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Ownership Concentration and Dividend Policy of Listed Consumer Goods Companies in Nigeria

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Abstract: *This research investigated how the level of ownership concentration impacts the dividend policies of publicly traded consumer goods companies in Nigeria. The study employed an ex-post facto research design and analyzed secondary data spanning 11 years (2011-2021) extracted from the annual reports and accounts of the companies being studied. The results of the analysis revealed that a high level of ownership concentration has a significant and negative influence on the dividend payout ratio of these consumer goods companies in Nigeria. Consequently, it is advisable to steer clear of excessively concentrated ownership, as it can be detrimental to the decisions regarding dividends. Managers of listed consumer goods companies in Nigeria should be mindful of this inverse relationship between ownership concentration and dividend decisions when making strategic choices to enhance their efficiency and reduce potential conflicts of interest, particularly as minority shareholders may have a strong interest in dividend-related decisions. The researcher wants to appreciate TETFUND for funding the research project.*

Keywords *Ownership Concentration, Dividend Payout Ratio, Consumer goods Companies.*

b. Introduction

Maximizing shareholders' wealth is a primary goal that management aims to achieve by implementing specific administrative and financial policies. The question of dividend policy has been a subject of interest in financial literature since the inception of Joint Stock Companies. This policy hinges on investors' preferences for capital gains over immediate income, their willingness to forgo current dividends for future returns, and their perception of the risks tied to delaying returns. The central objective of a dividend policy should be to optimize returns for shareholders, thereby maximizing the value of their investments. Market imperfections and uncertainties lead shareholders to place a higher value on immediate dividends compared to future dividends and capital gains (Simon, John, Jonah, Julius & Patrick, 2012).

In line with this, one of the commonly asked questions in dividend payments is whether a company should distribute profits to its shareholders, following the "bird in the hand" theory, or reinvest the money for potentially better future returns, as per the dividend irrelevancy theory. It is evident that companies aim to provide as much as possible to shareholders through dividends, but they also

have the option to reinvest the funds. In developing countries like Nigeria, investors often consider a firm's performance when buying equity shares from the secondary market, and dividends are a key indicator of performance, influencing the perceived value of corporate shares (Chinyere, 2014).

Boards of directors of listed consumer goods companies have faced criticism for the decline in shareholders' wealth. Some companies have experienced extended periods of losses, leading to a significant drop in their share prices. Consequently, investors demand dividends instead of waiting for uncertain capital gains, aligning with the dividend relevancy theory and Gordon's "bird in the hand" concept.

Different types of ownership are believed to significantly influence corporate decisions, as they have varying strategies for dealing with managerial agency conflicts and diverse investment priorities. Ownership structure impacts corporate choices by considering the concentration and resources among owners, which establish their relative abilities, power, and incentives for manager monitoring. Ownership types range from individuals, banks, mutual funds, corporations, to government entities. Each type holds different goals and, therefore, exerts different influence on a firm's performance. For instance, financial shareholders may focus on short-term returns, while corporate shareholders prioritize long-term relationships (Zorica, 2014).

The linkage between ownership concentration and dividend policy has been a heavily researched area, suggesting that ownership concentration mechanisms enhance dividend policies by mitigating agency conflicts between owners and managers. Consequently, a firm's efficiency is greatly influenced by the alignment of interests between shareholders and managers. Corporate board characteristics and ownership concentration are considered vital, as the effectiveness of board members plays a pivotal role in guiding management and overseeing their decisions. Board features such as size, the presence of independent, executive, and non-executive directors, significantly impact firm valuation (Chen & Al-Najjar, 2012).

Concentrated owners, with substantial holdings in a firm's ownership structure, provide an effective control mechanism through which management behavior can be monitored and controlled, thereby influencing the firm's performance. Their decisions can also impact the propensity to increase dividends, potentially moderating the relationship between board composition and dividend decisions. Hence, this study aims to explore the impact of ownership concentration on the dividend policy of listed consumer goods companies in Nigeria.

2. Literature Review

Introduction

This section is structured to offer thoughtful and evaluative assessments of concept definitions and literature related to dividend policy and ownership concentration. More specifically, it is divided into three main components: a conceptual framework, an empirical review, and a theoretical framework.

2.1 Conceptual Framework

2.1.1 The Concept of Dividend Policy

The notion of a dividend is characterized as an allocation of profits to shareholders after the deduction of taxes and fixed interest obligations on debt capital (Bierman, 2001). According to Baker, Powell, and Veit (2002), a dividend refers to a cash payment from a company's earnings, declared by the company's board of directors and distributed among its stockholders. In essence, dividends represent a shareholder's portion of the company's profits, returned to them as part owners of the company. It's worth noting that dividend payments can serve as a signal to investors regarding the company's adherence to sound corporate governance practices (Jones, 1991).

Dividend policy, as explained by Abdullah, Ahmad, and Roslan (2012), is a crucial financial decision involving the distribution of returns to shareholders in relation to their investments. Virtually every firm in a particular industry adheres to some form of dividend payment pattern or policy, which essentially serves as a financial indicator of the firm. Consequently, the demand for a company's shares is somewhat contingent on its dividend policy. Dividend policy holds significant importance within the realm of corporate finance, as dividends represent substantial cash outflows for many corporations. These dividends are typically disbursed from the company's current year profits or sometimes from general reserves. The common form of dividend payment is in cash, termed "cash dividend." An alternative approach for distributing earnings is via "stock dividend" (bonus issue), which supplements cash dividends. Importantly, while cash dividends can adversely affect a company's liquidity position and reserves, stock dividends do not have a direct impact on the firm's overall net worth, as they capitalize on the owners' equity portion.

2.1.2 Concept of Ownership Concentration

The concept of ownership concentration, it pertains to the number of major shareholders and the total percentage of shares owned by the company. Major shareholders are generally those who possess at least 5% of a company's issued shares (Gunathilaka, 2014). Ownership concentration plays a crucial role in internal governance, enabling owners to exert influence over the company's management to safeguard their interests. Benjamin and Zain (2015) suggest that high ownership concentration may lead to reduced voluntary disclosure, as shareholders may utilize internal communication channels to obtain information.

Different types of ownership are widely acknowledged to have a significant impact on corporate governance and firm performance. The relationship between large shareholders and firm performance, as argued by Bolbol (2012) and Javid and Iqbal (2008), hinges on the identity of these major shareholders. The ownership structure of a firm influences its performance due to several factors. Firstly, variations in ownership concentration and resource allocation among owners determine their relative capacity, authority, and motivations to monitor the management. This phenomenon encompasses ownership by individuals, banks, mutual funds, corporations, and government entities. Secondly, distinct owners have diverse objectives, and as a result, they wield

differing influences over a firm's performance. Financial shareholders may emphasize short-term investment returns, while corporate shareholders may prioritize establishing enduring relationships (Dissanayake, 2021).

2.2 Literatures on Ownership Concentration and Dividend Policy

In the context of literature on ownership concentration and dividend policy, the level of ownership concentration has been a subject of inquiry with respect to its impact on corporate dividend policies. It has been argued that the greater the concentration of shareholders, the more likely it is that firms will opt for less transparency in their operations. This lack of transparency often leads to heightened conflicts of interest among large shareholders, which, in turn, leads to lower dividend payouts (Porta, Lopez-De-Silanes, Shleifer, and Vishny, 2000).

A study by Tran and Le Quoc (2019) examined the potential link between ownership structure and dividend payout policy in Vietnam-listed companies from 2009 to 2015. The results showed a linear relationship between institutional ownership and the dividend rate, though it was not statistically significant for the relationship between managerial ownership and dividend payout ratios.

Similarly, Arora and Srivastava (2019) explored the relationship between ownership concentration and dividend payout in India between 2010 and 2017. They found a positive correlation between ownership concentration and dividend payout, in contrast to findings in many developed markets. It was noted that corporate dividend policy in emerging markets can differ from that in developed markets. Additionally, the presence of a large shareholder outside the promoter group had a negative influence on the dividend payout, with this influence being more pronounced for financial companies and depending on the size of the shareholding of the large shareholder relative to that of the promoter group.

In another study, Murtaza, Ahmad, Aguir, and Batool (2020) investigated the role of ownership concentration and dividend policy on the performance of chemical sector firms in Pakistan. The findings indicated a significant positive association between ownership concentration and firm financial performance, suggesting that larger shareholders may align managerial incentives with shareholder interests and effectively monitor the management. Moreover, the dividend policy exhibited a significant positive relationship with return on assets (ROA).

Furthermore, Purbawangsa and Rahyuda (2021) conducted a study to analyze the direct and indirect effects of ownership structure, board composition, dividend policy, financial performance, and stock returns in the manufacturing industry on the Indonesia Stock Exchange. The results revealed that ownership structure significantly influenced the composition of the board of directors and dividend policy. However, ownership structure did not significantly impact stock returns and financial performance. The board of directors' composition had a significant effect on dividend

policy and financial performance but not on stock returns. Finally, the dividend policy significantly affected financial performance but had no significant impact on stock returns.

2.3 Theoretical Framework

Numerous theories have emerged to elucidate the connection between ownership concentration and Corporate Dividend Policy. These theories encompass the Dividend Irrelevance Theory, Signaling Theory, and the Agency Theory. According to Miller and Modigliani (1961), they postulated that dividend policy holds no significance for shareholders. In their view, stockholder wealth remains unaltered as long as all elements of investment policy remain constant, and any augmentation in the present payout is funded by the issuance of fairly priced stocks.

Moreover, the Agency Theory posits that the principal-agent relationship is typically regarded as the foundation for discussions concerning board composition, rooted in the classic work "The Modern Corporation and Private Property" by Berle and Means (1932). The essential agency quandary in contemporary firms largely results from the division between financing and management. Modern corporations suffer from the disjunction of ownership and control, consequently being overseen by professional managers (agents) who are not directly accountable to widely dispersed shareholders. The central issue revolves around ensuring that managers act in the best interests of shareholders to mitigate the costs associated with the principal-agent relationship. Additionally, dividend policies can help in reducing agency costs by compelling managers to procure funds from the equity market. When this transpires, monitoring intensifies, as financial institutions, offering the funding, conduct due diligence on the management. The heightened scrutiny leads to diminished agency costs (Easterbrook, 1984). Consequently, this study adopts the Agency Theory as its theoretical foundation for elucidating board composition, ownership concentration, and dividend policy.

3. METHODOLOGY

This section primarily addresses the methodologies to be employed for data collection, analysis, and interpretation in the study. It encompasses the research design, the study's target population, the sampling technique and sample size, the data collection source and method, data analysis techniques, as well as the study's variables. The chosen research design is the correlational research design. This selection is based on its capability to investigate the connections between the variables under scrutiny, yielding pertinent findings for the research hypotheses. Thus, a non-survey design will be employed to achieve the research objectives, which center on assessing how ownership concentration moderates the relationship between board composition and dividend policy within listed consumer goods companies on the Nigerian Stock Exchange.

Population of the Study

The study's population consists of all twenty (20) consumer goods industry companies in Nigeria that were listed on the first-tier securities market of the Nigerian Stock Exchange as of January 1, 2020.

A filtering technique was employed using specific criteria to determine the companies included in the working population. To be part of this population, a company had to meet the following conditions: being listed on the Nigerian Stock Exchange prior to 2010, maintaining a consistent

fiscal year during the specified period, having accessible and available data, and distributing dividends annually.

Application of these criteria led to the selection of 16 companies. However, Union Dicon, which reported no sales and operated at a loss for five consecutive periods, was excluded from the sample. The resulting sample size for the study is detailed in Table 3.2.

Table 3.3 Variables of the Study and their Measurement

Variables	Measurement
	Dependent Variables
Dividend Payout Ratio (DPR)	DPR is measure as DPS/EPS as used by Tahir, Rahman & Masri, (2020) and Musa (2015); Ordu, Enekwe and Anyanwaokoro, 2014; Ajayi and Seyingbo, 2015
	Independent Variables
Ownership Concentration (OC)	OSC is measure as those with5% and above out of the total shares in issue as used by Gunathilaka, (2014).
	Control Variables
Firm size	FS is measured as the log of total assets
Leverage (LEV)	LEV is measure as the total liabilities divided by the total assets as used by Chee, Pantamee & Razman (2020).
Liquidity (LQD)	LQR is measure as the current assets divided by the current liabilities as used by Chee, Pantamee & Razman (2020).

Source: Literature review, 2020.

The data was subjected to analysis using multiple regression methods, which is a statistical approach for ascertaining the connection between two or more variables. This connection is represented in the form of an equation that forecasts a response variable based on a function involving the predictor variables and associated parameters. The model is constructed within an empirical framework, with ownership concentration serving as the independent variable, dividend policy as the dependent variable, and firm size, leverage, and liquidity as control variables. These control variables are considered due to their impact on a company's capacity to make dividend payments. The regression models encapsulating the study's hypotheses are outlined below:

$DPR_{it} = \beta_0 + \beta_1 OC_{it} + \beta_2 FS_{it} + \beta_3 LEV_{it} + \beta_4 LQD_{it} + \varepsilon_{it.}$

DPR = Dividend Payout Ratio
OC = Ownership Concentration
FS = Firm size
LEV= Leverage
LQD= Liquidity
β_0 = Is the constant (i.e. the intercept)
$\beta_1 – \beta_6$ = coefficient of the independent variable (i.e. the slope)
e = Error term

4. RESULTS AND DISCUSSION

This section presents analyses and interprets the data generated for the study and the data relating to each of the statistical hypotheses of the study were presented and analyzed. The variables for measuring ownership concentration and dividend payout ratio are extracted from the annual reports and accounts of the sampled consumer goods companies listed on the Nigerian Stock exchange. The section presents the preliminary analysis of the sample using descriptive statistics, correlation and then the regression result of the dependent variable dividend payout ratio (DPR), the independent variable ownership concentration. In addition, the hypotheses of the study were also tested and inferences there from.

Descriptive Statistics

Table 4.1 furnishes a condensed overview of statistics pertaining to the study's variables. These summary statistics encompass indicators of central tendency, such as the mean, as well as measures of dispersion, which reveal the extent of variability within the distribution. This includes values like the standard deviation, and the minimum and maximum values for both the primary (dependent) variable and the explanatory (independent) variables. The purpose of this table is to present a snapshot of the descriptive statistics associated with the dependent and independent variables, enabling a better comprehension of the data's characteristics. These descriptive statistics offer an initial understanding of the data's properties, forming the foundation for the subsequent analytical processes.

Table 4.1 Descriptive statistics of the variables

Variables	Obs.	Mean	Std. Dev.	Min	Max
drp |	165	0.2712	0.32702	0	1.2
owc |	165	0.6840	1.3726	0.0029	6.3284
fs |	165	10.5164	0.8293	8.3513	12.0872
lev |	165	0.6379	0.4963	0.0034	1.5736
lqdty |	165	1.2804	1.0498	0.0681	9.8775

Source: Generated from Annual Report Data of the companies using STATA

Table 4.1 presents a summary of the statistics, offering insights into the characteristics of the variables. The data reveals that the average Dividend Payout Ratio (DPR) for listed consumer goods companies in Nigeria is approximately 27%, with a range spanning from a minimum of 0% to a maximum of 120% of their earnings. The considerable standard deviation of 0.3270 signifies substantial variability in the DPR among the companies under investigation.

In terms of Ownership Concentration, the mean value is 0.6840, with a minimum of 0.0029 and a maximum of 6.3284. The high standard deviation of 1.3726 indicates significant diversity in ownership concentration among the sampled companies.

Regarding Firm Size, measured by the logarithm of total assets, the mean is 10.5164, with a range from a minimum of 8.3513 to a maximum of 12.0872. However, the standard deviation of 0.8293 suggests that there is not a substantial level of dispersion in the sizes of the companies during the examined period.

Leverage, calculated as the ratio of total liabilities to total assets, has an average of 0.6379, with a minimum of 0.0034 and a maximum of 1.5736. The relatively high standard deviation of 0.4963 signifies considerable variation in the utilization of debt by the companies in the sample.

Likewise, for Liquidity, computed as the total current assets divided by total current liabilities, the mean value is 1.2840. The range spans from a minimum of 0.0681 to a maximum of 9.8775, and the standard deviation of 1.0498 suggests that the liquidity positions among the companies did not exhibit significant variation during the period.

Table 4.2 Correlation Matrix

Variables	dpr	owc	fs	lev	lqdty	vif
drp	1.0000					
owc	-0.2971	1.0000				1.20
fs	0.4301	-0.4027	1.0000			1.26
lev	-0.0497	0.0615	0.1113	1.0000		1.06
lqdty	0.0104	-0.0119	-0.1497	-0.1629	1.0000	1.07

Source: Regression results computed by the authors using STATA

Table 4.2 displays the correlation coefficients that reveal the relationships between the dependent variable (DPR) and the independent variables (ownership concentration, firm size, leverage, and liquidity). The correlation coefficient values can range from -1 to 1. The sign of the correlation coefficient signifies the direction of the relationship, whether it is positive or negative, while the absolute values of the coefficient indicate the strength, with larger values suggesting more robust relationships. It's important to note that the correlation coefficients on the main diagonal are always 1.0, as each variable has a perfect positive linear relationship with itself.

The correlation results presented in Table 4.2 demonstrate that two of the explanatory variables, namely ownership concentration and leverage, exhibit negative correlations with the Dependent Payout Ratio variable. In contrast, firm size and liquidity are positively correlated with the Dependent Payout Ratio.

However, the analysis also considered the possibility of multicollinearity, where two or more independent variables are correlated, indicating interdependence among these predictors. High multicollinearity can detrimentally affect the predictive capacity of the independent variables. To assess this, a Variance Inflation Factor (VIF) test was conducted, which provided evidence of the absence of collinearity. The VIF test results ranged from a minimum of 1.06 to a maximum of 1.20. It's important to note that a VIF of 5.00 or less can be taken as proof of the absence of collinearity (Samaila, 2014). Consequently, the relationships among the independent variables do not significantly impact the predictive capability of these variables.

Heteroskedasticity Test: The purpose of this test is to determine whether the variability of error terms remains consistent or not. The existence of heteroskedasticity indicates that the variation in the residuals or error terms is not uniform, which can have implications for inferences related to beta coefficients, the coefficient of determination (R2), t-statistics, and F-statistics in the study. The heteroskedasticity test ensures that the regression model effectively accommodates all the values of the independent variables. This can only be achieved if the residuals remain consistent across independent variables and are therefore random in nature. The outcome of the heteroskedasticity test reveals the presence of heteroskedasticity in the model, as indicated by a chi-square probability of 0.0012 (Refer to Appendix A). Subsequently, this issue was addressed through the application of the OLS robust test. Robust estimation is recommended when there is a strong suspicion of heteroskedasticity or when it is confirmed to exist.

Lagrange Multiplier (LM): A Lagrange Multiplier (LM) test was additionally performed to assist in the choice between a random effects regression and a basic OLS regression, particularly as the Hausman test indicated randomness in all three models. The LM test yielded a p-value of 0.0600 in the model, indicating a lack of significant differences among the companies. This result leads us to accept the null hypothesis and conclude that OLS is the suitable choice. Nonetheless, due to the existence of heteroskedasticity in all three models, the interpretation of robust OLS regression results was conducted (refer to Appendix A).

Table 4.3 Robust OLS Regression Results

drp |	Coefficients	Std. Err.	t	P>|t|
owc |	-0.0266025	0.0074455	-3.57	0.000
fs |	0.1579741	0.0259714	6.08	0.000
lev |	0.0192363	0.0213273	0.90	0.368
lqdty |	0.0229926	0.0184476	1.25	0.214
_cons |	-1.413585	0.2767559	-5.11	0.000

R-squared = 0.2020
Number of obs = 165
F(4, 160) = 23.34
Prob > F = 0.0000
Mean vif = 1.15
Hettest = 0.0012
LM test = 0.0600

Source: Regression results computed by the authors using STATA

The regression outcomes presented in Table 4.3 indicate a cumulative R-squared value of 0.2020, which represents the multiple coefficients of determination revealing the proportion of total variance in the dependent variable (dividend payout ratio) explained by the independent variables (ownership concentration, firm size, leverage, and liquidity) combined. In this context, it signifies that approximately 20% of the total variance in the dividend payout ratio of listed Nigerian consumer goods companies can be attributed to ownership concentration, firm size, leverage, and liquidity, while the remaining 80% of the variance is influenced by other unconsidered factors. Furthermore, the statistical significance of the model is confirmed by the p-value of 0.000 and an

F-statistics value of 23.34, which indicates its appropriateness and significance at a 5% significance level, in accordance with the rule of thumb (Hassan & Abubakar, 2012).

The specific findings presented in Table 4.3 reveal that ownership concentration exerts a negative and significant impact on the dividend payout ratio of listed consumer goods companies in Nigeria. This suggests that an increase in ownership concentration leads to a decrease in the dividend payout ratio of these companies, likely because concentrated ownership is often represented by institutional shareholders who prioritize capital gains over dividend payments. This result aligns with the conclusions of Naceur, Goaied, and Belanes (2006), who found no significant impact of shareholder concentration on dividend payout ratios in Tunisian companies, and Nguyen and Harada (2011), whose findings indicated a negative correlation between ownership concentration and dividend payments in relation to earnings and book equity.

However, this finding contradicts the results of Okafor, Ugochukwu, and Hillary (2016), whose empirical evidence suggested a positive but insignificant relationship between ownership concentration and dividend payout in Nigerian manufacturing firms. Similarly, Arora and Srivastava (2019) found a positive correlation between ownership concentration and dividend payouts.

On the other hand, firm size, measured by the natural logarithm of total assets, exhibits a positive and significant impact on the dividend payout ratio of listed consumer goods companies in Nigeria. This relationship is attributed to the fact that larger companies have greater resources that enable them to achieve economies of scale and consequently pay dividends. This result is consistent with the findings of Okafor, Ugochukwu, and Hillary (2016), who reported a positive and significant influence of firm size on dividend payout in Nigerian manufacturing firms.

Firm leverage, represented by the ratio of total liabilities to total assets, also shows a positive but statistically insignificant effect on the dividend payout ratio of listed consumer goods companies in Nigeria. This suggests that companies with higher debt ratios may face restrictions on dividend payments due to debt covenants. These findings align with the conclusions of Shafana and Sithy (2019), who observed no significant impact of leverage on dividend policies in non-financial companies in Sri Lanka. Tahir, Rahman, and Masri (2020) similarly supported the idea that financial leverage has a negative effect on dividend payout policy.

Furthermore, firm liquidity, measured by the ratio of current assets to current liabilities, exhibits a positive but statistically insignificant influence on the dividend payout ratio of listed consumer goods companies in Nigeria. This result contrasts with theoretical expectations that liquidity plays a role in influencing dividend payments. However, the lack of a significant impact of liquidity on dividend payout may be attributed to measures taken by these companies to mitigate the effects of COVID-19 on their performance.

In summary, ownership concentration has a negative and significant impact on the dividend payout ratio of listed consumer goods companies in Nigeria (with a coefficient of -0.0266 and a p-value of 0.000), indicating that high ownership concentration tends to influence management decisions

against declaring and paying dividends. This provides evidence for the rejection of the second null hypothesis in this study.

Conclusion and Recommendations

This research investigated how ownership concentration influences the dividend policies of consumer goods companies listed in Nigeria. The study's results lead to the conclusion that ownership concentration exerts a noteworthy negative impact on the dividend payout ratios of these listed companies in Nigeria. Consequently, it is advisable to steer clear of highly concentrated ownership structures, as they can have adverse effects on dividend-related choices. For the management of listed consumer goods companies in Nigeria, it is crucial to recognize the inverse relationship between ownership concentration and dividend decisions when making strategic choices. By doing so, they can enhance their operational efficiency and mitigate agency conflicts, especially considering the substantial interest that minority shareholders often have in dividend-related decisions.

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