

**Ownership Structure, Financial Leverage and Dividend Policies: Empirical Evidence from Nigerian Listed Firms****Paul Akhalumeh, PhD & Zaccheaus Ogunkuade**Department of Accountancy,
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Edo State, Nigeria**Abstract**

This paper examines the effects of ownership structure variables (managerial ownership and ownership concentration) and firm financial leverage as determinants of dividend payouts using evidence from listed non-financial firms in Nigeria. The purpose is to examine these factors in light of Nigerian evidence. The method used is pooled regression analysis, using data collected from annual reports and accounts from 2012 to 2018, the parameters were estimated using the Stata 14 statistical programme. The independent variables examined are managerial ownership, ownership concentration and financial leverage, while firm size was used as control variable. The results of the analysis show that ownership structure has negative but only ownership concentration has significant effect on dividend payout. Firm financial leverage has positive and significant effect and firm size, the control variable also has a positive and significant effect. The study recommends that the Securities and Exchange Commission should consider specifying limits on the extent of managerial ownership and ownership concentration so as to cater for the needs of outside and minority shareholders who may have earning income through shareholding as their investment objective, and firms should learn to mainstream on using financial leveraging in financing their operations.

Keywords: Ownership concentration, Managerial ownership, Financial leverage, Dividend payout

Introduction

Financial managers seek to maximize shareholders' wealth, amongst others (Vo & Nguyen, 2014). Abbas and Jan (2020) noted that leverage, dividend and ownership structure play a vital role in value creation. They see the value of an organization to be closely linked with the value of shareholders. Dividend policy has a crucial role in stock value (Farahani & Jhafari, 2013). It has to be noted that there is no universally accepted theory to explain dividend policies of firms. It has been described as one of the top ten most elusive problems in financial economic literature (Brealey & Myers 2005). Rafique (2012) noted that there has been an increasing interest in investigating the behaviour of dividends by firms. This search is particularly important in developing countries like Nigeria, amongst others, since such will be necessary for making policy recommendations.

In this regard we are piqued to raise a poser whether dividend policy matters. The answer to this without empirical evidence, according to Waswa, Ndede and Jagongo (2014) from academics will be "Yes" based on observations of how dividend policies play out in the market place. Over the years finance scholars have investigated the factors that might be important in determining a firm's dividend policy (Barclay, Smith & Watts 2018). Mworira (2016) noted that dividend payout decisions are important as they give insight into the sustainability of the firms' dividend and growth prospects. In this regard, Al-Malkawi, Rafferty and Pillai (2010) noted that the financial manager is faced with two operational financial decisions. Investment decisions, that is, capital budgeting and financing decision,

with the possibility of a third decision, which is will the firm distribute all or what proportion of firm's profit should be distributed as dividend shareholders?

This study is expected to examine the effect of financial leverage and ownership structure on the dividend policies of listed firms in Nigerian non-financial sectors of the economy. To the best of the researchers' knowledge, empirical studies in this area are still very scanty. There is therefore the need to undertake this research so as to synchronize the findings in this sector with other related findings so as to adjudge the conclusiveness of research findings about the subject-matter.

This study is aimed at investigating the effect of ownership structure and leverage on dividend policy of firms in Nigerian listed firms in the non-financial sectors (agriculture, manufacturing, extraction, construction and allied industries). To achieve this objective the following hypotheses (in null form) have been formulated for this study:

- Ho₁ Managerial ownership has no significant effect on dividend payouts of firms in Nigerian non-financial sectors.
- Ho₂ Ownership concentration has no significant effect on dividend payouts of firms in Nigerian non-financial sectors.
- Ho₃ Financial leverage has no significant effect on dividend payouts of firms in Nigerian non-financial sectors.

The period covered by the study from 2012 to 2019. The findings of the study will be useful to both investors and corporate lenders and managements of Nigerian firms as they will shed some lights on the dividend puzzle. The study will also add to the body of empirical literature on determinants of dividend policy.

Following this introduction, the next section provides a systematic review of related literature (conceptual review, theoretical framework and empirical review), the next section presents the methodology and specification of model, the next section discusses the results and the last section presents the conclusion and recommendations of the study.

Conceptual Review

Ownership Structure: Ownership structure varies from firm to firm and across countries (Zakaria, Purthanudin & Palanimally, 2014). Ownership structure refers to the makeup of shareholding in a firm. Usually, ownership structure is discussed in two dimensions: ownership concentration and ownership identity. While ownership identity is about the type of the largest shareholder, ownership concentration is about the degree of voting rights in the hand of corporate entities (Chen, 2012). It broadly refers to the types of shareholders in a firm (Phung, 2015).

Specific aspects of ownership structure usually discussed in firm theory include: ownership concentration, managerial ownership, institutional ownership, block ownership, government ownership and family ownership (Kuznetsor & Muraryer, 2001; Rahman & Shah, 2013; Irshad, Hashmi, Kausar & Nasir, 2015; Hoang, 2017).

Ownership Concentration

This measures the percentage of shareholdings that is held by the largest shareholders (blockholders). It may also be called sponsorship concentration and may be measured as the percentage shareholders of the largest three shareholders (Iman & Malik, 2007; Hoang, 2017). Afolayan (2015) identified two types of ownership concentrations as absolute concentration of ownership, which implies that one stock holder has absolute power to control the firm and usually keep a minimum of 50% ownership, and others in which there co-exists relative concentration of ownership. It is usually assumed that concentrated ownership can help to reduce agency conflicts in the firms (Ahmed, Shale & Bhatti, 2020).

It is also held that concentrated ownership may lead to conditions for new problems such as the divergence between the interests of the controlling and minority shareholders (Kunga, 2014).

Managerial Ownership

This is also expected to have serious impact on agency cost (Vo & Nguyen, 2014), managerial ownership can serve as a corporate governance mechanism in converging the interest agent and principals in a firm thus controlling management opportunism in the firm (Vo & Nguyen, 2014). Management ownership is measured as the proportion of shares held by directors and members of the board (Zondi & Sibanda, 2015). However, a number of corporate scandals and failures in recent past have been traced to managerial opportunism (Vo & Nguyen, 2014). Managerial ownership has the capacity of aligning the interests of managers with those of shareholders because managers become less likely to engage in actions that are not in the interest of shareholders (Abdelsalam, El-Masry & Elsegini, 2008). Managerial ownership may prevent conflicts of interest between managers and shareholders and maximize firm value. Substantial managerial ownership may align managers' interests with those of outside shareholders; this means that managers will have strong incentives to maximize the value of the firm (Al-Gharaibah et al., 2013).

Financial Leverage

This is the combination of debt and equity in funding a firm's operations. It is usually measured as the debt ratio (expressed as total debt/total asset). In effect simple finance terms, leverage means the use of borrowed capital. Financial leverage is the use of debt to acquire assets. According to Gweyi and Karanja (2014), financial leverage is the use of fixed-changed funds like debt and preference capital along with equity capital.

Thus, financial leverage may be seen as the capacity to use fixed financial charges to magnify the effect of charges in earnings before interest and tax by a firm (Ndubuisi & Onyema, 2018). This is different from operating leverage, which is about the leverage associated with investment, and has to do with a firm's ability to use fixed operating cost to elevate the impact of changes in sales on the earnings before interest and taxes. Ahmed and Wardani (2014) see financial leverage as indicative of a firm's methods of financing or the measure of its ability to meet financial obligations.

Dividend Payout

Dividend policy is a very important policy in financial literature. Dividend payout policy is often considered as one of the most vital in corporate policies. It represents a major influence in reducing the conflicting interests of shareholders and managers because while shareholders may be more interested in dividend, managers may be more interested in retained earnings (Balagobei, 2017). In simple terms, corporate dividend policy is corporate guidelines that determine the corporate approach to dividend payout. It is the guiding path in making dividend cash payments to shareholders (Lee, 2005; Kapoor, 2009).

Theoretical Framework

Theories commonly reviewed in finance studies dealing with dividends include agency theory, signaling theory and pecking order theory (Hellstrom & Inagambaev, 2012; Ullah, Fida & Khan, 2012; Ehsan, Tabassum, Akram & Nasir, 2013; Vo & Nguyen, 2014). These theories are reviewed hereunder; however this study is anchored on agency theory.

Agency Theory

This theory of agency describes the relation of person engaged in a firm by contract in which one or more persons are engaged by other persons to fulfill a duty on their behalf

(Ehsan, Tabassum & Nasir, 2013). This relationship has some costs which usually arise from the inefficiency of the relationship. Such agency costs include: monitoring cost, loss of control and information asymmetry. This theory is one of the most respected and most debated theories. The theory regards shareholders as principals and management as agents, and in the arrangement, the shareholders hire and delegate the managers (agents) with certain powers in order to maximize the wealth of the principals. (Hellestrom & Inagambaev, 2012). Agency theory holds that ownership structure and debt structure impact firm performance. To reduce the agency costs, agency theory recommends that mechanisms such as separation of ownership and control, use of corporate boards and corporate governance (Zondi & Sibanda, 2015). Corporate governance refers to a system of principles, policies and accountabilities/conflict of interests (Ahmed et al., 2020).

Signaling Theory

Basically, according to the signaling theory, firms that are doing well are willing to pay higher dividends to signal to shareholders their good financial standing (Maladjian & El Khoury, 2014). According to Ahmed et al. (2020), signaling theory states how the increment/reduction of dividend payout conveys good/bad signals to the stock market: The theory notes that managers have control over the firm, and have more first-hand information about the firm than shareholders which the public may not always have, thus dividend policy could be considered the signal for the firm's future projection (Anh & Tuan, 2019). Signaling theory focuses on the asymmetric information between insiders (managers) and outsiders (shareholders). The insiders have information advantages of the firm's operations and investments, and so the outsider considers any change in both capital structure and dividends as a signal of the firm's performance (Vo & Nguyen, 2014).

Pecking Order Theory

This theory explains that firms follow a pattern of financial decisions when determining its capital structure. The theory holds that a profitable firm will likely finance its projects from internal sources rather than external sources. It will first use retained earnings followed by borrowed funds and lastly issue equity (Vo & Nguyen, 2014). Thus according to the theory, external financing is more expensive and may lead to reduced dividend payout in order to avoid expensive external financing (Maladjian & El Khoury, 2014). The pecking order theory of capital structure assumes that there is no optimal capital structure rather firms choose according to their preference of internal finance, debt and equity (Mworia, 2016).

Managerial Ownership and Dividend Payout

The impact of managerial ownership on dividend policy has been well studied; Rahmawati, Moeljdi, Djumahir and Sumlati (2018) examined 33 go-public manufacturers listed in Indonesia Stock Exchange and employed balanced panel data analysis model and found evidence to support findings that there is negative bidirectional causality between managerial ownership and dividend payment. Afza and Mizra (2010) studied 3-year datasets in Karachi Stock Exchange using OLS analysis and found that managerial ownership is positively related to cash dividend. Al-Qahtani and Ajina (2017) studied firms listed in Saudi Arabia stock market (Tadawul) using data from 2012 to 2015, by multiple regression found a positive and significant relationship between managerial ownership and dividend payment. Anh and Tuan (2019) studied Vietnam listed firms, using a sample of 642 firms for data for 2009 to 2015, employing panel data analysis found that managerial ownership impacts dividend policy though the impact is not statistically significant.

Vo and Nguyen (2014) from the evidence of 81 listed firms in the Ho Ci Minh City Stock Exchange found from regression analysis the positive impact of managerial ownership on dividend. However, the study by Al-Gharaibeh et al. (2013) using a sample of 35 Jordanian firms listed on Amman Stock Exchange for 2005 – 2010 data found that managerial ownership negatively impacts dividend. Also, Ullah et al. (2012) studied Pakistani firms and used stepwise multiple regression models and found that though managerial ownership negatively impacts dividend payout the impact is largely not significant. Also, Shahid, Gul, Rizwan and Bucha (2016) studied two emerging markets (Pakistan and India) and using a sample of 456 firms based on regression analysis found that managerial ownership has a positive association with dividend policy. Based on the above review, the apriori expectation for this variable is that managerial ownership is negative effect on dividend pay-out.

Ownership Concentration and Dividend Payout

Among ownership structure variables usually investigated for impact on dividend policy is ownership concentration. Shahid et al (2016) in their study of the two emerging markets of Pakistan and India found that a negative association exist between ownership concentration and dividend policy. Yanxin, Dangang and Zhang (2007) examined Chinese securities market using data for 2003 and 2004 and by multiple regression analysis found that there is a significantly reversed u-shaped relationship between shareholding concentration and cash dividend paying rate. Al-Qahtani and Ajina (2017) studied Saudi Arabian firms and from a sample of 100 firms for the period of 2012 to 2018 found evidence that ownership concentration does not affect the level of distributed dividends. Anh and Tuan (2019) found from Vietnamese firms from 2009 to 2015 that ownership concentration is positively and statistically significant with the largest shareholder owned firms. Afolayan (2015) studied quoted Nigerian conglomerates using 2003 to 2012 data for a sample of five conglomerates, used OLS and found that ownership concentration has significant positive effect on the dividend policy of the conglomerates.

Based on the above review the apriori expectation of this variable is that ownership concentration has negative effect on dividend payout.

Financial Leverage and Dividend Payout

Financial leverage is a well studied factor of dividend payout, and the results have been mix. Mworira (2016) studied listed firms in the Nairobi Securities Exchange between 2011 and 2015, using data from secondary sources, found that there is a negative significant relationship between leverage and dividend payout ratio. Vo and Nguyen (2014) studied Vietnamese listed firms for the period 2007 to 2012, using the three stage least squares estimation on a sample of 81 firms found that there is a negative relationship between leverage and dividend. Asif, Rasool and Ramal (2011) studied firms listed on the Karachi Stock Exchange, Pakistan, used a sample of 403 companies from 2002 to 2008 and through regression found that leverage has negative effect on dividend payout. Afza and Mirza (2010) studied 100 Pakistani companies listed in Karachi Stock Exchange, for three years 2005 – 2007, using ordinary least squares (OLS) found a negative but insignificant impact of leverage on dividend payout. Gusni (2017) studied the financial industry of Indonesia and from a sample of 17 firms over a period of seven years (2009 – 2015) found that leverage has negative impact on dividend policy.

Farahani and Jhafari (2013) studied 33 food companies listed in Tehran Stock Exchange and from 242 dataset for the period from 2003 to 2010, by panel regression analysis found that debt ratio has no meaningful effect on dividend per share (DPS). Rafique (2012) also studied 53 non-financial firms listed on Karachi Stock Exchange with data for

period 2005 to 2010 used OLS and found that leverage has negative but insignificant impact on dividend policy. This finding is similar to that by Maladjian and El-Khoury (2014) who studied Lebanese listed banks for the period 2005 to 2011 and through OLS and dynamic panel regressions found that leverage has negative but insignificant effect on dividend payout. However, findings on the effect of leverage are not conclusive, Arshad, Akram, Anyjad and Usman (2013) studied firm listed on Karachi Stock Exchange using data for the period 2007 to 2011 for firms in information, communication and transportation and through linear regression found that financial leverage has positive affiliation with dividend decision. Al-Gharaibeh et al. (2013) from evidence of 35 Jordanian listed corporations found that leverage has positive and significant effect on dividend payout. Filsarachi and Zarei (2017) studied Iranian listed firms and from data observations of 2080 from 2002 – 2016, using logistic regression (simple and panel) found that leverage has a significant positive effect on dividend policy. Rahman, Sindhu, Khadin and Malik (2014) studied the banking sector of Pakistan for the period 2008 to 2016 using a sample of 31 banks found that financial leverage has a positive and significant effect on dividend policy. Al-Taleb (2012) also studied Jordanian firms, using a sample of 610 industrial firms for the period 2007 to 2011, based on regression found that firms with high leverage tends to increase dividends payments. Based on this review, the apriori expectation of this study is that financial leverage has negative effect on dividend policy.

Data and Methodology

The data for this study were obtained from the secondary sources of published annual reports of firms listed in the Nigeria Stock Exchange which were sampled based on convenience sampling procedure, a total of 275 observations were selected from the period 2012 to 2018 for this study. The Stata 14 statistical package was used to estimate the parameters in the adopted model.

The model used in the analysis of this study is an adaption of the model used by Kunga (2014) thus;

$$DPO_t = \beta_0 + \beta_1 MGL + \beta_2 OWC + \beta_3 LVG + \beta_4 SIZ + \mu_0$$

Where:

- DPO = Dividend Payout
- MGL = Managerial Share Ownership Proportion
- OWC = Ownership Concentration
- LVG = Financial Leverage
- SIZ = Firm size (control variable)
- B₀ = Constant Term.
- μ₀ = Standard error
- β₁- β₄ = Parameters (to be estimated).

Operationalization of Variables

- DPO= Natural log of Dividends per share
- MGL= Proportion of shares held by directors
- OWC=Sum of the proportions of shares held by holders that own up to 5% of shares
- LVG= Ratio of total debts to total assets
- SIZ= Natural log of total assets.

Table 1: Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max	Pr(Skewness)	Pr(Kurtosis)
DPO	275	3.4348	2.2033	0.0000	7.9194	0.2279	0.0000*
MGL	275	0.1578	0.2354	1.00e-05	0.8526	0.0000*	0.0134**

OWC	275	0.6145	0.1798	0.0505	0.9825	0.0034*	0.3495
LVG	275	2.7133	34.264	0.0014	568.82	0.0000*	0.0000*
SIZ	275	23.657	1.9516	15.141	28.108	0.0018*	0.2096

Source: Researchers' Compilation Using STATA (2018), *** = 10% Significant; ** = 5% Significant; * = 1% Significant

Table 1 shows that the data used in the estimation of the parameters of the model are significantly normally distributed. This is implied by the probability values of Skewness and Kurtosis of nearly all the variables which are less than 0.05. This connotes that the studied firms are not dominated by firms of any particular extreme values. This rules out the problem of the presence of outliers whose values are likely to be able to distort the findings of this study. For the 275 observations, the dependent variable (dividend payouts) has a mean value of about 3.4348 with a standard deviation of 2.2033 and maximum value of about 7.9194 (natural logarithm value). The natural log of total assets (a proxy for firm size) shows that there are firms of various sizes, maximum being about 28.108, minimum is about 15.141. For ownership structure (proxied by managerial ownership and ownership concentration), the firms include those with as high as about 85.26% and 98.25% of, managerial ownership and ownership concentration respectively, while the respective minimum ownership values are about 1.00e-05% and 0.050%. This fairly represents a sufficient degree of heterogeneity in the composition of the studied firms.

Table 2: Correlation Matrix

	DPO	MGL	OWC	LVG	SIZ
DPO	1.0000				
MGL	-0.1118	1.0000			
OWC	0.0919	0.0120	1.0000		
LVG	-0.0957	0.1482	0.0412	1.0000	
SIZ	0.5686	-0.1148	0.2765	-0.2649	1.0000

Source: Researchers' Compilation Using STATA (2018)

Table 2 shows that no two explanatory variables are perfectly correlated or nearly so. This means that our model does not suffer from the problem of multicollinearity. This table shows that DPO has mixed correlation with the explanatory variables. The table shows that the dependent variable DPO is positively correlated with firm size and ownership concentration but negatively correlated with managerial ownership and financial leverage.

Table 3: Regression Results

Source	SS	df	MS	Number of obs =	275
				F(4, 270) =	34.00
Model	445.53078	4	Prob > F =		0.0000*
Residual	884.608033	270	R-squared =		0.3350
			Adj R-squared =		0.3251
Total	1330.13881	274	Root MSE =		1.8101

DPO	Coef.	Std. Err.	t	P>t
MGL	-0.4929	0.4714	-1.05	0.097***
OWC	-0.9506	0.6381	-1.49	0.038 **
LVG	0.0048	0.0034	1.44	0.050 **
SIZ	0.6818	0.0611	11.16	0.000 *
CONS	-12.04659	1.3941	-8.64	0.000 *
VIF		1.11		
Heteroskedasticity		0.93(0.3361)		

Source: Researchers' Compilation Using STATA (2018) *** =10% Significant; ** = 5% Significant; * = 1% Significant

Table 3 shows that the R-squared and adjusted R-squared statistics are 0.3350 and 0.3251 which mean that the explanatory variables are able to offer a combined explanation for 33.5% of the changes in the dependent variable, and when adjusted for degree of freedom, the variables can only explain about 32.51% of the changes in the dependent variable. This suggests that there are many other variables that are significant in explaining the systematic changes in dividend pay-outs by Nigerian non-financial firms. The table also shows an F-statistic of 34.00 and a p-value of the F-statistic of 0.0000 which shows that the OLS pooled regression model is statistically significant at 5% level which means that the regression model is valid and can be used for statistical inference. Table 4 shows a mean Variance inflation factor (VIF) of 1.11 which is less than the benchmark value of 10. This implies the absence of multicollinearity, thus, no independent variable was dropped from the model. The OLS regression results had heteroscedasticity value of [0.93 (0.3361)] this implies that the problem that was not significant and did not need to be corrected using the robust regression.

Managerial Ownership (MGL): Regression = -0.4929(0.097), this shows that managerial ownership has an insignificant negative impact on dividend payout. This means that we should accept H₁ (managerial ownership has no significant effect on dividend payouts of firms in Nigerian non-financial sectors). This result conforms with our apriori expectation, and the result of this analysis is consistent with the finding of Ullah et al. (2012), but not with the findings of Afza and Mizra (2010), Al-Qahtani and Ajina (2017), Anh and Tuan (2019) and Al-Gharaibeh et al.(2013). The ownership approaches in various societies may be expected to reflect in the significance of managerial ownership to dividend payout.

Ownership Concentration (OWC): Regression = -0.9506(0.038), this suggests that ownership concentration has significant negative impact on dividend payout. We thus reject H₂ (that is, ownership concentration has no significant impact on dividend payouts by Nigerian non-financial firms). The result of this analysis conforms to our apriori expectation, and is largely consistent with the findings of Yanxin at al. (2007), Al-Qahtani and Ajina (2017) and Anh and Tuan (2019). The seeming agreement in findings regarding ownership concentration may be due to the fact that such owners may usually be able to pursue whatever policy objectives they desire with dividend payout because of their ownership of a significant proportion of voting rights and control.

Firm Financial Leverage (LVG): Regression = 0.0048 (0.050) suggests leverage has a positive and significant influence on dividend payouts. This means that we should reject H₃

(that firm financial leverage has significant effect on corporate dividend payouts of firms in Nigerian non-financial sectors). The result agrees with our a priori expectation, and with the findings of Al-Gharaibeh et al. (2013), Filsarachi and Zarei (2017) and Rahman et al. (2014), but do not conform to the findings by Vo and Nguyen (2014), Afza and Mirza (2010) and Gusni (2017). The inconsistency among empirical findings might be as a result of differences in operating environments like laws, taxation and corporate governance practices.

Firm Size (SIZ): Regression = 0.6818(0.000), as a control variable, it shows that firm size has a positive and significant impact on dividend pay-outs.

Conclusion

The main objective of this study was to examine the impact of ownership structure (managerial ownership and ownership concentration) and financial leverage on dividend pay-outs by firms in the non-financial sectors of Nigeria. To pursue this objective data were obtained from non-financial firms in Nigeria. Generally, the findings of the study conform to theoretical expectations. Overall, the R-squared value is 0.3350 which implies that there are many other variables in dividend pay-out. Some specific findings of our study are: managerial ownership negatively but insignificantly affects dividend pay-outs, ownership concentration significantly affects dividend pay-outs though the effect is negative and financial leverage significantly affects dividend pay-outs and the effect is positive.

Recommendations:

On the basis of these findings the following recommendations are made:

1. The Securities and Exchange Commission should consider specifying limits on the extent of managerial ownership so as to cater for the interests of outside shareholders who may have earning income as their investment objective.
2. The Securities and Exchange Commission should also consider specifying limits on the extent of ownership concentration so as to cater for the interests of minority shareholders who may have earning income as an investment objective,
3. Firms should learn to mainstream on using financial leveraging in financing their operations so as to balance off the weaknesses of one form of financing against the strengths of the other.

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