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OWNERSHIP STRUCTURE AND DIVIDEND POLICY OF LISTED INSURANCE FIRMS IN NIGERIA

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Abstract

Dividend policy is a crucial decision taken by managers of firms, and it has great effect on the value of the firm. Dividend payment has been evidenced to reduce agency conflict; thus, reducing agency cost. This study examines the effect of ownership structure on dividend policy of listed insurance firms in Nigeria. Ownership structure was proxied by managerial ownership and institutional ownership. The study employs secondary data extracted from the audited financial reports of twenty six (26) sampled insurance firms listed on the Nigerian Stock Exchange (NSE) that have their annual financial reports available over the period 2013 to 2017. The study used fixed effect panel regression result for the analysis. The analysis revealed that managerial ownership has a significant effect on dividend policy with institutional ownership having a negative and insignificant effect on dividend policy. Based on the findings of the study, it is recommended that listed insurance firms in Nigeria should focus more on managerial ownership in their quest to achieve the payment of dividend to every shareholder. This has become necessary in view of the fact that managers having shareholdings in the firm will make them work wholeheartedly because of the return they would receive on their shareholdings.

Keywords: *ownership structure, dividend policy, managerial ownership and institutional ownership*

1. INTRODUCTION

Dividends are portion of firms' earnings distributed to shareholders as a result of their contribution to the firm's capital. Dividend policy is a practice of a firm to decide what portion of its earnings should be paid as dividend and retained. Dividend payout decision can be said to be a decision that plays an important role in determining firm's valuation. Since it is the joy of every firm to improve its valuation, the payment of dividend has a long way to influencing this. Hence,

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firms' dividend policy has to be one that favors investors as this will have effect on the firms' value.

Moreover, Dividend policy can be a form of control mechanism to reduce agency problem between the shareholders and managers as every shareholder wants to receive dividend; however, managers will choose to retain earnings (Ullah, Fida, & Khan, 2012). The non-payment of dividend by some firms is to make sure the firm has fund to invest in future projects while the shareholders do not see it from that perspective; they are only interested in receiving benefit from their investments. However, the fact that a firm does not pay dividend or pay low dividend does not mean such firm is saving for future investments or projects, it can also be as a result of poor performance or that the managers of the firm want to use resources for personal interest.

Therefore, managers must strike the balance in such a way that retaining earnings for project purpose does not affect the payment of dividend to the shareholders, as the shareholders are interested in getting return from their investments. More so, payment of dividend can mean maximizing shareholders' wealth; and if a firm is one that maximizes its shareholders' wealth, its value on the stock market will equally be compensated (Juhandi, Sudarma, & Aisjah, 2011). In Nigeria, firms listed on the stock exchange are not meeting the expectation of their shareholders as some firms did not distribute dividends to their shareholders recently. According to information obtained from the Nigeria Stock Exchange, eighty four (84) firms listed on the Nigerian Stock Exchange (NSE) have not paid dividends to their shareholders over the past five years, the figure represents 49 per cent of the one hundred and seventy one (171) companies listed on the daily official list of the NSE as at March 29, 2017 (Bello 2018). Similarly, shareholders of listed insurance firms are lamenting bitterly as the firms have been incapacitated to pay them dividends and other bonuses. According to Adeduro (2017), the Managing Director, Anchor Insurance Company in an interview with Guardians newspaper, the shareholders of insurance companies across the country are unhappy that their companies have not been paying dividend to them for years. The issue of dividend policy among the insurance firms in Nigeria can be said to be persistent, and if this is left unsolved, it will affect the nation at large because of the contribution of the sector to the nation's economy.

Dividend policy is a decision that is imperative as it is known to be influenced by firm's ownership structure (Ramli, 2010) Managerial ownership, institutional ownership, ownership concentration and non-executive director ownership are expected to reduce managers opportunistic discretions. In the stock market, shareholders of firms have different interest in respect to their contribution to the firm's capital. Therefore, they are expected to affect the dividend policy of the firm.

Several studies have been conducted on ownership structure and dividend policy both in developed and developing countries but the results of their findings are mixed. Some of these studies are (Mehrani, Moradi, & Eskandar, 2011); (Mossadak, Fontaine, & Khemakhem, 2016) ; (Lundgren, Lantz, & Lions, 2016) etc. However, some of them were conducted in other economies and those conducted in Nigeria were conducted in different sectors from the insurance sector; and the result of their findings cannot be extrapolated to the insurance sector due to sectorial regulations and happenings. Moreover, most of the prior studies conducted gave consideration to

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periods before the adoption of the International Financial Reporting Standards (IFRSs) which made their findings to lack generalisation in contemporary situation.

Therefore, the objective of the study is to examine the effect of ownership structure on dividend policy of listed insurance firms in Nigeria for the period 2013-2017. This study is motivated by the persistent complaints by the shareholders of the insurance firms for not paying them dividend and other bonuses accrued to their investments. The research therefore hypothesized that ownership structure does not have significant effect on dividend policy of listed insurance firms in Nigeria. The outcome of the study is expected to be of benefit to shareholders, as it enables them to know which class of ownership will force or influence the managers to decide whether to pay dividend or not. It will also be a reference material to potential researchers in the area of corporate governance and dividend policy. The policy implication of the findings will be of immense benefit to regulatory bodies like SEC and National Insurance Commission (NAICOM)

The remainder of the paper is organized as follows: section 2 presents relevant empirical studies. Section 3 discusses the methodology employed for the study. In section 4, the results of data analysis are presented and discussed. Section 5 concludes the study by highlighting the finding and recommendation.

2. LITERATURE REVIEW

Dividend policy of a firm is one crucial decision taken by managers on how much of the earnings should be distributed to shareholders as dividend and what amount should be retained to foster the growth of the firm. It also includes decision of the managers on whether to pay dividend or retain earnings, by considering its cash flow, profit and business opportunities (Ibrahim & Shuaibu, 2016). Payment of dividend is considered relevant because it contains information value. It is also believed that information content of dividend payment can go a long way as it sends signal to shareholders and prospective investors; and this will affect the company's share price on the stock market (Adesola & Okwong, 2009).

According to Glen et al 1995, investors in every country have their own interest as dividend policy taken by managers is concerned. Some investors will prefer dividends to be paid, while some will prefer it in script or to retain for the firm use. Ownership structure is one of the important variables which influence the dividend payout policies; though the relationship is different for different class of owners and at different level. Ownership structure does not influence payment of dividend equally (Kumar 2003). Managers have the perception that local investors and institutional investors are more interested in growth and retention of earnings for further investments than their foreign counterparts who are more interested in dividend.

2.1 Managerial Ownership and Dividend Policy

Nuraddeen and Hasnah (2015) investigated the impact of ownership structure and dividend policy of listed conglomerates firms in Nigeria for the period 2001-2010. The result of the regression analysis showed that there is a negative relationship between managerial ownership and dividend policy of listed conglomerates in Nigeria. However, the study cannot be applied to contemporary happenings considering the period covered in this study. Mirzae (2012), examined the relationship between ownership structure and dividend policy of firms listed on the Tehran

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stock exchange. Ordinary Least Square was employed as a technique of analysis, and the result showed that there is an insignificant relationship between managerial ownership and dividend policy of firms listed on the Tehran stock exchange.

Ibrahim and Shuaibu (2016), researched on Ownership Structure and Dividend Policy of Listed Deposit Money Banks in Nigeria from 2010-2014. The independent variable was proxied by managerial ownership, institutional ownership, ownership concentration and foreign ownership, while the dependent variable (dividend policy) was proxied by dividend payout ratio. The analysis of the data was conducted using panel data tobit regression as a technique of data analysis. It was found that managerial ownership has a negative and significant relationship with dividend policy of deposit money banks in Nigeria. However, the study cannot be not applied to current happenings due to some events that have taken place after the conduct of the study.

Adeiza, Kabiru and Muhibudeen (2015) examined the effect of corporate shareholding structure on dividend payout ratio of chemical and paint companies listed on the Nigerian stock exchange for the period 2008-2013. All the eight firms were used in the study. Corporate Shareholdings Structure was proxy by managerial shareholding, institutional shareholding, block shareholding and foreign shareholdings, while dividend payout ratio was proxy by dividends to net income for the same period. The study adopted multiple regression technique. The findings revealed that managerial shareholdings have negatively, strongly and significantly impacted on dividend payout ratio of listed Chemical and Paints Companies in Nigeria.

Ullah et al., (2012), examined the Impact of ownership structure on dividend policy of firms listed on the Pakistan stock exchange from 2003 to 2010. The study investigated the determinants of the corporate dividend policy in the context of agency relation. Multiple regression analysis was employed to check those variables of ownership structure which are related to the dividend payout policy. Ownership structure was proxied by managerial ownership, ownership concentration and institutional ownership, while dividend policy was proxied by dividend payout. The result of the analysis revealed that there is a negative relationship between managerial ownership and the dividend payout policy of the listed firms.

Al- Gharaibeh, Ziad, and Al-Harashseh, (2013) examined the effect of ownership structure on dividends policy in Jordanian companies for the period 2005-2010. They used a sample of 35 firms listed on the Amman Stock Exchange over the period. In methodology, the study employed two different models, one is full adjustment and other is partial adjustment model. They found the full adjustment model to be superior because it explained 61.5% of the variation in dividend policy as compared to partial which explained just 20.65%. The finding of the study revealed that managerial ownership has a negative coefficient in the Partial Adjustment Afzal and Sehrish (2010) examined ownership structure of Iran evidence and payout ratio. The study used OLS, Logit and Probit regression on the data and found that insiders' ownership (management ownership) has a significant and negative impact on dividend payment. While the result of logit and probit model show that insider ownership are negatively related with dividend policy.

2.2 Institutional Ownership and dividend Policy

Dividend is a return paid to shareholders as a form of compensating them for contributing to capital from the earnings of the firm. Institutional shareholders are entity which pools money to

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purchase securities, real property, and other investment assets or originate loans. Institutional investors include banks, insurance companies, pensions, hedge funds, investments advisors among others. Therefore, they are expected to facilitate dividend payment in order to meet their investors' expectation. But opinions on the role of these shareholders on dividend payments are inconclusive.

Thanatawee (2013) examined the relationship between ownership structure and dividend policy in Thailand over the period 2002-2010. The results of the analysis show that corporations are to pay dividends when they have higher ownership concentration or when those with the highest shareholdings are institution and that firms distribute much dividends when the largest shareholder, especially an institution, holds more equity. It was also revealed that the possibility of distributing dividends and the degree of dividend payouts will shoot up with higher institutional (individual) ownership. Shariff, Salehi, and Bahadori (2010) examined the influence of shareholders ownership identity on payout ratio of the Iranian firms for 2002-2008. The panel multiple regression analysis showed that there is a significant positive correlation between institutional ownership and payout ratio. Ullah *et al.*, (2012), in their study "the Impact of ownership structure on dividend policy of firms listed on the Pakistan stock exchange" from 2003 to 2010. The study investigated the determinants of the corporate dividend policy in the context of agency relation. Multiple regression analysis was employed to check those variables of ownership structure which are related to the dividend payout policy. Ownership structure was proxied by managerial ownership, ownership concentration and institutional ownership, while dividend policy was proxied by dividend payout. The result of the analysis revealed that institutional ownership is positively related to dividend policy of listed firms on the Pakistan stock exchange. Ibrahim and Shuaibu (2016), researched on Ownership Structure and Dividend Policy of Listed Deposit Money Banks in Nigeria from 2010-2014. The independent variable was proxied by managerial ownership, institutional ownership, ownership concentration and foreign ownership, while the dependent variable (dividend policy) was proxied by dividend payout ratio. The analysis of the data was conducted using panel data tobit regression as a technique of data analysis. The result of the analysis showed that institutional ownership has a positive and significant relationship with dividend policy of deposit money banks in Nigeria.

2.3 Theoretical Framework

There are many theories that have been used to explain the relationship between ownership structure and dividend policy. But the theory that underpins this study is the Agency theory. This is because the theory explain the two independent variables (managerial and institutional ownerships) used in this study in relation to the dependent variable (dividend policy)

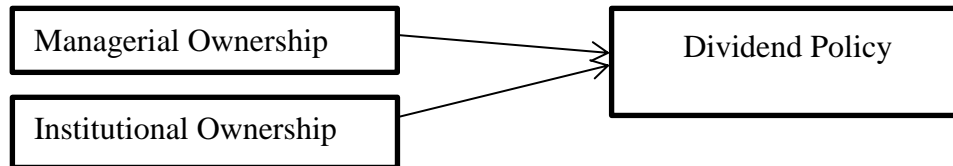
Agency relationship is an agreement whereby the principal (owner) employs another party who is the agent, to act on his behalf; however, the power of control is vested in the hand of the managers while the ownership still remains with the principal. (Jensen & Meckling, 1976). According to this theory, the agency problem arises between the principal (shareholders) and agent (managers) when the managers take decisions that are not beneficial to the principal (shareholders) but based on their own self-interest. For instance, they may decide to expand the size of the firm beyond its optimal capacity since this will give good impression about their performance as their reward is tied to it. Hence, this will hamper the payment of dividend to shareholders. In contrary, the payment of dividend to common equity shareholder will reduce the excess free cash flow available with the manager thereby reducing the agency

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problem between the manager and shareholders (Jensen and Meckling, 1976; Rozeff, 1982 and Easterbrook, 1984). Moreover, firms are likely to pay more dividend when they are highly monitored (Jensen 1986). It can be perceived that institutions with large holdings will monitor the the managers well and this will lead to higher payout. Consequently, conflict of interest among the managers and shareholders can be solved by dividend policy. Therefore, payment of dividend is a measure to reducing agency cost.

Figure 2.4



The above theoretical framework explains the relationship between Ownership Structure and Dividend Policy

3. METHODOLOGY

This section includes the choice of our population, sample, measurement of variables, and model specification as well as the technique of data analysis applied. The study adopted the correlational research design. The research paradigm adopted is positivism approach. The population of the study comprised of all the 28 listed insurance companies as at 31st December, 2017 out of which 26 companies were selected as sample size. The sampling technique is based on the following criteria:

1. The companies must be listed a year before 2013.
2. The data must be available in the annual financial reports of the companies for the years under study, 2013 to 2017.
3. The company must not be delisted during the period of study.

The data for the study was obtained mainly from secondary sources; specifically audited annual reports and accounts. Panel regression analysis was employed based on the fact that the study involved the use of time series and cross sectional data.

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Table 1: Variables Measurement

Variable	Variable	Proxy (ies)	Measurement	Source
Dividend Policy	Dependent Variable	DPS	Net income divided by Number of outstanding shares ranking for dividend	Al-hassan, Md Asaduzzamanad and Alkarim (2013)
Managerial Ownership	Independent Variable	MAN	Cumulative percentage of shares held by the members of the Board of Directors.	
Institutional Ownership	Independent Variable	INSTOWN	Cumulative percentage of shares held by institutions with more than 5 per cent shareholding	Gayan and Sharika (2016)
Firm size	Control Variable	FIRMZ	Natural log of Total Assets	Amran and Che-Ahmed (2013)

3.1 Model Specification

To achieve the objective of this study, a multiple linear model was built. The model captures the contribution of the independent variables: managerial ownership, and institutional ownership. This model is in line with the agency theory of the principal and agent relationship. The general form of the model is stated below:

$$DPS_{it} = \beta_0 + \beta_1 MAN_{it} + \beta_2 INSTOWN_{it} + \beta_3 FIRMZ_{it} + \varepsilon_{it}$$

Where:

i= Insurance firm

t= Year

DPS =Dividend per share

MAN= Managerial Ownership

INSTOWN= Institutional Ownership

FIRMZ=Firm size

ε_i = Error term

β_0 is the intercept and

β_1, β_2 & β_3 are coefficients of the variables.

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3.2 Firms Size

The inclusion of firm size is to serve as the control variable; as it has been revealed in the study of Redding (1997) that large firms are expected to pay dividend to their shareholders. According to Titman and Wessels (1988), larger firms are expected to be diverse in nature and thus, are less prone to bankruptcy. Therefore, these can enhance the firms to pay dividend to their shareholders. In this study, the firm size is measured by the log of total assets of firm

4. FINDINGS AND DISCUSSION

This section will present the data of the study and discuss the result from the findings

Table 4.1 Summary of Descriptive Statistics

VARIABLES	MEAN	Std. Deviation	Minimum	Maximum	VIF	I/VIF
DPS.	0.113298	0.039423	0	0.21		
MAN.	7.084321	10.37623	10	21	1.74	0.52716
INST.	2.913482	0.591378	5	83	1.78	0.51237
Firm sz	1.65e+10	1.35e+10	2.18e+09	7.94e+10	1.05	0.93241

Source: STATA 2018

The table 2 above is the descriptive statistics of the study. The table above contains the variables of the study for a total of 130 observations for 26 listed insurance firms on the Nigeria Stock Exchange over the study period. From the table, it can be seen that dividend per share of listed insurance firms has a minimum of 0, and a maximum of 0.21 with a mean of 0.11. This implies that on average, all the sampled firms paid eleven kobo (N0:11K) per unit of shares to their shareholders. While the minimum of 0 means there is one firm that did not pay any dividend to the shareholder as per their shareholdings. However, a firm with the highest dividend per share had paid to its shareholders twenty one kobo (N0:21K) dividend in respect to their shareholdings.

From the table, the managerial shareholdings have a minimum of 10 and maximum of 21 percent with an average of 7.08 percent. This simply means that the lowest managerial shareholding is 10 percent; while the firm with the highest managerial shareholdings stood at 21 percent. The standard

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deviation of 10.37623 percent means there is a slight deviation of the data from the mean of managerial ownership. Moreover, the percentage of institutional ownership has a minimum of five (5) and a maximum of eighty three (83) percent with an average of 2.91 percent. This denotes that the average of institutional ownership is 2.91 percent, while the minimum value is 5 percent and the maximum shareholdings is 83 percent.

Table 4.2 Correlation matrix

	DPS	MAN	INST	FIRMSZ
DPS	1.0000			
MAN	0.2766	1.0000		
INST.	-0.4355	-0.6562	1.0000	
FIRMSZ	0.2154	0.1357	-0.0461	1.0000

Source; STATA 13

Above is the correlational table of the study. It can be seen that Managerial Ownership and firm size are positively correlated with DPS of listed insurance firms in Nigeria. The implication is that the variables moved in the same direction with DPS. However, Institutional Ownership is negatively related to DPS, which means that INST moved in a contrary direction with DPS. Moreover, a negative relation has been recorded between MAN and INST.

4.1 Residual Tests

To test for the presence of heteroscedasticity, the study used the Breusch-Pagan/Cook-Weisberg test. The result of the test showed that chi2 is 314.56 and the prob>chi2 is 0.76 which means that P-value is insignificant. This implies the presence of homoscedasticity. The study conducted multicollinearity test to show there is correlation among the explanatory variables themselves, which may affect the result of the study. Variance inflation factor (VIF) was conducted and the values for all the variables are less than 10 and the tolerance values for all the variables are greater 0.10 (rule of thumb). This shows there is no multicollinearity problem.

In addition, Hausman specification test was also conducted to determining the most preferred model between fixed and random effects. The result of the Hausman specification has a chi2 of 46.57 and p-value of 0.0000 that is statistically significant at 1%, this implies that the fixed effects model is considered as most appropriate estimator over random effects.

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The result from the random effect regression result is presented in table 4.3 below.

Table 4.3: Regression Results

Variables	Coefficient	Z- value	P>(Z)
MAN	0.0006423	3.45	0.000
INSTOWN	0.0010024	0.45	0.652
FIRMSZ	-0.0032495	-1.18	0.235
Constant	0.05431537	0.85	0.342

R2: Within	0.3145	
R2: Between	0.5129	
R2: Overall	0.4739	
F-Statistics	68.59	0.000

Source: Output from STATA 2018

From table 4.3, it can be observed that the R^2 is 0.3145 which means that 31.45% of variation in DPS of listed insurance firms in Nigeria was jointly explained by the independent variables examined in this study. The f-statistics is 68.59 which is significant at 1%. This shows that the model is fit. From the table above, it can be inferred that managerial ownership has a coefficient of 0.0006423 and a P-value of 0.000. This signifies that there is a positive and significant relationship between managerial ownership and Dividend per Share. This means that an increase in the shareholding of the managers by one (1) percent, will lead to an increase in the dividend per share by N0.00064k. This is possible because since managers also have ownership in the company, they will do everything to make sure dividend is paid, as their main interest is tied on what they could benefit from the firm. This finding is consistent with the study of Adeiza et al., (2015) who found a significant relationship between MAN and DPS. However, the finding contradicts that of Nuraddeen and Hasnah (2015) who found a negative relationship between MAN and DPS.

The relationship between INST and DPS of listed insurance firms in Nigeria has a coefficient of 0.0010024 and P-value of 0.652. This implies that there is a positive relationship between INST and DPS. However, the relationship is not significant. A positive relationship between the variables means that if there is an increase in the shareholdings of other institutions in the insurance firms in Nigeria, it will also lead to an increase in their DPS by N0.0010024k. The finding is consistent with that of Shariff et al., (2010) who found a positive relationship. But,

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contradicts the finding of Ibrahim and Shuaibu (2016) who found a significant relationship between INST and DPS.

5. CONCLUSION AND RECOMMENDATIONS

This study examined the effect of ownership structure on dividend policy of listed insurance companies in Nigeria. The study obtained data from secondary sources, basically the annual financial reports of 26 studied companies out of 28 listed insurance firms in Nigeria. The study proxied its independent variable (ownership structure) by managerial and institutional ownership and the dependent variable (dividend per share) was proxied by dividend per share. The study analyze the data with the aid of panel multiple regressions analysis. The study found that there is a positive and significant relationship between managerial ownership and dividend per share. The study also found a positive and insignificant relationship between institutional ownership and dividend per share. Based on the findings, the study recommends that listed insurance firms in Nigeria should focus more on managerial ownership structure in their quest to achieve the payment of dividend to every shareholder. This has become necessary in view of the fact that managers having shareholdings in the firm will make them work wholeheartedly because of the return they would make on their shareholdings.

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