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OWNERSHIP STRUCTURE AND DIVIDEND POLICY: AN ANALYSIS OF CONSUMER GOODS INDUSRY IN NIGERIA

Abstract:

The study is aimed at determining the impact of ownership structure on dividend policy of firms listed in the Nigerian Consumer Goods Industry. The study employs the ex-post-facto research design. Data were collected from annual reports and accounts of sampled companies and were analysed using descriptive statistics, correlation and multiple regression methods. The study finds that insider share ownership (ISO) and outsider share ownership (OSO) have negative and insignificant impact on dividend per share (DPS) while block share ownership (BSO) has positive and insignificant impact on DPS. However, the impact of control variable earnings per share (EPS) on DPS is positive and significant. The study recommends that, in the analysis of dividend policy of companies in the consumer goods industry in Nigeria stakeholders should pay limited attention to the ownership structure of the company but the bottom line, as it is the earnings that matters not the dividend or ownership structure. This is because dividend per share is determined significantly by earnings not how the company is owned. However, considering dividend payout ratio as determinant of dividend payment, it is recommended that dividend clientele may be encouraged to invest in the consumer goods industry in Nigeria where there is high rate of block share ownership.

Keywords:

Dividend Policy, Ownership Structure, Agency Theory, Nigeria

JEL Classification: M49, G30

1.0 Introduction

Dividend policy is one of the most widely researched topic in the field of accounting and finance, but the question of whether ownership structure affects dividend policy still remains debatable among managers, financial analysts, policy makers and researchers for many years. Dividend policy is vital for investors, managers, lenders and other stakeholders. It is important for investors because they consider dividends not only the source of income but also a way to assess the firms in terms of investment. It is also the way of assessing the ability of a company to generate positive cash flow (Al-Masum, 2014). Modern corporations are viewed as a sort of agency relationship between managers (agents) and the owners (principal) of corporations. This leads to conflicting interests. When a company’s managers possess a sizeable number of the shares of that company, there is an alignment of interests between the managers and the rest of the shareholders. Managers gain directly from their own professional efforts and suffer the negative consequences of their opportunistic behaviour through the respective ups and downs of the market value of their shares. The agency may be less severe when managers hold relative important shareholder positions (Desender, 2009).

However, since the relationship between the shareholders and the managers of a company is regarded as agency relationship, it should not be unusual to say that the issues associated with the “separation of ownership and control” in the modern dispersed ownership of corporations are associated with the general problem of agency (Jensen and Mecling 1976). Desender (2009) argues that firms with large controlling shareholders largely solve the management-shareholders agency problem. But Shareholders in firms with dispersed ownership choose to divest rather than voice out their concerns or monitor the management (Eisenhardt, 1989). The concept of agency theory as regards to dividend policy is that dividend payments become the reason of creating conflicts among the managers and shareholders of the firms because the motive of managers are to retain resources instead of paying dividends to the shareholder and, on the other side, shareholders prefer dividend instead of retain earnings. According to the point of view of shareholders, if the amount of dividend is not provided to the shareholder, probably it might be used by managers for personal use instead of investing in profitable projects (Easterbrook, 1984).

In line with above, many studies have been conducted in Nigeria and other countries with a view to determine corporate dividend policy and its interaction with ownership structure, as well as whether dividend is a way of solving agency problems or not (see Gugler, 2003; Afzal and Sehrish, 2009; Ramli, 2010; Afza and Mirza, 2011). However, none of these studies looked at it from ownership structure in the Nigerian context with respect to the companies listed under the consumer goods industry. Consequently, a key objective of this study is to find out whether there is any systematic relationship between dividends and the ownership structure of corporations. Therefore, the research questions to be answered are: what is the consequence of ownership structure on dividend policy? Is there any relationship between board members share ownership and dividend policy in the consumer goods industry in Nigeria? Does the shareholding pattern in a firm matter for dividend payout?

The paper is divided into five sections. Section one is the introduction. Section two reviews the relevant literature on the subject matter. Section three presents the methodology employed in the study. Result and discussion are presented in section four and section five concludes the paper.

2.0 Literature Review

This section reviews the relevant literature on dividend policy and capital structure. Relevant empirical studies were also reviewed so as to provide an insight into the concepts and their interaction, as obtained in previous studies.

2.1 The Concept of Dividend Policy

Dividend policy refers to the payout policy that a firm follows in determining the size and pattern of distributing profit to shareholders over time (Sharma and Wadhwa 2013). Study on dividend policy can be traced back to the seminal work of Miller & Modilgiani (1961) where they show that in a perfect capital market with rational behaviour and perfect certainty and with investment and borrowing decisions given, dividend policy has no effect on the value of the firm. DeAngelo and DeAngelo (2006) re-examine the Miller and Modigliani claim (1961) and challenge the notion of dividend policy irrelevance in the original Miller and Modigliani (1961) model and provide the rationale for the relevance of dividend policy. They conclude that, contrary to that famous result, dividends are not irrelevant.

Ullah, Fida and Khan (2012) also argue that, dividend policy is an influential control vehicle to reduce the conflicting interests of the shareholders and managers because shareholders are interested in getting dividends, but managers prefer to retain earnings in order to maintain higher control over the resources. Managers prefer to retain earning instead of giving it to shareholders as a dividend. Managers want to use the resources for the growth of the firm, as well as for personal benefits and empire building (Jensen, 1986).

Many studies also view dividend as a relevant and an important indicator of stability and performance of the company. Al-Masum (2014) poses that selecting a suitable dividend policy is an important decision for companies because flexibility to invest in future projects depends on the amount of dividends that they pay to their shareholders. If the company pays more dividends, then fewer funds will be available for investment in future projects. Lenders are also interested in the amount of dividend that a company declares, as more amounts is paid as dividend means lesser amounts would be available to the company to pay off their obligation. Shefrin and Statman (1984) suggest that investors may prefer dividend because they derive less utility from one large gain (e.g a large capital gain) than from a series of small gains (e.g a small capital gain and a dividend). Kindelberger (1984) also argued that dividend payments are signs that a firm is being run efficiently for investors rather than for management.

Another vein of the literature ties dividend payout to firms' lifecycle. In particular, numerous studies observe that companies that pay dividends tend to be more mature and less volatile (Ben-david, 2010). Fama and French (2001) also provide evidence to show that US dividend paying firms tend to be large and profitable, while non-payers are typically small and less profitable but with high investment opportunities.

In the same vein, big companies are believed to be paying more dividends, for example, multinational companies' payout proportionately more dividends than wholly domestic companies (Adelegan, 2001). Lintner (1956) explained that the dividends patterns are subjective to the profitability of the company. Those companies that are more profitable are expected to pay more dividends compared to those that are less profitable. La Porta et al. (2000) also noted that firms in legal regimes that focus on protecting investors are more likely to pay higher dividend than companies in legal regimes with less investor protection.

Variations among shareholders are also noted. Using data about retail investors' portfolio holdings, Graham and Kumar (2006) find that older and low-income retail investors tend to hold a larger fraction of dividend-paying stocks than other investors do. And shareholders preference may change over time. Long (1978) finds evidence supporting the hypothesis that, investors' demand for dividends varies over time. In particular, Shefrin and Thaler (1988) argue that investors' personal life-cycle considerations determine their preference for dividends: Older investors favour dividend-paying stocks because they substitute for a regular employment income. Another argument in favour of generous dividend payments is that this shifts the reinvestment decision back to the owners. The underlying assumption is that managers may not necessarily always act as to maximise shareholders' wealth (Manos, 2001).

Company valuation may also play a vital role in dividend decision. For example, in John and Williams' (1985) model, the firm may be temporarily under-valued when investors have to meet their liquidity needs. If investors sell their holdings when the firm is undervalued, then there is a wealth transfer from old to new shareholders. However, the firm can save losses to existing shareholders by paying dividends. Although investors pay taxes on the dividends, the benefits from holding on to the undervalued firm more than offset these extra tax costs. And in turn this will limit agency problem.

Easterbrook (1984) also contends that firms pay dividends to overcome the agency problems stemming from the separation of ownership and control in a firm with diffused ownership. He argues that dividend policy can be either the result or solution to agency costs. Because lower dividend lead to more free cash flow in the company, managers can increase private consumption, especially in poor shareholder protection countries. As a result, minority outside shareholders lose their interest from dividend. Jensen (1986) makes a similar argument that managers have a self serving motive to expand the firm beyond its normal size because the larger size increases resources under their control and leads to higher compensation. Thus, managers could find suboptimal investment that benefit themselves but diminish shareholders wealth. Conversely, higher dividends payout can reduce agency conflicts as monitoring tools, since lower free cash flows available to managers enhance financial discipline.

Mohamed et al. (2008), in their study of 200 companies with highest market capitalization in the Malaysian capital market, examined profitability and liquidity as determinants of dividend payout and concluded that profitability and liquidity are significant variables in determining the dividend payout and companies which are more profitable and liquid have more chances of declaring dividends.

2.2 Ownership Structure and Dividend Policy

Company ownership structure refers to the composition of the ordinary shareholding of a company in terms of insider, outsider, institutional and government ownership, as well as other dispersed shareholders. Many studies have been conducted in order to determine the relationship between company ownership structure and dividend policy. Some of these studies found a positive relationship, for example, Warrad, Abed, Khriasat & Al-Sheikh (2012) conducted a study to determine the value of ownership structure on dividend payout policy. Their result showed that there is a positive relationship between ownership structure and dividend payout policy.

AL-Shubiri et al. (2010) examined the relationship between capital structure and dividend policy of the Jordanian industrial firms for the year 2005-2009. The results suggested that the ownership structure approach is highly relevant to an understanding of the corporate dividends policy in Jordan. The results indicate that there is a significantly negative correlation between the institutional ownership and dividend per share, and a significantly negative relationship between the state ownership and the level of dividend distributed to shareholders. The results also indicate that the higher the ownership of the five largest shareholders, the higher the dividend payment.

Ullah et al. (2012) investigate the determinants of the corporate dividend policy in the context of agency relation. Stepwise multiple regressions were used to check the different variables of ownership with relation to the dividend payout policy. The study found that there is a negative relationship between the managerial ownership and the dividend payout policy. With regards to institutional and foreign share ownership on the other hand, there is a positive relationship. Thus, the ownership structure plays an important role in the corporate dividend policy while minimizing the agency cost associated with the agency issue. Ahmad and Javid (2010) studied the association between dividend payout and ownership structure and concluded that there is an association between ownership structure and dividend payouts in the non-financial sector companies listed in the Karachi stock exchange 100 Index.

Other studies found a negative relationship between ownership structure and dividend policy. For example, Jensen et al. (1992) examined that there is a significantly negative relationship between insiders and dividend policy among US companies. The same relationship also appeared in UK firms (Farinha, 2003). In Hong Kong, Chen, et al (2005) have found the dividends payment is lower when the several indicators of governance quality are higher. Short, et al (2002) suggested in their study that there is a negative relationship between managerial ownership and dividend payout policy. Wen and Jia (2010) also found that both managerial ownership and institutional ownership are negatively allied with dividend policy in the bank holding companies. Guger and Yurtoglu (2003) concluded that the dividend payout is lower when majority of shareholders control a company in Germany because of the extraction for private purposes by controlling shareholders. In addition, in Finland, Maury and Pajuste (2002) showed that there is a negative relationship between ownership concentration and dividend policy. Eckbo and Verma (1994) empirically showed that dividend decreases with the increasing power of managerial ownership and also argued that in the manager controlled firms where they have absolute voting power, the cash dividend is zero.

Al-Nawaiseh et al. (2013) in their study aimed at determining whether ownership structure is linked to the dividend policy in the industrial companies listed in ASE. They found that fraction held by insiders (INSD) has a negative impact on the level of the dividends paid. Family ownership is negatively but not significantly influential, and institutional ownership has positive and significant influence on the dividend policy. Whereas, multiple ownership impact on dividend payout is negative and insignificant and the final variable, which is foreigner ownership, is positive and insignificant.

Afza and Mirza (2010) found that, managerial and individual ownership, cash flow sensitivity, size and leverage have negative effects on cash dividend and operating cash-flow and profitability are positively related to cash dividend**.** In the UK though, the empirical evidence on the relationship between dividends and ownership structures for the UK is somewhat meagre. However, mainly results indicate that there is a negative

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association between 'inside' ownership and dividends (Short, Zhang and Keasey, 2002, Trojanowski, 2004, Farinha, 2002), which is consistent with the predictions of standard agency models that dividends are likely to be less valuable as a control device when managerial share ownership is high, i.e. managerial objectives are aligned with those of shareholders.

Some studies looked at it from the ownership concentration and dividend policy view point. Shleifer and Vishny (1986) argued that concentrated ownership will make managers have more incentives to control the company, which will overcome the free-rider problem which is related to the dispersed ownership structure. Minority shareholders have not enough motivation to manage and create the maximum benefits for other shareholders. With the greater motivation, large shareholders are better aligned towards the objective of delivering shareholder value, than creating greater firm performance. Moreover, Claessens and Djankov (1999) presented that this kind of ownership structure will contribute to financial discipline and then fewer resources pour into low return projects and more cash flows can be distributed as dividends. Mitton (2004) study reveals that, companies with higher concentrated institutional ownership pay higher dividends in 19 countries. In addition, the dividend payout in the emerging market is higher when the growth opportunities are lower. However, existing evidence with regard to external shareholders, particularly financial institutions is not only limited but also contradictory: Short et.al (2002) report a positive relationship between dividends and institutions and Tro-janowski (2004) a negative one.

2.3 Theoretical Framework

Number of theories have been developed that could be used to explain companies' dividend policy. These theories include the following:

Agency theory is one of the main theories that explain dividend policy, because it assumes a sort of agency relationship between shareholder and managers. Easterbrook (1984) argues that dividend payment is the process which reduces agency problems. The idea is that the payment of dividends is one possible solution to the problem of collective action that tends to lead to the under-monitoring of the firm and its management. Thus, the payment of dividends and the subsequent raising of external finance induce investigation of the firm by financial intermediaries, such as investment banks, the regulators of the securities exchange where the firm's stock is traded and potential investors. And Manos (2002) observed that payments of dividends is one of the measures available to managers for controlling agency behaviors; concluding that by inducing external monitoring, dividends reduce agency problems and costs.

Jensen and Meckling (1976) distinguish between two types of agency costs: the agency cost of equity arising from conflicts of interests between insiders and outside equity holders; and the agency costs of debt arising between equity holders and debt holders. Accordingly when the levels of retained earnings are high managers are expected to channel funds into bad projects either in order to advance their own interests or due to incompetency. Hence, generous dividend policy enhances the firm's value because it can be used to reduce the amount of free cash flows in the discretion of management and thus control the over-investment problem (Jensen, 1986).

The bird-in-hand theory argument suggests that investors need to realize wealth in order to consume and, therefore, have a preference for cash dividends over capital gains. This argument was first formally put forth by Gordon (1959) and Lintner (1962) but was theoretically contested by Miller and Modigliani (1961). Their seminal paper shows that capital gains and dividends substitute for each other. Also, investors could produce their “home-made dividends” by selling stock if they chose to do so. By paying dividends, the firm brings forward cash inflows to shareholders, thereby reducing the uncertainty associated with future cash flows. Gordon (1962) in the Bird-in-the-hand theory argued that outside shareholders prefer the large amount of dividend policy. They prefer today higher dividend than uncertain capital gain from a questionable future investment.

The Signalling theory refers to the idea that the agents send information to the principal in order to create a credible relationship. Managers have more firsthand information about the firm than firm’s investors do, but they are always reluctant to provide transparent information to the shareholders. So, the dividend policy can be used for information purposes and it also acts as a signal for the firm’s future projection proficiently (Ullah, Fida and Khan, 2012). Signalling theories may prove correct if dividend yield is correlated with the extent to which firms are over- or undervalued (Ben-David, 2010).

3.0 Methodology

The study employs the ex-post-facto research design and secondary data were collected from the annual reports and accounts of companies listed in the Nigeria stock exchange under the consumer goods industry. There are twenty eight companies listed under consumer goods out of which only ten declared/paid dividends within the period under study. Therefore, the population of the study is filtered down to ten companies out of which five were selected based on judgemental sampling techniques namely Flour Mills of Nigeria, Plc, PZ Cussions Nigeria, Plc, Vitafoam Nigeria, Plc, Dangote Sugar and Seven-Up Bottling Company, PLC. The secondary data for the study have been sourced from the annual reports and accounts from sampled companies covering a period of five years (2009-2013). The data collected were analysed using descriptive statistics, correlation and multiple regression methods using STATA OUTPUT 12.0.

There are two variables for the study, dependent and explanatory variables. Companies’ dividend policy is taken as the dependent variable. Dividend per share (DPS) and dividend payout (DPO) are used as proxies for the dividend policy.

The independent variable of the study is ownership structure. Board members share ownership (BOS), outsiders share ownership (OSO) and block share ownership (BSO) are used as proxies for the ownership structure. Earnings per share (EPS) is used as the control variable.

Table 3.1 Variables and their measurement criteria

Variables	Measurement
Dividend per share (DPS)	Ratio of ordinary dividend to the total number of ordinary share
Dividend payout ratio (DPO)	Ratio of DPS to EPS
Earnings per share (EPS)	Ratio of profit after tax to total number of ordinary shares
Board share ownership (BSO)	Proportion of ordinary shares held by board members to the total outstanding ordinary shares of the company
Outsider share ownership (OSO)	Proportion of ordinary shares held by outsiders to the total outstanding ordinary shares of the company
Block share ownership	Proportion of ordinary shares held by substantial shareholders (with equity shares of 1m and above)

Hence, the model is expressed as

$DPS_{ti} = \beta o_{ti} + \beta_1 ISO_{ti} + \beta_2 OSO_{ti} + \beta_3 BSO_{ti} + \beta_{4ti} EPS_{ti} + e_{ti}$ -----------(I)

$DPO_{ti} = \beta o_{ti} + \beta_1 ISO_{ti} + \beta_2 OSO_{ti} + \beta_3 BSO_{ti} + \beta_{4ti} EPS_{ti} + e_{ti}$ -----------(II)

Where:

DPS_{ti} = Is the dependent variable representing dividend policy (dividend per share).

βo_{ti} = Is the constant (i.e the intercept)

$\beta_1 ISO_{ti}$ = Independent variable representing insider share ownership.

$\beta_2 OSO_{ti}$ = Independent variable representing outside share ownership.

$\beta_{4ti} EPS_{ti}$ = Control variable representing earnings per share.

e = Error term

DPO_{ti} = dependent variable representing dividend payout.

4.0 Discussion of Results

Table 1: Descriptive Statistics of Explained and Explanatory Variables

Variables	Obs	Mean	St. Dev.	Minimum	Maximum
DPS	25	1.01	0.70	0.25	2.20
DPO	25	0.55	0.20	0.21	1.13
ISO	25	0.05	0.07	0.00	0.17
OSO	25	0.95	0.07	0.83	1.00
BSO	25	0.76	0.14	0.38	0.91
EPS	25	2.11	1.98	0.5	9.67

Source: Generated by the researcher from annual reports and accounts of the consumer goods industry using stata software version12.0

Table 1 above shows a descriptive statistics result of the explained and explanatory variables. A total of 25 observations were recorded. The table shows the mean and standard deviation with minimum and maximum range of the explained and explanatory variables. On average the sampled companies pay N1 per share as dividend with standard deviation of 0.70 around the mean. 55% of the earnings are paid out on average as dividend with standard deviation of 0.20, which means 45% of the earnings are retained for future expansion. The insider share ownership (ISO) holds an average of 5% and outsider (OSO) 95% with standard deviation of 0.07 in each case. Average block share ownership (BSO) is 76% with standard deviation of 0.14. On average the earning attributable to ordinary shareholders is N2.11 per share with standard deviation of 1.98.

Table 2: Correlation Result

Variable	DPS	DPO	ISO	OSO	BSO	EPS
DPS	1.0000					
DPO	0.0521	1.0000				
ISO	-0.6032	-0.0836	1.0000			
OSO	0.6030	0.0836	-1.0000	1.0000		
BSO	0.3905	0.4068	-0.7816	0.7819	1.0000	
EPS	0.7632	-0.3513	-0.4625	0.4623	0.2080	1.0000

Source: Generated by the researcher from annual reports and accounts of the consumer goods industry using stata software version12.0

Table 2 above shows the correlation result of dependents variables DPS and DPO and explanatory variables ISO, OSO, BSO and EPS. The relationship between DPS and explanatory variables OSO and EPS is strong and positive. This means that, all things being equal the higher the OSO or EPS the higher the DPS. The relationship between DPS and dependent variable BSO is weak and positive. However, the correlation between dependent variable DPS and independent variable ISO is strong and negative. This means that, the higher the ISO the lower the DPS which is in line with general agency problem. When insiders hold sizable number of shares they prepare to retain the profit for future expansion and empire building.

The relationship between dependent variable DPO and independent variables OSO and BSO is weak and positive. On the contrary, correlation between DPO and explanatory variables ISO and EPS is weak and negative.

Table 3: OLS Regression Results

Variables	**Model I (DPS)**			**Model II (DPO)**		
	Coefficient	T	P>|t|	Coeeficient	t	P>|t|
CONSTANT	813.046	0.590	0.562	691.531	1.380	0.562
ISO	-815.334	-0.590	0.561	-690.510	-1.380	0.183
OSO	-812.703	-0.590	0.562	-691.894	-1.380	0.183
BSO	0.435	0.380	0.707	1.237	2.990	0.007
EPS	0.220	4.110	0.001	-.0356	-1.830	0.183
Prob > F	0.0001			0.014		
F	10.080			4.073		
R^2	0.668			0.449		
Adj. R^2	0.602			0.339		

Source: Generated by the researcher from annual reports and accounts of the consumer goods industry using stata software version12.0

Table 3 above illustrates OLS regression results of model (I) and model (II). Model (I) consist of dependent variables DPS and explanatory variables (ISO, OSO, BSO and EPS). In the model (I) the multiple coefficient of determination R^2 is 67%. This means that 67% of change in dividend per share (DPS) was caused by changes in explanatory variables ISO, OSO, BSO and EPS. While the 33% change in DPS was caused by other factors not included in the model.

The Impacts of ISO and OSO on DPS are negative with coefficient value -815.334 and -812.703 respectively. But the negative impacts are not significant with respective P value of 0.561 and 0.562.This means that, DPS is not significantly determined by ISO or OSO and hence ownership structure in this regard is less relevant. The impact of independent variable BSO on dependent variable DPS is positive with coefficient value of 0.435 but not significant with P value of 0.707. However, the impact of control variable EPS on DPS is positive with coefficient value of 0.220 and significantly influential with P value of 0.001. This means that, DPS is significantly determined by EPS.

Model (II) shows regression results of dependent variables DPO and explanatory variables (ISO, OSO, BSO and EPS).The multiple coefficient of determination R^2 is 45%. This means that 45% of change in dividend payout ratio was caused by changes in explanatory variables ISO, OSO, BSO and EPS. While the 65% change in DPS was caused by other factors not capture in the model.

The impacts of explanatory variables ISO, OSO and EPS on dependent variable DPO are negative and insignificant. The association between dependent variable DPO and independent variable BSO is positive with coefficient value of 1.237 and significant with P value of 0.007. This means that, DPO is significantly determined by BSO.

5.0 Conclusion and recommendation

The study finds that the association between the dependent variable dividend per share (DPS) and independent variables Insider share ownership (ISO) and outsider share ownership (OSO) is negative and insignificant. The association between the dependent variable (DPS) and independent variables Block share ownership (BSO) is positive and insignificant. This is consistent with Miller & Modilgiani's (1961) irrelevance theory and contrary to Gordon (1959) bird in hand theory and the work of Ullah et al. (2012). However, the relationship between the dependent variable (DPS) and control variable (EPS) is positive and significant.

The study also finds that the relationships between the dependent variable dividend payout ratio (DPO) and explanatory variables insider share ownership (ISO), outsider share ownership (OSO) and earnings per share (EPS) are negative and not significant. The relationship between the dependent variable (DPO) and independent variable block share ownership (BSO) is positive and significant. This is in consistent with study of Mitton (2004), AL-Shubiri et al. (2010), Warrad, et al. (2012) and Al-Nawaiseh et al. (2013) and contrary to (Maury and Pajuste, 2002).

Based on the findings the following are hereby recommended:

In the analysis of dividend policy of companies in the consumer goods industry in Nigeria stakeholders should pay limited attention to the ownership structure of the company but the bottom line, as it is the earnings that matters not the dividend or ownership structure. This is because dividend per share is determined significantly by earnings not how the company is owned. However, considering dividend payout ratio as determinant of dividend payment, it is recommended that, dividend clientele may be encouraged to invest in the consumer goods industry in Nigeria where there is high rate of block share ownership.

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