Concentrated Institutional Shareholdings and Dividend Pay-out of Deposit Money Banks in Nigeria

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pp 260-269

ABSTRACT

Dividend policy has been regarded as a pivotal issue in corporate finance and could be influenced by several factors. One of such factors is the ownership structure of a firm. Past studies have focused on the impact of institutional ownership on dividend policy decision and concentrated ownership on dividend policy decision in Nigeria, however few studies examined how concentration of institutional investors affect dividend policy. Hence, this necessitate the need for this research to determine if concentrated institutional ownership impact the dividend policy of deposit money banks in Nigeria between 2010- 2015. Data was extracted from the annual reports of the listed deposit money banks and different editions of the NSE fact book. Arellano-Bond/ first difference dynamic panel data Generalized Method of Moments (GMM) estimator was employed. It was found that concentrated institutional shareholdings, earnings and lagged dividend significantly affect the dividend payment of deposit money banks. The findings on concentrated institutional investors' shareholdings and dividend payment support the agency theory but negate the argument of the clientele effect theory. The results conclusively highlight the influence of institutional investors on dividend policy decision in Nigerian deposit money banks. Based on the findings, this study recommends that regulatory bodies like CBN, NDIC, and other complementary body like AMCON should intensify their effort in making the banking industry more attractive to institutional investors through shareholder protection policies as this will in turn facilitate an increase in their shareholdings and this should continuously be used in the interest of the minority investors.

Keywords: Dividend Pay-out, Institutional shareholders, Deposit money banks

1. Introduction

The financial service sector which includes depository institutions, investment products providers, insurance companies, credit and financing organizations and other providers of financial products play significant role in an economy using its huge earnings and equity market capitalization to promote financial stability, mobilizing trade and commerce and complementing the security programs of the government (Adeleye & Maiturare, 2012). One of the major policies that determine the survival and perpetual existence of this sector especially, the deposit money banks is the compensation or return due to the investors (dividend).

Dividend policy decision is an important finance decision which determines the proportion of earnings to be paid to investors (if dividend pay-out is agreed) and the proportion to be retained for investment purposes. Jensen (1986) and Rozeff (1982) argued that dividend policy could be used by firms to alleviate the agency problems because the managers could use free cash flow for their private benefits if they are not paid out as dividends to the investors. Hence, agency costs could be controlled by putting in place an effective dividend pay-out policy which makes dividend policy decision a vital tool that could be used in resolving the conflicting interest between investors and managers, even though the types of investors of a firm and their demand for dividend differs (Truong & Heaney, 2007).

Ownership structure which has been documented in the literature to be one of the firm-specific factors that influences dividend is not only relevant as regards the number of shares held by a shareholder (concentrated ownership) but also the identity and nature of the investors (i.e foreign, managerial, individual, government or institutional investors) (Charles & Theodora, 2013). This is based on the fact that institutional shareholdings are mostly concentrated among firms. Concentrated ownership is a type of ownership structure where large investors hold a sizeable amount of the equity shareholdings of a company. A shareholder of a company is said to have concentrated ownership if holds at least 5% of the company's equity share capital. Although, ownership could be concentrated in the hands of high net worth individual, managerial or institutional investor, but in recent times, concentrated institutional ownership has become prevalent since most institutional investors like banks, insurance firms and investment house now dominate as the large block-holders of a company (**Ullah, Fida & Khan,** 2012).

This study is motivated by the dominance of institutional investors on the Nigeria Stock Exchange (NSE), the institutional composition increased from 47.17% to 67.86% in 2015 (NSE Fact Book, 2015). This affects the different sectors including the financial service sector of the stock exchange. Despite the attendant benefits of institutional investors, it may be a cause for concern when they become concentrated by holding block of shares in the firm as it is widely held in the literature that block holders use the shares held to influence firm's important decisions such as election of board members and replacement of Chief Executive officer (CEO) or poor management with their voting power (Idris & Hussaini, 2016). The impact of such influence may extend to dividend pay-out policies of the firm.

In addition to the above, the impact of institutional shareholdings on dividend pay-out policies remains inconclusive as different researchers found different results which could be as a result of difference in sectors, countries, methodology and time period. Thus, it is necessary in the light of the above stated problems to investigate the impact of concentrated institutional ownership on dividend policy of deposit money banks in Nigeria. This led to raising a research question for the study: What is the impact of concentrated institutional investors' shareholdings on dividend policy? In line with the research question, the objective of the study is to determine the impact of concentrated institutional ownership on the dividend policy of quoted deposit money banks in Nigeria.

This study builds on past literature that documented dividend policy decision as a mitigating tool for resolving conflicting interest between managers and investors; and that concentrated institutional investors use their substantial shareholdings in influencing the payout decision. Although different studies have been carried out between institutional ownership and dividend policy and concentrated ownership and dividend policy (Idriset al., 2016; Kabiru, Adeiza & Muhibudeen, 2015; Masoyi, Abubakar & Adamu, 2016; Mukhtar, 2015; Nuraddeed & Hasnah, 2015; Ullah et al., 2012), mixed findings were obtained and most of the prior works focused on non-financial firms while this study focuses on financial firms. It is vital to study this sector as it holds about 40% of the total market capitalization of the Nigeria Stock exchange with major contribution from the deposit money banks. More so, the contribution of the banking sector to the economy cannot be overemphasized and failure of the sector would have a contagion effect on the entire financial system and the economy at large (NSE, 2015).

In addition, this study seeks to extend the contribution of prior studies, which have focused only on institutional ownership and dividend policy and also on concentrated ownership and dividend policy in Nigeria, by focusing on concentrated institutional ownership. This is because it is believed that block shareholdings held by these institutional investors may enhance or strengthen their ability to influence corporate policies. Hence this necessitates the need for this research work. This study will add to the few finance literatures on concentrated institutional ownership and dividend policy especially in developing countries like Nigeria and it will be of help to investors in making decision on the suitable portfolio they can hold to get desired dividend. It will be of great importance to the regulations on dividend in ensuring that effective dividend policy that will beneficial to all the classes of investors of firms are put in place.

Hence, this study will focus on the impact of concentrated institutional ownership on the dividend policy of quoted Deposit money banks in the financial service sector in Nigeria with the use of the 15 quoted deposit money banks on the floor of the Nigeria Stock Exchange. The choice of 2010-2015 as the period to be used for this study emanates from the Central bank of Nigeria (CBN) directive in August 2010 to all banks to divest from their subsidiaries including insurance companies and other financial firms to enable them concentrate on their core banking business. This affected the major policies made by the finance manager and which dividend policy happens to be one of such policies. The period of 2016 was excluded because its annual reports have not been published when this study was carried out.

2. Literature Review

2.1 Theoretical Considerations

Two different theories have been used to offer explanation on the relationship observed in this study: agency theory; and clientele theory. Agency theory was propounded by Mitnick (1973) and Ross (1973) from the economic theory of agency and institutional theory of agency perspectives respectively but advanced by Jensen and Meckling (1976) where it was argued that agency conflicts exist between managers and investors in organisation as their interest does not align. Hence, their theory suggested how this conflict can be resolved is through payment of dividend to investors. This would result to a reduction in the agency cost incurred by investors and also the free cash available to managers to meet private benefits thereby forcing the managers to raise capital from the capital market, which would subject them to capital market monitoring and also compel them to act in the interest of the investors. Thus, dividend payment as supported by Rozeff (1982) and Easterbrook (1984) could be used as an internal tool in reducing agency cost incurred by investors in aligning their interest with manager and the concentration of institutional investors could reduce agency cost through the necessary incentives provided to monitor the management. Moreover, dividends and shareholder control are regarded as substitute monitoring devices in resolving agency conflicts between managers and shareholders. This instigates institutional investors to taking keen interest in the management of the firm than diffuse and small investors (Khan, 2005; Scott & Tapia, 2014). This theory postulate that the increased shareholdings of institutional investors will make them influence the shareholders to distribute free cash flow as dividend which will result in higher dividend payment.

On the other hand, Maury and Pajuste (2002) posit that conflict could arise between controlling and minority investors in a firmbecause they believe the concentrated shareholders have managerial relationship which makes collusion to possibly exist between them. The postulation that results from this theory is that controlling institutional investors use their shareholdings to expropriate the minority shareholders after conniving with managers to pay lower dividend or reduce dividend payment.

Clientele Effect theory on the other hand holds that the dividend policy of a firm depends on the dividend preference of different group of investors known as clientele who have different source and level of income. The theory was propounded by Pettit (1977) and it was concluded that investors who earn high income are mostly in the high tax bracket and in a bid to reduce tax burden, prefer low dividend payouts or no dividend but instead demand for capital gains while investors in the low income and low tax bracket prefer high dividend which will serve as another source of income (Pettit, 1977). Allen, Bernardo and Welch (2000) assert that institutional investors in countries that enjoy tax advantage are less taxed than individual investors. This makes such institutional investors and individual investors in the low tax bracket prefer firms that pay higher dividend.

On the other hand, institutional investors in countries that do not enjoy tax advantage prefers capital gains to dividend because such institutional investors earn higher income and belong to higher tax bracket as compared to individual investors. This is the case of institutional investors in Nigeria, this theory therefore postulate that such institutional investors will prefer capital gains to dividend payment, thus it is expected that higher proportion of institutional investors will lead to low dividend payment. Hence, institutional investors invest in firms that satisfy their choice of dividend or they influence the dividend policy to be adopted in such firms.

2.2 Empirical Evidence

Different empirical studies have been carried out over the years both locally and internationally on the impact of institutional, concentrated ownership and concentrated institutional ownership on dividend policy. Existing literature related to this study have reported mixed findings. Different studies that found positive relationship between institutional ownership and dividend policy (**Al-Gharaibeh, Zurigat & Al-Harahsheh, 2013; Atif & Asmatullah, 2014;** Idris et al., 2016; **Kabiru et al., 2015;** Khan, 2005; Masoyi et al., 2016; Scott, 2011; Sharif, Salehi & Bahadori, 2010; Shukla, 2014). These studies suggest that increase in the institutional shareholdings will lead to increase in dividend payment. These studies further argued that firms with institutional shareholders distribute high dividend especially when such shareholders have keen interest in the management of the firm and in a bid to secure their investments, they consider dividend payment as the only tool that could reduce expropriation by managers.

Other arguments have been given in support of the positive relationship. Firms with increased institutional investors have been argued by Aoki (1984) and Lowenstein (1988) as a strong force to be reckoned with in the maximization of shareholders' wealth because their huge investment give them access to information and make them act as strong monitors in reducing agency cost through dividend payment.The control and ownership structure of a firm affect the dividend policy decision of a firm, the influence of the institutional ownership cannot be overstated in this decision as they play significant functions, the higher the institutional ownership, the higher their ability to control the agency problem by influencing the dividend payout decision (Masoyi et al., 2016; Sharif, 2010).

Contrarily, several studies reported a negative relationship between institutional ownership and dividends pay-out (Azzam, 2010; Huda & Abdullah, 2014**;** Obradovich & Gill, 2013; **Rigi & Ebadi, 2014;** Thanatawee, 2014; Wen & Jia, 2010). Thus, increase in the institutional shareholdings will lead to decrease in dividend payment. These studies argued that firms with large institutional shareholding have a tendency to pay lower dividends as the institutional shareholders do not monitor managerial actions or exert pressure on management in decision related to dividend payment and they also encourage the use of accumulated profits as resources to be invested in new projects.

In support of these studies that reported negative relationship, Wen and Jia (2010) argued that institutional investors are not active monitors that protect shareholder interests by increasing dividend pay-out but instead, institutional investors, especially investment advisors and insurance companies' ownerships collude with managers of bank holding companies to reduce dividend pay-out, trade with insider information advantage and engage in high risk strategies. Similarly, increased shareholdings by institutional investors also make expropriation easier (Thanatawee, 2014).

Some other studies discovered insignificant relationship between institutional ownership and dividend pay-out, among which are Elston, Hofler & Lee (2004), Grinstein et al. (2005), Hatem (2013) **and Mossadak, Fontaine & Khemakhem (2016)**. They argued that institutional shareholders are indifferent between dividend and capital gains, hence they are passive about dividend decision.

The relationship between concentrated ownership and dividend policy has been documented in literature to have two conflicting arguments. The first perspective is that concentrated ownership result to distribution of less cash dividend due to less agency conflicts and less pressure on the management by investors. The second perspective is that block investors have enough power to pressurize companies to pay dividend in order to reduce agency conflicts in a bid to protect their investments (Harada & Nguyen, 2006).

Several studies suggest that a positive relationship exist between concentrated ownership and dividend policy (**Asadi, Jangi & Harandeh, 2013;** Azzam, 2010; Berzins, Bohren & Stacescu, 2015; Hatem, 2013; Masoyi et al., 2016; Mehrani, Moradi & Eskandor, 2011**; Mossadak et al., 2016;** Ramli, 2010; **Saif et al., 2013;** Sakinc et al., 2015; Thanatawee, 2014**).** This implies that increase in the shareholdings of large shareholders will lead to increase in dividend payment. **These studies argued that** increase in largest shareholders' share makes them intervene in the management decisions with the "one-share-one-vote" rule movement and with their substantial shareholdings they influence the dividend decision making policy of investee companies.

From another perspective, countries with a good investor protection which also reflect a developed capital market support high dividend payment. Firms in developed capital market make high dividend payment irrespective of available investment opportunities because they find it easy to raise external funds from the capital market compared to firms in undeveloped capital market who prefer to hold on to cash than pay dividend (La Porta, Lopez - de- Silanes, Shleifer & Vishny, 2000). Similarly, some studies reported that block shareholders require a high dividend payment in order to reduce agency costs which reduce the cash flow available to management for discretionary expenses (Berzins et al., 2015; Mossadak et al., 2016).

In contrast, the closer alignment of interests between managers and large investors could also justify a negative effect on dividend payout, such empirical studies include: Aguenaou et al. (2013); Aydin & Cavdar (2015); **Harada et al. (2006); How, Verhoeven & Wu (2008);** Idris et al. (2016), **Kabiru et al. (2015);** Maury et al. (2002) and **Rigi et al. (2014)**. Thus, increase in the shareholdings of large shareholders will lead to decrease in dividend payment. These studies support collusion between controlling shareholders and managers in generating private benefits that are not shared with minority shareholders which lead to a lower dividend payment.

A firm with concentrated ownership makes low dividend payment even when low or high operating profitability is declared for the period. This pattern of dividend payment supports the assumption of expropriation hypothesis by dominant shareholders who extract private benefit from resources under their control at the expense of minority shareholders. Their findings also discovered that such firms will not likely pay dividend when there is improvement in investment opportunities as this will protect the current shareholders' interest (**Harada et al., 2006; How, et al., 2008). Contrary to studies that reported significant relationship, Mukhtar (2015)** discovered insignificant relationship between concentrated ownership and dividend pay-out and supported his findings with Miller and Modigliani (1961) argument that the value of a firm is determined solely by the earnings power of its assets and investments; hence, capital gains and dividends substitute each other.

Considerable studies have been conducted on concentrated ownership and dividend and institutional ownership and dividend policy. However, few studies examine how concentration of institutional investors affects dividend policy. Moreso, the few studies have been conducted outside Nigeria and the result of their findings cannot be used in Nigeria due to differences in market structure and regulatory requirements on dividend and on the financial sector. This research seeks to investigate this claim in Nigeria which has been previously ignored, as attention has been on institutional ownership and dividend payment and concentrated ownership and dividend payment in different sectors. Thus, this study seeks to advance previous studies by conducting research on the impact of concentrated institutional ownership on dividend policy of the quoted Nigeria deposit money banks. Besides concentrated institutional shareholdings, other variables such as leverage, growth opportunities, earnings, liquidity and past dividend will be included in the model as they are held as common determinants of dividend payment by prior studies (**Al- Gharaibeh et al., 2013;** Badu, 2013; Jensen, 1986; Naceur, Goaied & Belanes, 2006; Robert, 2015).

3. Research Methods

The population used consist of all the 15 deposit money banks quoted on the Nigeria Stock Exchange (NSE) over a period of 6years (2010- 2015). Data were collected from all members of the population. The secondary data used for this study was extracted from the annual reports of the listed deposit money banks and different editions of the NSE fact book. An unbalanced Panel data was used for the analysis and a dynamic model was adopted because the dependent variable depends on its own past results which could be due to reverse causality. Arellano-Bond/ First difference Dynamic Panel Data Generalized Method of Moments (GMM) was used in estimating dynamic panel data because it is designed for panels with few times series observations per individual and large sample in the cross-section dimension. It relies on minimal assumptions and provides consistent estimates over other methods like Ordinary least square (OLS), General least square (GLS).

The model of Lintner (1956) which provides a good intuitive explanation of dividend payments was adapted for this study which is stated below:

$$Dt = \alpha + b_1 P_t + b_2 D_{t-1} + \mu_t$$

Where;

D_t = total equity dividend in period 't'

D_{t-1} = total equity dividend in period 't-1'

P_t = net current earnings after tax in period 't'

μ_t = error term

The model was modified as stated below:

$$D_{it} = \alpha + \beta_1 CIS_{it} + \beta_2 P_{it} + \beta_3 D_{it-1} + \beta_4 LIQ_{it} + \beta_5 LEV_{it} + \beta_6 GWTH_{it} + \mu_{it}$$

The detailed description of variables in the regression model is presented in Table 1.

Table 1: Description of variables of the study

S/N	Variable	Symbol	Measure/ Proxy	Back up literatures
1.	Dividend	D	Total equity dividend paid	Lintner's (1956) model
2.	Concentrated Institutional Shareholdings	CIS	Percentage of shares held by institutional investors with 5% and above	Idris et al. (2016) , Kabiru et al. (2015), Ullah et al. (2012),Lamba and Stapledon (2001)
3.	Earnings	P	Net current earnings after tax	As stated by Lintner's (1956) model as one of the most important determinants of dividend payment
4.	Past Dividend	D_{t-1}	Lagged total equ ity dividend	As stated by Lintner's (1956) model as one of the most important determinants of dividend payment
5.	Liquidity	LIQ	Liquid assets / Customer deposits	CBN guideline 2015
6.	Leverage	LEV	Total debt/ Total Assets	Hasson, Tran and Quack (2016) , Manneh and Naser (2015), Hutagalung, Yahya, Kamarudin and Osman (2013)
7.	Growth Opportunities	GWTH	Total asset ^{1} – Total assets ^{0}/ Total asset ^{0}	Naceur, Goaied&Belanes (2006), Hutagalung et al. (2013)

4. Results and Discussion

Table 2 presents the summary statistics of the variables in the model. Large values in absolute terms were rescaled by dividing in millions to avoid measurement unit error as suggested by Wooldridge (2013).

Table 2: Summary Statistics

Statistic	D (₦ 'billion)	CIS(%)	P (₦'billion)	LIQ (%)	LEV (%)	GWTH(%)
Mean	9.9	25.0	26.7	47.5	85.9	18.7
Minimum	0	0	-8.1	15.1	71.9	-29.7
Maximum	62.8	100	118.0	97	116.1	142.6
Observation	74	74	74	74	74	74

Source: Author's computation (2017)

Table 2 shows that the banks paid an average dividend of N9.9'bnand the dividend paid during the years covered range between 0 and N62.8'bn and which indicate that some firms did not pay dividend at a point during the period and the highest dividend paid is N62.8'bn. On the average, concentrated institutional shareholdings (CIS) of the banks is 25% of the total shareholdings over the study period. The minimum value of CIS shows that some firms do not have up to 5% institutional shareholdings throughout the period. The banks earned an average amount of N26.7'bn while the highest earnings over the period stood at N 118.0'bn and the minimum value of - N8.1'bn indicate that some banks reported losses. Averagely, the banks hold a liquid fund of 47.5% with a minimum and maximum liquidity value of 15.1%and 97% respectively indicating that some firms have liquidity issues while others have excess liquid funds at their disposal. The average value of Leverage (LEV) which stood at 85.9% shows that the banks are highly geared and with a range of leverage between 71.9% and 116.1% depicts that the banks uses more of debt to finance their operations. The growth opportunities (GWTH) with an average value of 18.7% shows that banks have profitable investment opportunities and their minimum and maximum value of -29.7% and 142.6%indicating that the banks exist in a growing industry with many investment opportunities.

The variance inflation Factor (VIF) was used to determine the presence of multicollinearity among the independent variables. The rule of thumb for the VIF test states that the VIF must be less than 10, to confirm that the multicollinearity is within a tolerable limit.

Table 3: Result of the Multicollinearity Test.

VARIABLE	VIF	1/VIF
CIS	1.15	0.872437
P	1.15	0.866771
LIQ	1.19	0.838717
LEV	1.11	0.898561
GWTH	1.15	0.867312

Source: Author's computation (2017)

Table 3 shows that all the variables have a VIF value less than 10, thus indicating that the multicollinearity in the model is within tolerable limits. Table 4 reports the results of the model estimation estimated by the Arellano-Bond/ First difference dynamic panel data GMM estimator.

Table 4: Arellano -Bond/ First difference Dynamic Panel Data GMM Estimation Results

Dependent Variable=D

Regressor	Coefficient	Std. error	z-statistic	p-value
CIS	0.1736	0.0837	2.07	0.038**
P	0.1077	0.0630	1.71	0.088*
D_{t-1}	0.4457	0.2008	2.22	0.026**
LIQ	-0.1433	0.1007	-1.42	0.155
LEV	0.9283	0.6523	1.42	0.155
GWTH	-0.0282	0.0387	-0.73	0.466

Wald x^2(p-value) = 26.26 (0.0000)*

AR(1) in first differences = -1.78 (0.075)

AR(2) in first differences = 0.44 (0.657)

Sargan test = 25.85 (0.258)

Note: ** and * indicate statistically significant at 5% and 10% significance level respectively and p-value in parenthesis.

Source: Author's computation (2017)

Table 4 shows that concentrated institutional shareholdings (CIS) is significantly related to dividend as 1% increase in CIS will cause an increase of N0.1736952'bn in dividend. This result is consistent with the findings of Berzins et al. (2015), Mehrani et al. (2011), Ramli, 2010, Sakincet al., (2015), Asadiet al., (2013), Saifet al., (2013) but contradict Mauryet al., (2002), Aydinet al., (2015), Harada et al., (2006), How et al., (2008). The significance of the result supports the agency theory which suggests that agency problem can be resolved through available monitoring incentives of concentrated institutional investors to pressurize the managers to distribute free cash flow as dividendbut contradict the argument of clientele effect theory that institutional investors in countries that do not enjoy tax advantage prefers capital gains to dividend. Earnings (P) has a significant relationship with dividend (D), as 1N increase in earnings will lead to N0.107'bn increase in dividend which implies that the earnings generated is linked to dividend payment, profitable firms have high tendency to pay high dividend. This supports Lintner's (1956) postulation that earning is a determinant of present dividend payment. Past dividend is significantly related to dividend payment also supporting Lintner's (1956) argument that previous dividend determines present or future payment of dividend.

Liquidity (LIQ), Leverage (LEV) and Growth opportunities (GWTH) do not affect the dividend payment of deposit money banks in Nigeria. The Wald x2 is statistically significant at 1% significance level and this indicates that the model is statistically significant. The null hypothesis of first order autocorrelation is rejected at 10% significance level while second order autocorrelation is accepted. The Sargan test accepts the null hypothesis of over identifying restrictions, thus indicating that the instrumental variables are valid. Implicitly, this study revealed that concentrated institutional shareholdings, earnings and lagged dividend are determinants of dividend payment by deposit money banks in Nigeria.

1. Conclusion

This paper examined the impact of concentrated institutional ownership on dividend policy in deposit money banks in Nigeria between 2010 and 2015 using Arellano-Bond/ First difference dynamic panel data GMM estimator. The results highlight the influence of institutional investors on dividend policy decision in Nigerian deposit money banks. Furthermore, concentrated institutional shareholdings, lagged dividend and earnings were significant determinants of dividend payment in deposit money banks in Nigeria.

Based on these findings, this study recommends that Regulatory bodies like CBN, NDIC and other complementary bodies like AMCON should intensify their effort in making the banking industry more attractive to institutional investors through shareholder protection policies, as this will in turn facilitate an increase in their shareholdings and this should continuously be used in the interest of the minority investors.

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