

IMPACT OF OWNERSHIP STRUCTURE CONCENTRATION ON QUOTED CONSUMER GOODS ENTITIES PERFORMANCE IN NIGERIA

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ABSTRACT

We empirically investigated the impact of ownership structure concentration on entity performance, this was carried out with the help of secondary data employed from consumer goods sectors company's financial statements of eight entities, with data covering from 2012 to 2020, the regression output revealed that ownership concentration has no statistical significant on entity performance, however the control variable employed in the study has a statistical significant on the entity. Based on the output from our investigations, we therefore recommended that: Entities should focus more in getting competent hands (managers) that can maximize shareholders wealth; Entities should focus more in diversify its power, this will enable the managers of economic resources, to be free in taking salient economic decision without fear of a particular stakeholder; Wealth maximization is what potential investors look at for, hence managers should never lose focus of wealth maximization.

Keywords: Performance, Ownership concentration, Entity.

INTRODUCTION

The decision an entity or individual make in the day to day running of the business can either make or destroy the entity, hence in setting up an entity, the stakeholders involves in this process must keep sentiment aside in order to avoid future economic downturn in economic turnover which may lead to nosediving of the entity. All entity are set up for the purpose of adding value to stakeholder's wealth, in order to achieve this salient goal of the entity the right structure and management team must be put in place. Shleifer and Vishny (1997) entity managers exercise more freedom in the use of economic resources as they would in case of a single shareholder or if the ownership would have been more concentrated. Berle and Means (1932) it has been largely argued that ownership structure is related positively to an entity profitability, however other scholars opined otherwise.

The concept of performance is a controversial issue in the business environment largely because of its multi-purpose meanings. Scholars and experts define entity financial performance in different perspectives. Metcalf and Titard, (1976) asserted that financial performance is an act of performing financial activity by an entity. In our own view, we see financial performance as the ability for an entity to manage its resources to yield more financial benefits that outweighs the cost of generating the financial benefits. Alanazi (2021) ownership structure is a multi-dimensional issue that should be considered in relation to all parties, different groups have different objectives, and thus have various impacts on firm performance, unless we identify and consider all players, any results will be questionable.

Machek and Kubíček (2018) asserted that “a very concentrated ownership can improve monitoring and reduce agency costs, but on the other hand, large shareholders can expropriate smaller investors or harm performance by monitoring managers in an excessive manner”. This paper is arranged as follows: section two provides evidential gap, theoretical underpinning, and empirical literatures, section three discuss the methodology and the fourth section discusses the data analysis and discussion of findings. While in section five is the summary of the findings, conclusion and recommendations.

REVIEW OF RELATED LITERATURES

Evidence of research gap

Theory suggests that low ownership concentration is associated with agency costs and highly concentrated ownership structures induce controlling owners to pursue private benefits (Machek & Kubíček, 2018). A number of studies have tested the relationship between ownership concentration and performance empirically, failing to provide any consistent results. Hence this study look inward into the Nigeria consumer goods sector and examined the impact of ownership structure concentration on entity performance, empirically and theoretically. Therefore ownership has a significant role to play in the day to day running of the entity economic activities, this is because it may help in checkmating and reducing agency cost.

Theoretical Review

This study is anchored on the agency theory, this theory asserted that agency relationship occurs when there is a contract under which one or more persons known as the principal engage another person (the agent) to perform some services on their behalf which may involves delegating authority to the agent (Jensen & Meckling, 1976). Problem may arise when the interest of managers and shareholders are not aligned, this may happened because the manager is responsible for running the firms hence the goa of wealth maximization may be defeated, some managers may go extra mile of maximizing profit instead of wealth maximization.

Review of empirical literature

Alanazi (2021) investigated the effect of ownership structure on entity performance, this was done by distinguishing entities into government, institutional, public, managerial, family, and foreign owners, hence discovered that government and institutional firms perform the best, while public and managerial firms perform the worst; the statistical OLS output also suggested that government and institutional ownership contribute positively to firm performance, while public ownership has a negative effect. An examination of quoted manufacturing companies in Nigeria by Tonye and Sokiri (2020) on the nexus of financial leverage on earnings management revealed that: the management of manufacturing companies in Nigeria employ all the three strategies of earnings management in their companies. The relationships between financial leverage and each of the dependent variables are positive but weak. Financial leverage does not have a significant impact on accruals earnings management in listed manufacturing firms in Nigeria; but it does on real earnings management and deferred tax earnings management; the aforementioned output was based on twenty-nine (29) listed firms on

the Nigeria Stock Exchange (NSE) secondary data while the ordinary least squares (OLS) method was, hence suggested that users of financial statements should factor in financial leverage in assessing reported earnings by lowering/upping their expectations as to the reliability of the earnings, depending on whether financial leverage is high or low.

Etale, Edoumiekumo, Kpolode, and Nkak (2020) investigated industrial goods entity on the Nigerian stock exchange and found out that non-current debt to total assets and total debts to equity, have a statistically significant relationship with performance, whereas total debts to equity has a negative nexus with performance, while current debt to total asset has no statistical significance, their output was based on secondary data from 2014 to 2019 of five firms, while multiple regression model, was employed in analyzing their data, therefore suggested that non-current financing should be considered first in choosing an entity structure.

An examination of 11 plc, formally Mobil oil Nigeria plc by Kpolode, Edoumiekumo, and Alfred (2020) revealed that change in name has an impact on performance and structure, the output was based on a pre- and post-analysis with help of secondary data extracted from 2013 to 2019, hence suggested that more awareness be developed to keep stakeholders, particularly creditors, informed, as they are external to the organization but have a stake.

Horobet, Belascu, Curea and Pentescu (2019) investigated "ownership concentration and performance recovery patterns in the European union and discovered a clear division between Western and Eastern companies in terms of ownership concentration and performance, with an impact on businesses' recovery patterns, also there is a positive link between ownership concentration and corporate performance in the case of Western companies, but not for Eastern-based companies, the study further revealed that ownership concentration has supported business recovery in EU, but particularly for Western companies".

Machek and Kubiček (2018) examined relationship between ownership concentration and performance in Czech Republic 34,284 companies was sampled with secondary data covering from 2007 to 2015, with the help of linear regression analysis, the output revealed an inverted U-shaped relationship between the Herfindahl index and profitability while controlling for firm size, capital structure, and industry affiliation. Therefore recommended that more concentrated ownership reduces the principal-agent problem and supports performance, but only to a certain extent, where the potential principal-principal problem can still prevail. Moreover, performance is maximized when there is a controlling owner.

Alimehmeti and Paletta (2010) investigated ownership concentration and its impact on Italy entity performance with secondary data covering from 2006 to 2009 and discovered that, there is a positive relationship between ownership concentration and firm value except in 2008, when the results show a non-linear relationship, the study also revealed that the financial crisis has enhanced the expropriation impact.

METHODOLOGY

Research methodology

This section deals with the methods and procedures adopted in carrying out our investigation, this section contains the research design, sources of data, population of

the study, sample size determination, description of the research instrument, and method of data analysis employed in this investigation.

Population/Sample

The target population of this study is consumer goods entities while the selected entities for the study are eight entities with secondary data obtained from their financial statements ranging from 2012 to 2020, secondary data was employed because the researchers cannot manipulate or temper with data.

Model Specifications

The general model for this study is represented by;

$$Y = f(X);$$

The general model of the study will therefore be;

$$ROE = \beta_0 + \beta_1 OSC + \beta_2 A + \mu$$

In the above models:

β_0 = the intercept

μ = residual

β_1 - β_2 = the coefficients

OSC = is Ownership Concentration, which is a proportion of ownership shares (votes) of the largest shareholder;

A = Entity age

DATA PRESENTATION AND DATA ANALYSIS

Data were extracted from the published annual report of the sampled companies which are presented in Table 1 below. These figures represent aggregate figures of the eight (8) samples companies for the period covering 2012 to 2020, the absolute aggregate figures of book values was used.

Descriptive statistics

	ROE	OSC	A
Mean	4.760000	0.582222	2.935050
Median	4.750000	0.540000	2.944439
Maximum	7.700000	0.730000	3.135494
Minimum	0.820000	0.430000	2.708050
Std. Dev.	2.673425	0.108372	0.146012
Skewness	-0.334393	-0.058800	-0.159507
Kurtosis	1.553650	1.582988	1.802824
Jarque-Bera	0.952201	0.758157	0.575625
Probability	0.621201	0.684492	0.749902
Sum	42.84000	5.240000	26.41545
Sum Sq. Dev.	57.17760	0.093956	0.170556
Observations	9	9	9

Source: E-view via financial data

The descriptive statistics above showed the mean 4.760000, 0.582222 and 2.935050, Median 4.750000, 0.540000, 2.944439, Maximum 7.700000.730000 and 3.135494, Minimum 0.820000, 0.430000 and 2.708050, and Standard deviation 2.673425,

0.108372 and 0.146012 of the variables (EPS, OSC and A) for the study respectively. The indication is that ROE the most dispersed variable in the study while OSC is the least dispersed among the variables. Jarque-Bera statistics and the associated probability values also showed that the ROE, OSC and A are normally distributed with probabilities values of 0.621201, 0.684492 and 0.749902, respectively.

Data Analysis

Dependent Variable: ROE
 Method: Least Squares
 Date: 11/30/21 Time: 14:16
 Sample: 2012 2020
 Included observations: 9

Variable	Coefficient	t	Std. Error	t-Statistic	Prob.
OSC	3.174065	4.738616	0.669829	0.5279	
A	15.96982	3.517060	4.540675	0.0039	
C	-43.96025	10.68038	-4.115982	0.0062	
R-squared	0.778621	Mean dependent var	4.76000		
Adjusted R-squared	0.704828	0			
S.E. of regression	1.452464	S.D. dependent var	2.67342		
Sum squared resid	12.65791	Akaike info criterion	5		
Log likelihood	-14.30520	Schwarz criterion	3.84560		
F-statistic	10.55144	Hannan-Quinn	3.91134		
Prob(F-statistic)	0.010849	Durbin-Watson stat	1		
			3		
			3.70373		
			1		
			2.42604		
			0		

Source: E-view via financial data

The data analysis above revealed that, the independent variables combined significantly explained the variations in the dependent variable with an F-statistics value of 0.010849 (at 5% significant level). The coefficient of determination value 0.778621 implies that 77% of changes in the dependent variable are accounted for by the combined effect of variations in the independent variables. Also, the adjusted R-squared value of 0.704828 indicates that the model used in testing the hypotheses for the study is a proper and good fit, with a confidence level of approximately 70% for acceptance of the goodness of the study model. Durbin-Watson statistics value 2.42 is approximately equal to the 2.0 benchmark, which implies the non-existence of serial auto correlation among the independent variables.

The regression output showed that OSC has no statistical impact on the performance of an entity, at 5% significant level, however entity age has a statistical relationship and

impact on performance, the analysis also showed that model employed for the study is fit and statistically significant at 5% significant level.

CONCLUSION AND RECOMMENDATIONS

Conclusion

We empirically investigated the impact of ownership structure concentration on entity performance, this was carried out with the help of secondary data employed from the company's financial statements of sampled eight entities, with data covering from 2012 to 2020, the output revealed that ownership concentration has no statistical significant on entity performance, however the control variable employed in the study has a statistical significant on the entity.

Recommendation

Based on the output from our investigations, we therefore recommended that:

- a. Entities should focus more in getting competent hands (managers) that can maximize shareholders wealth;
- b. Entities should focus more in diversify its power, this will enable the managers of economic resources, to be free in taking salient economic decision without fear of a particular stakeholder;
- c. Wealth maximization is what potential investors look at for, hence managers should never lose focus of wealth maximization.

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