutional and foreign ownership had insignificant effect on dividend pay-out. The study thus recommended that the oil and gas authorities should aggressively embrace policies that encourage managers to be shareholders.

Keywords: Ownership Structure, Managerial ownership, Institutional ownership, Ownership concentration, Foreign ownership, Dividend policy.

Introduction

The ownership structure of a corporation refers to the way in which its stock is distributed among its primary shareholders. It reflects the type of shareholders in a firm. Ownership structure describes the distribution of ownership interests between insiders (those in management positions) and investors who do not have direct role in the management. The structure of ownership is very important as it is acclaimed to determine the economic efficiency of corporations and may influence firm valuation. (Olusanmi, 2012). An effective ownership structure must provide an incentive mechanism that aligns the interests of decision makers and asset owners and motivates agents to take appropriate actions, guaranteeing effective resource allocation. Ownership structure has numerous facets, the most important of which are allocations of residual control rights and residual benefit rights of which the decision on dividend payment is among. The decision is complicated because shareholders typically expect to be paid dividend once profit is declared while management may rather retain earnings in order to reinvest in prospective investment opportunities (Jensen, 1986; Pahi & Yadav, 2008). Therefore, the decision on dividend policy is cogent to avoid conflict that could be adverse to a business profitability and even existence.

Dividend policy is one of the most essential corporation policies. According to Saez and Gutierrez (2015), it consists of the decision on the portion of earnings to be distributed to satisfy shareholders' needs as dividend and what should be retained to finance growth and expansion. Dividend policy persists as a continuous challenging decision, faced by management because the right dividend payout will serve as a controlling influential vehicle for reducing the conflict of interest between shareholders and management. While managers consider dividends as simply a

performance metric, the perception of shareholders may differ across the various classes of ownership. Subsequently Ehsan, Tabassum and Nasir (2013) suggested that the decision on dividend policy may be affected by the type of the ownership structure of the firm.

Previous researches have demonstrated significant variation in terms of direction and magnitude with regards to the linkage between ownership structure and dividend policy (See: Affan, Rosidi, & Purwanti, 2017; Al-Nawaiseh & Azeez, 2016; Gugler, 2003; Hasan, Wahid, Amin & Hossain, 2021; Kien & Chen, 2020; Shafai & Shafai, 2020). This discrepancy may be due to the various proxies of ownership structure as well as the level of financial development in the country studied. It was also noticed that empirical studies that reflect the context of developing markets were limited in comparison to the number of such studies conducted in developed economies. Moreover, these studies had focused on the banking and the manufacturing sectors (Adebiyi & Olowo, 2016; Kajola, Adewumi & Babatolu, 2015; Lawal & Anjorin, 2013). Thus, this study examined the effect of ownership structure on dividend policy by investigating the impact of Managerial ownership, Institutional ownership, Concentrated ownership and foreign ownership on dividend policy of listed oil and gas firms in Nigeria.

The next section presents the literature review and then methodology. The results are provided in the fourth section after which the conclusion of the work is given.

Literature Review

Conceptual Framework

Ownership Structure

Oyedokun, Ojo and Ugoh (2020) defined ownership structure as the distribution of a company stock among its major shareholders. It refers to the structures and control systems that hold managers accountable to stakeholders (Johnson, Scholes & Whittington, 2011). To Garcia-Meca (2013), ownership structure is an internal control system exercised over a firm management team. In categorizing ownership structure based on distinctive features, Thomsen and Conyon (2012) identified Ownership concentration and Ownership identity. While ownership concentration captures the dispersion of shareholding among shareholders, ownership identity classifies ownership based on type or peculiar attribute of shareholders. On the basis of identity, ownership structure can be managerial ownership, institutional ownership and foreign ownership (Sahut & Garbi, 2010).

Managerial Ownership: This ownership, commonly termed as insider ownership, is the percentage of shares owned by insiders and board members (Liang, Lin & Hung, 2012). It is the proportion of the company's stock that is owned by executive directors (Habbash, 2010; Spinos, 2013). Succinctly expressed, managerial ownership signifies the interest of managers in the equity shareholding of a firm.

Managerial ownership, as explained by Adebiyi and Olowo (2016), creates a situation where insiders or managers act as shareholders subsequent to the acquisition of a substantial portion of entity's share capital. Managerial ownership is therefore expected to lessen the agency conflict and bring the interests of management and shareholders into alignment (Oyedokun, et al., 2020).

Institutional Ownership: The term "institutional ownership" is used to describe an interest in a business that is held not by a single individual but rather by a collection of organizations (Oyedokun, et al., 2020). They are block shareholders and are represented as the percentage of the share capital held by major investing institutions (more than 5% of firm's share capital). According to Yang, Chun, and Ramadili (2009), institutional investors are huge investors who are not natural persons and who exert discretion over the investments of others. For Hashim (2008), institutional ownership is the proportion of a company's shares owned by corporate investors relative to the total number of issued shares. Institutional investors include banks, insurance firms, investment companies and pension funds (Bushee, 1998).

Concentrated Ownership: In this context, a firm's ownership might be diffused (dispersed), meaning that several, small shareholders own most of the shares, or concentrated, meaning that one or a few, larger shareholders possess most of the shares (Thomsen & Conyon, 2012). The term "concentrated ownership" refers to the structure of a company where the bulk of the capital is owned by a small number of shareholders. In Karaca and Eksi, (2012)'s view, concentrated ownership is a significant factor in determining how a company operates, particularly with regard to how dividends are distributed.

Foreign ownership: Foreign ownership refers to all different kinds of private investments made from outside the country that give the investor authority and ownership over a collection of assets located in another nation. (Herbert, 1995). To Yea, et al., (2019) and Chai, (2010), foreign ownership represents a percentage of total shares held by non-domestic shareholders. Tsegba and Achua (2011) defined it as all foreign shareholders' equity holdings. According to Estrin, Konings, and Agelucci (2001), it is commonly believed that foreign companies have ownership and internalization advantages that are superior to those enjoyed by their domestic competitors.

Dividend Policy

A dividend is the portion of a company's earning that is given to stockholders in proportion to the number of shares they own in that company. To Davies and Pain (2002), dividends are profits distributed to shareholders. That is, dividends are the money (or cash equivalent) that a company distributes to its owners out of profit. These payouts are usually in cash, but sometimes firms distribute equity dividends, giving owners more shares.

Dividend policy describes the technique that guides management in selecting dividend payout options, to put it another way, the amount and pattern of shareholder cash distributions. According to Yea, et al, (2019), dividend pay-out is the proportion of earnings that are distributed as dividends to shareholders. It is often stated as a percentage.

Empirical Review

In the work by Hasan, et al. (2021) on the influence of ownership structure on dividend payout policy in Bangladesh, the random effects regression found a favourable association between the predisposition toward the payment of dividends and institutional ownership. Family ownership also exhibited a significant linkage with dividend payout. Similarly, Kien and Chen (2020) found a positive relationship amongst Vietnamese listed companies. Specifically, the analysis indicated that government-owned corporations and corporations with a high concentration of ownership

have a considerable impact on dividend payouts. Consistent with the result of Kien and Chen, the study by Shafai and Shafai (2020) using the Generalized Method of Moments (GMM) indicated a positive linkage between concentrated, foreign ownership and dividend policy in Malaysia.

Concisely, Yea, et al (2019) surveyed the institutional ownership and dividend payouts nexus utilising records collected from 8876 firms in twenty-two (22) economies (2000-2013). The result showed a positive relationship. In Sri Lanka, focusing on non-financial companies, Shafana and Sithy (2019) studied the influence of independent directors on dividend policies. The panel data regression revealed a significant effect with respect to independent board of directors while that of leverage was insignificant. The results were consistent with agency theory adopted in this study.

Al-Kahmisi and Hassan (2018) assessed the relationship between corporate governance and dividend payout in Malaysian banks. The correlation and ANOVA analysis found that CEO duality and board independence exerted an adverse influence on dividend policy. However, in the case of board size, a positive effect was exposed. In a related study, Affan, et al, (2017) scrutinized the effect of ownership structure on the dividend payout in Indonesia. The findings revealed that the effect of institutional ownership was significant, while that of managerial ownership, family ownership and foreign ownership was insignificant. Beyond institutional investors, Uwuigbe, et al, (2017) also found that managerial ownership had a significant relationship with dividend payout. The study had examined Seventy-five (75) Nigerian firms for the period 2011 to 2015 using general least square regression analysis. Latif, et al, (2017) explored the collaboration between institutional ownership and dividend payout for the 200 listed non-financial firms in Pakistan from the period of 2002- 2014. Four regression models were used to test the hypotheses. Results indicated that institutional ownership exerted a favourable effect on dividend payout.

Theoretical Framework

Agency theory

Agency theory was propounded by Jensen and Mackling (1976). The proposition of agency theory is based on the relationship between the principal (owners) and the agent (Managers). The postulation suggests that managers must affiliate their interest with the interest of the shareholders. Zhang and Keasey (2002), supported the agency theory by stating that dividend policy has always perform the crucial role in reducing agency costs between shareholders and management. Similarly, Klassen (1997) critiqued the agency theory by stating that managerial ownership emboldens dividend manipulation and this may lead insider or asymmetric information that may reflect personal intentions. In this context, Gugler (2003) argued that as managerial ownership increases the managerial market and the market for corporate control become less effective in aligning managers to take value maximizing decisions.

Methodology

The study adopted Expost facto research design. Though there are twelve (12) oil and gas quoted firms in Nigeria, only eight (8) had the complete required data for the variables understudied. The companies are Conoil PLC, Eterna PLC, Ardova Nigeria PLC, Capital oil and gas PLC, Mobil oil Nigeria PLC, Oando PLC, Total Nigeria PLC, and MRS oil Nigeria PLC. The analysis was carried out using panel regression model technique.

Model Specification

$$DIV_{it} = \beta_0 + \beta_1 MGO_{it} + \beta_2 INSTO_{it} + \beta_3 FRNO_{it} + \beta_4 CONCE_{it} + \mu_{it}$$

Where:

DIV = Dividend Payouts:

MGO = Managerial Ownership

INSTO= Institutional Ownership

CONCE = Ownership Concentration

FRNO = Foreign Ownership

$\beta_1 - \beta_4$ = Coefficient of explanatory variables i in year t

β_0 = Constant or Intercept

μ = Error Term

t = time

Results and Discussions

Table 1: Descriptive Statistics

	DIV	FRNO	INSTO	MGO	CONCE
Mean	85.52452	61.3775	90.33886	15.33344	59.18128
Std. Dev.	0.247763	24.98261	22.18008	6.674006	11.09860
Skewness	4.477109	-0.73379	5.639162	0.137692	-0.058435
Kurtosis	26.56761	116.8076	36.16376	2.750554	2.510594
Jarque-Bera	3178.051	67065.09	6135.177	0.690299	1.265883
Probability	0.000000	0.000000	0.000000	0.008114	0.31028
Sum Sq. Dev.	7.304999	240788.8	58542.77	5300.540	14658.30
Observations	80	80	80	80	80

Source: E-Views 11, 2022

Table 2: Correlation Matrix

	DIV	FRNO	INSTO	MGO	CONCE
DIV	1	-0.10141	-0.018746	0.94108	-0.039
FRNO	-0.10141	1	0.354166	-0.00904	0.244
INSTO	-0.01874	0.35416	1	0.2469	0.966
MGO	0.94108	-0.00904	0.24692	1	0.269
CONCE	-0.03959	0.24483	0.96615	0.2697	1

Source: E-Views 11, 2022

From Table 2, a negative correlation is revealed between foreign ownership, institutional ownership and the dividend pay-out. Dividend pay-out is also negatively correlated with concentrated ownership. Conversely, dividend pay-out and managerial ownership have a high and positive correlation (0.9).

Table 3: Hausman Test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	4.26556	4	0.5076

Source: E-Views 11, 2022

With the probability of 0.5076, the random effect was rejected. Therefore, the fixed effect estimator was used to run the regression.

Table 4: Panel Result

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.113914	0.082354	1.383234	0.1693
FRNO	-6.140005	0.000185	-0.331189	0.7411
MGO	0.095650	0.000450	21.25057	0.0000
CONCE	0.115244	0.001140	-8.983097	0.0000
INSTO	0.000574	0.000861	0.666063	0.5067
R-squared	0.898540	F-statistic		254.6118
Adjusted R-squared	0.895011	Prob(F-statistic)		0.000000
Durbin-Watson stat	1.256203			

Source: E-Views 11, 2022

The p-values of foreign ownership and institutional ownership were 0.7411 and 0.5067 respectively. Both are greater than the 0.05, indicating that the variables have an insignificant effect on dividend pay-out of listed oil and gas firms in Nigeria.

Managerial ownership had a significant and positive effect on dividend pay-out because the p-value of its positive coefficient was 0.0000 (less than the 5% significant level), indicating that increase in managerial ownership will automatically increase dividend pay-out by 0.0956. Similarly, Ownership concentration with a p-value was 0.000, has a positive significant effect on dividend pay-out indicating that increase in ownership concentration will automatically increase dividend pay-out by 0.115244.

The coefficient of determination (R^2) shows that ownership structure proxies in the model explained 89% of the variations in dividend policy while the remaining variation of 11% was explained by other variables not captured in the model. The p-value of the F-statistics (0.0000) also confirms the fitness of the model.

The findings of the study align with the study of Oyedokun, et al., (2020), Pahi and Yadav (2018), Al-Nawaiseh and Azeez (2016) and Shafana and Sithy (2019).

Conclusion and Recommendations

This research examined the effect of ownership structure on dividend policy of quoted oil and gas firms in Nigeria for a period of 10 years (2011 – 2020). The findings revealed that managerial ownership and concentrated ownership had a significant effect on dividend pay-out of listed oil and gas firms in Nigeria. The study also observed that institutional ownership and foreign ownership has no significant effect on dividend pay-out of quoted oil and gas firms in Nigeria.

The study therefore recommends;

- That oil and gas managers should enact policies that will encourage managers to be shareholders so as to overcome the agency problem by aligning the vision of the managers with the shareholders.
- The management of oil and gas firms should exploit relevant law that inhibit institutional investors from owning large percentage of equity shares.

- iii. Finally, it is suggested that companies should adopt a diverse ownership structure with foreign ownership presence, as this can ensure a balanced dividend decision.

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