OWNERSHIP STRUCTURE AND DEPOSIT MONEY BANKS' PERFORMANCE IN NIGERIA

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Abstract

This study empirically examined the influence of ownership structure on the profitability of banks in Nigeria using the panel regression technique from 2006 to 2018. Twelve quoted Nigerian banks were used for this study. Key ownership structure variables such as board ownership, institutional ownership, foreign ownership, chief executive office ownership, as well as performance variable indicator (proxied by return on asset) were used in the study. The result obtained from the study showed that institutional ownership, foreign ownership and chief executive officer ownership have a positive and significant relationship with the performance of banks. On the other hand, board ownership has a negative impact on the performance of banks. It is therefore recommended that the board ownership as well a top management stake in the banks' ownership structure should be capped to promote good corporate governance system in the banking sector in Nigeria.
Keyword*: **Ownership Structure, Deposit Money Banks, Bank Return on Asset, Institutional Ownership and Bank Performance.***

1. Introduction

At various times, financial instabilities have been recorded worldwide and it has been a recurring factor of importance in the global economies. Organisations are oftentimes influenced by their environment which could be internally or externally defined. In this regard, organisations are expected to study their environment and map out avenues through which their environment can be managed.

The banking sector, no doubt performs a significant part in an economy in the intermediation and channeling of funds. It, therefore, becomes imperative to know the owners and key players of the banking sector and the effect their level of ownership has on the performance of the sector. It has been said that in most cases, it is almost impossible distinguishing the ownership of an organization from those controlling it as such, those in control, most often than not, have some form of ownership in the equity of the organization (Kobeissi & Sun, 2010).

In Nigeria, the banking sector was subjected to some reforms which necessitated mergers amongst banks, consolidations and outright acquisitions. This brought about a change in the ownership structure of some banks. Ownership could be in the form of state ownership, foreign/international ownership, private/family ownership, institutional ownership, and management ownership. However, due to the introduction of good cooperate governance; family-controlled business is giving way to other types of ownership in Nigeria. In general,

ownership can, however, be categorized based on the level of control; controlling owners and non-controlling owners; which is as a result of their equity holding and influence.

There have been mixed evidence on the relationship between ownership concentration and performance. While some works of literature have found no relationship or correlation [Denis and McConnell (2002); Silva and Majluf (2008); Ben Slama and Boulila (2014); Lepore, Paolone, Pisano and Alvino (2017)], there have also been researches that found some relationships between ownership and performance (Lang and So (2002); Iannotta, Nocera and Sironi (2007) and Bian and Deng (2017)]. This study intends to ascertain the relationship between the composition of ownership and performance in Nigeria banks.

2 Literature Review

Ownership structure is a key element used in the determination of good corporate governance process in a firm. Changes in private ownership, foreign ownership, managerial ownership, government ownership as well as institutional ownership could serve as an effective control on the conflict between the agent and principal (shareholder). This could aggravate the conflict of interest in the firm since ownership structure is strongly linked with the performance of a firm. Changes in the ownership structure (especially an increase in managerial ownership) could bridge the gap between ownership and control. Conversely, changes in ownership structure could widen the gap between ownership and control thus aggravating the agency problems.

Ownership structure is the relative distribution of claims on an organisation. It could be in terms of rights, votes and equity. This influences the administration and operation of such an organisation from its corporate governance stance to its cost management. La Porta, Lopez de Silanes, Shleifer and Vishny (2002) view ownership structure as a core measure of corporate governance that drives the productivity or otherwise of an organisation. A wider spread ownership structure could enhance firm profitability. In this section, the emphasis is focused on the various forms of ownership structure.

2.1.1 Ownership Structure of Banks in Nigeria

The first set of banks to be established in Nigeria in late 1883 till 1960 were foreign owned. Most of the banks then were subsidiaries with their parent companies overseas. Between 1929 and 1960, about twenty-six (26) national or state-owned banks were created. This was as a direct result of the discrimination against the local indigene in terms of not making credit available for them to carry out businesses. Also, several laws and decrees were enacted to protect the interest of Nigerian as well as allow them to work and garnered experience as bankers.

Most of the foreign banks, as well as national banks, failed and only very few survived till date. The incessant failure of these banks led the federal government to regulate and instill control over the banks' structure, choice of top management and directors as well as the spread of ownership to date.

Over the years, ownership structures in the banking sector have metamorphosed mainly from foreigner owned to government or state-owned. After independence, this continued, with the creating of state or government-owned banks. With the introduction of SAP, private/ family ownership of bank increased, while the foreign ownership was on the decline due to the indigenization agenda of the federal government. Institutional ownership and also thrived in the earlier '90s till date.

However, in recent times, the government has technically aligned itself to regulatory activities leaving the banking business to technocrat. On the other hand, most Nigerian banks are tending toward institutional ownership, foreign ownership and managerial ownership.

2.1.2 State Ownership Structure

This exemplifies property interest or controls vested in the government of people or the public. Micco, Panizza and Yanez (2007) state that banks controlled by the state are often characterized by increased costs, greater employment ratios and decreased profitability. This assertion was made in the study of one hundred and seventy-nine (179) countries from 1995 to 2002 using indicators like employment, overhead cost, interest margins as well as return on assets. From the regression results, they explain that compared to their peers in the same domestic jurisdiction, instead of focusing on improving profits, government-owned banks have their overall profitability inhibited by the influence of politics, as well as supporting government policies even when these policies are inimical to having healthy profit margins for these banks.

In the same vein, state-owned banks in developing countries have huge overhead costs and become less profitable because the emphasis is usually on socially advantageous projects and not really on financially profitable ventures (Stiglitz 1994). Again, Barth, Caprio and Levine (2006) agree that government-owned banks typically give out loans without a profit motive to support social projects aimed at providing amenities for the populace. As such, profit margins are usually thin. Conversely, Gerschenkeon (1962) find that state-owned banks help in channelling limited resources to productive use which aid profitability. Similarly, Gupta (2005) find that state-owned organisations have a positive influence on productivity, profitability and ultimately, investment.

2.1.3 Foreign / International Ownership Structure

These are organisations controlled by or assets owned by people who are not citizens of the country in which such organisation is domiciled. Besides, an organisation having its headquarters outside the shores where that organisation is domiciled can be referred to as a foreign or internationally owned organisation. Denizer (2000) in carrying out a study on the banking sector in Turkey, find that that the entrant of foreign banks favourably influences the competitiveness and profitability of the banking sector such that overheads and operating costs are effectively managed and return on assets are maximized just as the influx of foreign banks brings about

improved productivity, promotes transparency and supervision since there is an avenue for a wider coverage of business and exchange of business, expertise and values (Mishkin, 2006).

George, Wiklund and Zahra (2005) opine that foreign-owned organisations perform greatly because their activities are usually monitored by their foreign owners who usually put in place reward systems as incentives. In reverse, Abdul Rahman and Reja (2015) find that international ownership doesn't translate materially to profitability and improved performance. The main operational environment and the regulations governing the operational location affect profitability and performance.

2.1.4 Institutional Ownership Structure

This exemplifies a group of people, usually legal institutions, controlling some portion of assets or equity of an organization. They are usually specialized investors who represent other interests or people. Typically, institutional investors strive to have substantial control and rights in their investing organisations because of the seemingly risky nature of their investment – their investments belong to other individuals or organisations, usually given to them in trust and with legal backing. Institutional investments include mutual funds, hedge funds, retirement or pension funds, insurance and the likes. As a result and concerning its effect on performance, institutional investors more likely than not, provide checks and expertise to the banks to improve their profit margins (Ferreira & Matos, 2008), Saghi-Zedek, 2016). In contrast, where institutional investors do not have a significant concentration of ownership in banks, they fail to influence performance (Florackis & Ozkan, 2009).

2.1.5 Family / Private Ownership Structure

Where the ownership concentration is dominated by an individual or family who controls the workings and assets of an organization, such an organization is said to exhibit a private or family ownership structure. Schmid (2013) believes that organisations with this structure perform greatly because the focus is usually long termed and hits more close to home for the investor(s) who are unlikely to bargain with their investments. However, there are works of literature that believe that corporate governance requirement is mostly abused or neglected in banks or organisations operating this structure bringing about a threat to the sustenance of such banks or organisations. These are the affirmations of Azoury and Bouri (2016) and Saghi-Zedek (2016).

2.16 Management Ownership

These are shares owned by the personnel involved in the daily running of an organization. In most cases and accordance with the tenets of corporate governance provisions, it is advisable to separate ownership and control to ensure the efficacy of the purpose of the organization. Notwithstanding, when managers have ownership in an organization, they tend to engage in activities that improve the performance of the organization because of the importance they attach to their stake (Bebchuk, Grinstein & Peyer, 2010). Conversely, management ownership can be a

risky venture because management may have a tunnel vision of improving profitability hence they are prone to carrying out creative accounting activities such that their profitability goals are risky, short term and at variance with the long term objectives of the organization and its other owners (Archaya & Bisin, 2009).

2.2 Theoretical Review

The main theory underling the ownership structure of the firm is agency theory. This theory was developed in 1976 by Jensen and Meckling. Agency theory focuses on the relationship the shareholders (principal) and top management (agent) in the firm. Firms are managed by technocrats who are not owners of the firm, thus leading to the separation of ownership as well as control.

To mitigate the effect of the conflict of interest between the principal and the agent, individuals in the firm, top management, institution and so on are bestowed with equity ownership. This is aimed at resolving the conflict of interest in the firm since the objectives of the principal and the agent are now aligned. The aligned of the conflicting interest in the firm through ownership structure could affect the performance of the firm. Large equity ownerships could encourage the owners of the firm to effectively observe managers actions, thereby boosting the objective of the firm toward maximization of the owners' interest.

2.3 Empirical Review

There have been diverse results from empirical works of literature in this study. Aziz and Saeed (2016) in their study of twenty-six (26) Pakistani banks from 1996 to 2014 using the Generalized Method of Moments (GMM) estimation technique find that while government ownership structure has a significant but negative influence on performance, institutional ownership structure and the family ownership structure both have a significant positive influence on bank performance in the banks reviewed.

In Lebanon, Azoury, Azouri, Bouri and Khalife (2018) examined thirty-five (35) banks between 2009 and 2014 using the panel Ordinary Least Square (OLS) estimation technique. They find foreign ownership structure, managerial ownership structure, institutional ownership structure and ownership concentration as being capable of greatly affecting bank performance whereas, family ownership structure loosely affects the performance of the banks analysed. Musikavanhu, Matandare and Zhuo (2018) in their review of ten (10) Zimbabwean banks from 2009 to 2011 using the Analysis of Variance (ANOVA) technique find that bank ownership structure, irrespective of the variant, does not materially affect the performance of banks in that country.

In Nigeria, Ozili and Uadiale (2017) studied twenty-seven (27 banks from 2006 to 2015. Utilizing the static (fixed effect OLS estimator) panel model and the dynamic (GMM estimator) panel model, they conclude that banks with high ownership concentration record-high profitability margins while those banks with dispersing concentration have low profitability indicators.

Also in Nigeria, Orumo (2018) in his study of fifteen (15) banks using the OLS estimation technique shows that private ownership structure and foreign ownership structure have a positive effect with the profitability of the banks reviewed while ownership concentration, management ownership structure and institutional ownership structure do not affect bank profitability.

3. Methodology

3.1 Model Specification

In this section, to capture the relationship between the dependent variable and the independent variables a panel data regression model is specified as shown below.

PERF = f(BBO, BIO, BFOD, CO) (1.1)

Where: PERF is a measure of bank performance proxy by return on asset (ROA).

BBO is block board ownership; BIO is block institutional ownership; BFOD is block foreign ownership dummy, where foreign ownership is 1, otherwise zero; CO is chief executive officers ownership.

Given the function generated in equation (1.1), the econometric form is specified in this study to capture the relationships

$$ROA_{it} = \beta_{it} + \beta_1 BBO_{it} + \beta_2 BIO_{it} + \beta_3 BFOD_{it} + \beta_4 CO_{it} + \delta_i + \gamma_t + U_t \quad (1.2)$$

Where I represent the banks, t represents time, α represents the general intercept and U_t is the general stochastic error term.

4. Results and Discussion

The series of estimates relate to the impact of ownership structure on deposit banks performance variables using panel regression analysis. The Hausman test is initially conducted to determine the most effective method to select from a random or fixed effect. The random effect was selected because the Chi-square value for the equation in Table 1 below is not significant.

Table 1: Hausman Test for Effects

Test Summary		Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random		0.0000	4	1.0000
Variable	*Fixed*	*Random*	*Var(Diff.)*	*Prob.*
BBO	-0.0193	-0.0193	0.0000	1.0000
BIO	0.0541	0.0541	0.0000	1.0000
BFOD	0.1379	0.2243	0.0000	1.0000
CO	0.1379	0.1379	0.0000	1.0000

4.1 Ownership structure and Return on Assets

The result of the impact of ownership structure on banks' return on assets is reported in Table 1.2 below. The diagnostic statistics for the model are moderate and rather impressive. The adjusted R squared value of 0.603 indicates that over 60 per cent of the systematic variations in ROA among the banks is explained by the explanatory variables. The F value of 59.7 is also high and

easily passes the significance test at the 1 per cent level. This shows the hypothesis of a significant relationship between ROA and all the independent variables combined is significant.

The particular impact of each of the explanatory variables on ROA is determined by considering the individual coefficients of the explanatory variables in terms of signs and significance. In the results reported, only the coefficient of block board ownership has a negative sign, all the other coefficients are positive. Moreover, the coefficient of block board ownership has a negative impact on bank performance and passes the significance test at the 5 per cent level. This indicates that as more board members increase their stake in the bank, the return on asset reduces.

The coefficient of block institutional ownership has a positive impact on bank performance and passes the significance test at the 1 per cent level. This shows that bank performance tends to increase as institutions increase their stake in the bank.

The coefficient of chief executive officer ownership also has a positive impact on bank performance and passes the significance test at the 1 per cent level. This shows that the return on asset tends to increase as the chief executive officer increases its stake in the bank.

The coefficient of the block foreign ownership dummy also has a positive impact on the bank performance and passes the significance test at the 1 per cent level. This shows that the return on asset of banks tends to increase as foreign investor increase their stake in the ownership structure of the bank.

Table 2: Impact of Ownership structure on ROA

Variable	*Coefficient*	*t-Statistic*	*Prob.*
C	-0.2724	-1.1887	0.2364
BBO	-0.0192	-2.5222	0.0127
BIO	0.0541	9.6156	0.0000
BFOD	0.2243	2.7061	0.0076
CO	0.1379	8.3838	0.0000
R-squared	0.613	*F-statistic*	59.7(0.0000)
Adjusted R-squared	0.603		

5. Summary and Conclusion

This study empirically examined the effect of banks' ownership structure on its performance. The results obtained showed that all the ownership structure variables were significant. First, it showed that board ownership has a negative impact on banks' performance. Secondly, institution ownership, foreign ownership and chief executive officer ownership have a positive impact on the performance of banks in Nigeria. Therefore, this study showed the existence of a strong relationship between the ownership structure and the performance of banks in Nigeria.

It, therefore, recommended that the board ownership as well a top management stake in the bank ownership structure should be capped to avoid the possible problem of a family type of business. Bank ownership should be widely spread to allow to meet the Nigerian security and exchange commission and to attract cheap fund.

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