



RELATIONSHIP BETWEEN INSTITUTIONAL SHAREHOLDING AND DIVIDEND PAYOUT OF LISTED DIVERSIFIED CONGLOMERATE FIRMS IN NIGERIA

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Abstract

One of the early theoretical predictions in respect of dividends was that dividends payments are irrelevant, and they have no influence on the share price. If there is no influence, a firm can essentially avoid distributing cash (or at least defer payouts for a very long time). However, the practices in Nigerian firms are different as some of the companies distribute entire earnings while some retain the entirety. This study therefore examined the relationship between ownership structure (institutional shareholding) and dividend payout of listed diversified conglomerates in Nigeria. Secondary data of six firms for a period of 10 years (2005-2014) was employed and correlation research design using panel regression technique of data analysis was adopted. The study found that institutional ownership has significant relationship with dividend payout during the period reviewed. The study concludes that ownership structure (institutional shareholding) has significant positive relationship with the dividend payout of the listed diversified conglomerates in Nigeria. The study recommends that the regulators and investors should encourage institutional ownership in the listed diversified conglomerates in Nigeria as this could improve the efficiency and control over the managers by reducing the agency problem.

Keywords: Corporate; Firms; Ownership; Structure.

1. Introduction

Retained profits are among the cheapest source of corporate finance and this makes dividend pay-out decision a critical aspect of modern financial management. Finance literature regarded the retained earnings and the dividends paid the two slices of the same pizza. That is, high payout means a low retention ratio, while low payout means a high retention ratio. As such, while some firms seeking new capital from the capital market, distribute earnings largely, other firms rely on retain earnings largely. Dividend payout decision therefore has been a challenge faced by finance managers because of the conflicting interest among the corporate stakeholders. For example, shareholders usually desire dividend, but managers usually pay or increase dividends to attract investors. That is, dividends are paid because shareholders expect continued dividend growth. Managers believe that dividend payments are necessary to maintain share price and to attract new investors.

Indeed, dividend policy is one of the most complex aspects in finance, and as such corporate dividend policy has attracted attention of management scholars and economists resulting into theoretical modeling and empirical examination (Kapoor, 2009). For instance, firms generally adopt dividend policies that suit the stage of their life cycle; high- growth firms with larger cash flows and fewer projects tend to pay more of their earnings out as dividends. Consequently,



dividend policy of a firm has implication for investors, managers, lenders and other stakeholders (Kapoor, 2009).

For investors, dividends-whether declared today or accumulated and provided at a later date are not only a means of regular income, but also an important input in valuation of a firm. Similarly, managers' flexibility to invest in projects is also dependent on the amount of dividend that they can offer to shareholders as more dividends may mean fewer funds available for investment. Lenders may also have interest in the amount of dividend a firm declares, as more the dividend paid less would be the amount available for servicing and redemption of their claims. The dividend payments present an example of the classic agency situation as its impact is borne by various claimholders. Accordingly dividend policy can be used as a mechanism to reduce agency costs. Moreover, the payment of dividends reduces the discretionary funds available to managers for perquisite consumption and investment opportunities and require managers to seek financing in capital markets. This monitoring by the external capital markets may encourage the managers to be more disciplined and act in owners' best interest (Afza & Mirza, 2010; Nyor & Adejuwon, 2013).

One of the early theoretical predictions in respect of dividends was that dividends payments are irrelevant, and they have no influence on the share price (Miller & Modigliani, 1961). Therefore, if there is no influence, a firm can essentially avoid distributing cash (or at least defer payouts for a very long time). However, the practices in Nigerian firms are different as some of the companies distribute entire earnings while some retain the entirety. Listed companies in Nigeria have no constant dividend payments, the firms use dividend as a signaling device and maintain the market. This prompted a research questions of whether the structure of ownership influence the dividend payments or not.

The main purpose of dividends is giving the incentives to the finance provider (shareholders) of a firm in the fiction as without paying any dividend the shares of the firms would not have any value. In this research, the study examine whether differences in the ownership structure and the identity of the owners, across diversified conglomerate firms in Nigeria explain their dividends payout differences. This is because of the standing research problem that extant studies argue that ownership structure (particularly institutional investors) help to resolve agency problems by monitoring management. Hence, ownership structure may have a positive effect on agency costs, and consequently on dividend policy. Similarly, this study is justified on the fact that dividend policy can be different for different countries because of different tax policies, rules, regulations and different institutions and capital markets.

The major research gap identified by this study is the dearth of empirical studies on the impact of ownership structure on the dividend payout policy in Nigeria. Most of the previous empirical studies in this area have focused mainly on developed economies (mostly foreign based). These studies include Al-Malkawi (2005), Trojanowski (2005), Douglas, Cook, and Jeon (2006), Kumar (2006), Naceur *et al.* (2006), Khan (2006), Mancineelli and Ozkan, (2006), Wallgern (2006), Douglas and Jin (2006), Harjito (2009), Ahmed and Attiya (2009), Obema *et al.*, (2008), Kouki and Guizani (2009), Ramli (2010), Afza (2010), Harada and Nguyen (2011), Afza and Mirza (2011), Hommel (2011), Warrad, Abed, Khriasat and Al-Sheikh (2012), Merzaei (2012), Lina *et al* (2012), Abdullah, Ahmad and Roslan (2012), Gunathilaka (2012), Rim and Aymen



(2013), Al-Nawaiseh (2013), Al-Gharaibeh, Zurigat and Al-Harabsheh (2013), Safdar (2014), Jain (2014), Al-Najjar (2014), Aziz, Richard, Hanen (2015), and Kulathunga and Azeez (2015). Thus, the question raised in this study is ‘what impact does institutional shareholding have on the dividend payout of listed diversified conglomerate firms in Nigeria?’

The main objective of the study is to examine the impact of ownership structure on Dividend payout policy of listed diversified conglomerate firms in Nigeria. However, specific objective is to determine the influence of institutional shareholding on dividend payout of listed diversified conglomerate firms in Nigeria.

2. Literature Review

Dividends payments push corporations to enter the external capital markets for supplementary funding and thus increase the capital market monitoring (Rozeff, 1982; Easterbrook, 1984). However, Demsetz and Lehn (1985), and Shleifer and Vishny (1986) argue that institutional block holders, such as pension funds, insurance companies, investment and unit trusts, and banks, might act as a monitoring mechanism on the firm’s management, consequently reducing in general the need for high dividend payouts.

Zeckhauser and Pound (1990) argue that institutional shareholders are not likely to involve with direct monitoring, due to their arm’s length investment perspective. In fact, institutions generally prefer to encourage firms to pay higher dividends, and so they have to approach the external capital market for future financial requirements. Farinha (2003) suggest that institutions might force companies to pay higher dividends to augment better monitoring by capital markets, especially when they think that their own direct monitoring exercises are inefficient or too costly. In this case, a positive relationship between institutional ownership and dividend payout ratio is expected. Kouki and Guizani (2009) reported that Tunisian firms paid out lower dividends when they had higher institutional ownership, consistent with the effective monitoring role of institutional investors. Contrarily, Abdelsalam *et al.* (2008) documented a positive association between institutional ownership and dividend policy decisions of Egyptian companies. Similarly, Manos (2002) found the impact of institutional ownership on the payout ratios of Indian firms was positive, which is inconsistent with the argument that the ability of institutions in terms of more effective monitoring reduces the need for the dividend-induced mechanism. Indeed, this was consistent with the dividend-induced monitoring preferences of institutions in India, reflecting that greater agency conflicts in the emerging Indian market, hence the level of direct institutional monitoring was inefficient.

Mehrani, Moradi and Eskandar (2011) state dividend policy can use to make a signal on the firm’s future profitability. Short, Zhang and Keasey (2002) identified the institutional shareholder and the dividends as signaling devices. Zeckhauser and Pound (1990) by assuming the institutional shareholder as a credible signal than dividends suggested the negative relationship between dividends and the institutional shareholders. Based on these the signaling theory hypothesizes negative relationship between institutional shareholders and dividend policy (Mehrani, *et al.*, 2011; Ullah, Fida, & Khan, 2012).

Moreover, the free cash flow available in the firm, the manager of the company can have opportunistic behavior by utilizing the cash flows to uneconomical projects. This can be controlled by the dividends (Ullah, *et al.*, 2012). It explains that if there is a negative



relationship between managerial ownership and the dividend, increase in managerial ownership will reduce the dividend and with a positive relationship with institutional ownership will increase the dividend. Through that it is possible to reduce the managerial opportunistic behavior. Eckbo and Verma mentioned that having institutional investors in the company leads to distribute the free cash flow as dividends (Mehrani, *et al.*, 2011). Many studies disclosed the institutional investors' actions would lead to reduce the agency problems. Depending on above mentioned information the agency theory hypothesizes a positive relationship between institutional ownership and dividend payouts by reducing the availability of free cash flow in a company (Ullah, *et al.*, 2012).

Theoretical Framework

The study adopted Dividend Signaling Information Theory as its theoretical base. This theory holds that dividends help to reduce conflicts between management and shareholders and also help to mitigate information asymmetry. According to DeAngelo *et al* (2002), signalling is not a first order determinant of corporate dividend policy. It suggests that the dividend payments express private facts related to future firm profitability when a firm on regular basis pays the dividends (John & Williams, 1985; Miller & Rock 1985). Hence, dividends contain private information and therefore, can be used as a signalling device to influence share price (Bhattacharya, 1979). Existing empirical literature such as Grullon *et al.*, (2005), Grullon, Michealy and Swaminathan (2002) assure that dividend information signalling does not convey the future change in organizational profitability. As such, there are two questions in this regard: if information signalling theory is not able to deliver the future information then why management hesitates to cut the dividends and if organizations cannot sustain increase in future profit then why they pay more dividends? (Lintner, 1956; Adjaoud, 1986; Baker *et al.*, 2006).

However, the dividend signaling propositions is supported by major early empirical works of Lintner (1956), Adjaoud, (1984), Asquith and Mullins (1983) and Healy and Palepu (1988). Nissim and Ziv (2001) for instance reported a positive relationship between changes in current dividends and earnings and the future profitability. In the same vein, a study by Amihud and Li (2006) presented that after 1970s, a response to change in dividends with the change in magnitude of the prices of stocks has declined, which makes firms unwilling to receive costs related to dividend signalling. Their research was coherent with the vanishing dividend phenomenon found by Fama and French (2001) and hence should be taken as a support for theories related to dividend signalling.

According to Shleifer (1986), when there are large shareholders, it creates incentives for them to monitor the firm's management. According to Trojanowski, (2005), the presence of strong block holders or block holder coalitions weakens the relationship between the corporate earnings and the payout dynamics. Kimie and Harada, (2006) states that, firms with high ownership concentration tend to pay lower dividends both in proportion of operating earnings and in proportion of book value of equity. Grinstein and Michaely (2005) found that the preference of institutional investors is for low dividend paying companies; institutions prefer dividend-paying firms to non-dividend-paying firms, but within dividend paying firms, they prefer lower rather than higher. Jayesh and Kumar (2005) concluded that the corporate ownership does not influence the dividend uniformly.



Empirical Review

Obema *et al.*, (2008) examine the effect of ownership structure on corporate dividend policies of a sample of top Egyptian listed companies. Ownership structure was measured by four variables namely; managerial ownership ratio, block-holder ownership ratio, institutional ownership ratio and free float ratio. The results show that only institutional ownership has a significant relationship with dividend policy. One explanation could be that the institutional blockholders voted for higher payout ratios to enhance managerial monitoring by external capital markets.

The study by Kouki and Guizani (2009) analyzed the influence of shareholder ownership identity on dividend policy. This study uses dividend per share as a dependent variable and ownership classes as an independent variables. The results indicate that there is a significantly negative correlation between institutional ownership with the level of dividend distributed to shareholders. This is due to most of cases, institutional investors are banks, and they are either shareholders or debt holders. They prefer paying interests to themselves than distribute dividend to all shareholders. Further, the results also show that the higher ownership of the five largest shareholders leads to the higher of dividend payment. They conclude that dividend rates are higher when there are multiple large shareholders suggesting that these large shareholders dampen expropriation. This evidence strengthens the argument of the positive role of multiple large shareholders in corporate control.

Ramli (2010) investigated the effect of large shareholders and dividend policy of Malaysian companies using panel data from 2002 to 2006. Ownership structure in Malaysia is concentrated; therefore, the relevant agency conflicts to analyze are the one that arises from the relationship between large shareholders and minority shareholders. The result shows that companies make higher dividend payout as the shareholding of the largest shareholder increase. The magnitude of dividend payout is also larger when there is a presence of the substantial second largest shareholder in the company.

Odia and Ogiedu (2010) study payout policy agency conflict and corporate governance in Nigeria. They used dividend payout as a dependent variable, while Firm size, Directors shareholding, Directors salaries and compensation, Leverage, Research and development, Cash flow investment opportunity, Institutional ownership and CEO ownership were used as independent variables. Using the ordinary least square (OLS) model, the study found that Investment opportunity and leverage have significant effect on the dividend payout. Similarly, the investment opportunities and leverage has positive and significant association with the dividend payout. The insider's ownership and institutional ownership have positive and non-significant association with the dividend payout. The cash flow and growth of firm's sales has negative and non-significant association with the dividend payout.

3. Methodology

This study adopted correlation research design to assess the extent of the impact of corporate ownership structure on the dividend policy of listed diversified firms in Nigeria. The choice of this design is based on the fact that it is widely considered in testing relationships among theoretically related variables.



The population of the study comprises of all the six (6) diversified firms listed on the floor of Nigerian Stock Exchange (NSE) Market as at 31st December, 2015, and are operating during the period of the study (2006-2015). The census sampling technique in which all the population members participate in the experiment was applied; hence, the sample size of the study is six (6). The study make use of secondary sources of data through the income statement, the statements of financial position and non-financial information of all the sampled diversified firms, for the period of ten years (2006 – 2015). The choice of secondary data is informed by the quantitative research methodology adopted for the study.

The study employed correlation technique of data analysis for the study. This technique is considered because of its effectiveness in estimating the relationships between two or among more variables, thus, it is consistent with the objective of this study, assessing the impact of corporate ownership structure on the dividend policy of listed diversified firms in Nigeria.

Variable Measurement

Table 1: Measurements of Variable

Variables	Definition/Measurements
Dividend Payout Ratio	Defined and measured as the ratio of total cash share dividend paid to shareholders to total annual profit declared.
Institutional Shareholding	Defined as the total equity ownership by corporate entities and organizations (non-individuals equity ownership). Measured as the ratio of non-individual equity ownership to total equity share capital outstanding.
Performance	Defined and measured as the earnings before interests, taxes and extraordinary items, scaled by total assets.
Growth Opportunities	Defined and measured as the changes in revenue (revenue in year t minus revenue in year t-1) scaled by total assets.
Firm Size	Defined and measured as the natural log of total assets.

Source: Author's Computation, 2015

4. Results

Descriptive Statistics

The descriptive statistics of the data collected for the study is presented and discussed in this section, the summary of the descriptive statistics in Table 2.

The descriptive results in Table 2 show that our measure of dividend payout policy, dividend payout ratio (DVPOR) has an average value of 0.2594 with standard deviation of 0.3149 and

Table 2: Summary of Descriptive Statistics

Variables	Mean	SD	Min	Max	Skew	Kur	N
DVPOR	0.2594	0.3149	-0.8824	0.9714	-0.3398	4.5009	60
INSSH	0.5439	0.2839	0.0923	0.8795	-0.2901	1.6494	60
PERF	0.0426	0.0703	-0.1425	0.2868	0.4322	5.5229	60
GRWOP	0.0464	0.2527	-0.9923	0.5619	-1.0408	7.0095	60
FSIZE	23.7273	1.2083	21.6335	26.0359	0.3212	2.0847	60

Source: Author's Computation, 2015



minimum value of -0.8824 and 0.9714 as maximum value. The mean value indicate that the diversified conglomerate firms' dividend payout ratio is 25.94% (74.06 retention policy), and the standard deviation of 0.3149 signifies that the ratio deviate from the mean value from both sides by 31.49%, implying that there is a wide dispersion of the data from the mean because the standard deviation is large compared to the mean value. The minimum and maximum dividend payout ratios of the firms are loss of -88.24% and 97.14% respectively. This indicates a 100% (0% retention) payment policy during the period covered by the study. The coefficient of skewness of -0.3398 suggested that the data is negatively skewed (did not follow the normal distribution), while the kurtosis coefficient (4.5009) also implies a high peakedness of the data in the distribution.

The results from Table 2 also indicate that on average corporate institutions (INSSH) hold about 54.39% of the equity shares of listed diversified firms in Nigeria, from the mean value of 0.5439 with standard deviation of 0.2839, and minimum value of 0.0923 (9.23%) and 0.8795 (87.95%) as the maximum value. The standard deviation suggests that the data deviate from the mean by 28.39%. The skewness coefficient -0.2901 suggested that the data is negatively skewed (did not follow the normal distribution), the kurtosis coefficient (1.6494) also implies that the distribution of the data is not normal.

Table 2 shows that the average firm performance (PERF) in the listed diversified firms in Nigeria is 4.26%, from the mean value of 0.0426 with standard deviation of 0.0703, and minimum value of -0.1425 (loss of 14.25%) and 0.2868 (28.68%) as the maximum performance during the period. The standard deviation suggests that the performance deviate from the mean value by 7.03%. The skewness coefficient of 0.4322 suggested that the data is positively skewed (did not follow the normal distribution), the kurtosis coefficient (5.5229) also implies that the data is not normally distributed. Similarly, Table 2 indicates that the average growth opportunity (GRWOP) in the listed diversified firms in Nigeria is 0.0464 with standard deviation of 0.2527, and minimum value of -0.9923 and 0.5619 as the maximum growth during the period. This suggests that the average growth opportunity of listed diversified firms in Nigeria during the period of the study is 4.64% and the deviation from the mean 25.27%, while the minimum and maximum growths are -99.23% and 56.19% respectively. The value of skewness -1.0408 suggested that the data is negatively skewed (did not follow the normal distribution), and the kurtosis coefficient (7.0095) also implies that the data is not normally distributed. Lastly, Table 2 shows that the firm size (logarithm of total assets) has an average of 23.727 with standard deviation of 1.2083 and minimum and maximum values of 21.6335 and 26.0359 respectively. The coefficients of skewness (0.3212) and kurtosis (2.0847) imply that the variable did not follow the normal distribution. In view of this, the study applied Shapiro-wilk to test the normal distribution of the data.

Correlation Results

The summary of the Pearson correlation Coefficients of the variables of the study are presented in Table 3 as follows:



Table 3: Correlation Matrix

Variable	DPOR	INSH	PERF	GROP	FSIZ
DPOR	1.0000				
INSH	0.2573 (0.0472)	1.0000			
PERF	0.0696 (0.5973)	0.0952 (0.4694)	1.0000		
GROP	-0.2490 (0.0551)	-0.1704 (0.1931)	0.1261 (0.3368)	1.0000	
FSIZ	-0.3066 (0.0172)	0.0906 (0.4913)	0.0134 (0.9192)	-0.0035 (0.9788)	1.0000

P-Values in Parentheses

Source: Author's Computation, (2015)

Table 3 presents the Pearson correlation coefficients of the variables of ownership structure (institutional shareholding, together with the control variables) and dividend policy (dividend payout ratio) of the listed diversified firms in Nigeria. The table indicates a significant statistical positive association between dividend policy (DVPOR) and institutional shareholding (INSSH) from the correlation coefficient of 0.2573 which is statistically significant at 5% level of significance (from the p-value of 0.0472). This result implies that as equity ownership of corporate institutions increases, the increasing dividend payout policy is used by the listed diversified firms during the period under review.

Moreover, Table 3 indicates a positive association between dividend payout policy (DVPOR) and firm performance (PERF) from the correlation coefficient of 0.0696 which is not statistically significant (from the p-value of 0.5973). This result implies a direct relationship between dividend policy and firm performance during the period, although not statistically significant. The table also indicates a negative relationship between dividend payout policy (DVPOR) and growth opportunities (GRWOP) from the correlation coefficient of -0.2490 which is not statistically significant at 5% level of significance (from the p-value of 0.0551). This result implies that as growth opportunities increases, increasing dividend policy is used by the listed diversified firms. Lastly, Table 3 indicates a significant negative association between dividend payout policy (DVPOR) and firm size (FSIZE) from the correlation coefficient of -0.3066 which is statistically significant at 5% level of significance (from the p-value of 0.0172). This suggests size of the firm is significantly related to dividend payout policy of diversified firms in Nigeria.

Discussion of Findings

Specifically, the study found after controlling for firm size, firm performance and growth opportunities, a significant positive relationship between dividend payout policy and institutional ownership during the period under review. This finding is consistent with Al-Malkawi (2005), Trojanowski (2005), Douglas, Cook, and Jeon (2006), Khan (2006), Mancineelli and Ozkan (2006), Douglas and Jin (2006), Harjito (2009) and Ahmed and Attiya (2009). The findings contradict the findings of Obema et al., (2008), Kouki and Guizani (2009), Ramli (2010), Odia and Ogiedu (2010), Afza and Mirza (2011) and Hommel (2011).



5. Conclusion and Recommendations

The study concludes that institutional shareholding have significant positive relationship with the dividend payout policy of listed diversified conglomerate firms in Nigeria. That is, diversified firms in Nigeria pay dividends to attract foreign and institutional investors. The study recommends that the regulators and investors should encourage institutional ownership and foreign ownership in the listed diversified firms in Nigeria. This could improve the efficiency and control over the managers, by reducing the agency problem.

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