Ownership Concentration and Financial Performance of Quoted Building Materials Firms in Nigeria

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***Abstract:*-This study examines the impact of ownership concentration on financial performance of quoted building material firms in Nigeria. The population of the study consists of six (6) firms quoted on the Nigerian stock exchange as at 31st December 2017 out of which four (4) firms were selected using two criteria as the sampling technique which are Cement Company that made available their annual report of fourteen (14) years and Cement Company quoted on the Nigerian stock exchange before 2004. The study uses multiple regressions as a tool for analysis. The study reveals that ownership concentration showed a positive significant impact on financial performance of building materials firms in Nigeria. The study concludes that ownership concentration affects financial performance of building materials firms in Nigeria and therefore recommends that Security and Exchange Commission should encourage more potential concentrated owners to invest in long term investment in building materials industry.**

***Keywords:* Ownership concentration, financial performance, firm size and leverage.**

I. INTRODUCTION

Monitoring is one of the weapons used to prevent misappropriation of funds by managers and that is what concentrated owners used in enhancing financial performance of a firm. A huge amount of stock owned by individual shareholders gives them control over the Managers of a firm. Concentrated ownership can improve monitoring and reduce agency costs, but on the other hand, large shareholders can expropriate smaller investors or harm performance by monitoring managers in an excessive manner.

Ownership concentration is related to firm financial performance due to the fact that traditional theories argued that when ownership of a firm is concentrated in the hand of large shareholders, they have incentive to monitor the managers' action through direct intervention to reduce agency problem (Chen & Swan, 2010). Also, in the studies of diversification strategy, it was found that ownership concentration enhance corporate diversification and performance of a firm because it constitute the largest investment in a corporate firm (Genc & Angelo 2012).

There are several studies conducted on ownership concentration and firms' financial performance in developed economies like the United States, Taiwan, Russia, and France. The results and the conclusions arrived from these studies were influenced because every industry in the economy has its own inherent attributes which could have a significant impact on its results and conclusions. However, this study focuses on the manufacturing sector specifically the building material industry in Nigeria so as to get a better picture of the impact of ownership concentration on the financial performance of quoted building materials firms. For the purpose of this study, the main objective is to determine the extent to which ownership concentration significantly impact on financial performance of quoted building materials firms in Nigeria.

In line with the objectives, One Null Hypothesis was formulated as; **H_{O1}** Ownership concentration has no significant impact on financial performance of quoted building materials firms in Nigeria.

II. LITERATURE REVIEW

There are several theories that explain the relationship between ownership structure and firm's financial performance in the literature of accounting. But only three theories are related to the study namely shareholders theory, opportunistic theory and agency theory.

Shareholder Theory believes that businesses do not have any moral obligations or social responsibilities at all, other than to maximize their own profit. Shareholders are those individuals and organizations who own a business, or a part of a business. For instance, they might own shares of stock in a business. As owners, the shareholders of a business have employed certain managers to run their company for them and there is one goal that they have set for these managers to achieve which is Profit. Therefore, the primary purpose of a business is to make profit. If a business does not make profit, it inevitably fails (Friedman (n.d).

Opportunistic theory is a theory that exhibits the behavior of managers' seeking their personal interest manifested in the form of stealing, cheating, dishonesty and withholding information. This opportunistic behavior negatively affects firm financial performance which makes other shareholders monitor the managers in order for them not to exhibit such behavior since they have more shares in the firm than managers (Glenn, 2007).

The Agency theory view managers as the agent of the shareholders and therefore there is a need for them to act in the best interest of the shareholders. In this situation the agent sometime may not act in the best interest of the shareholders which result to an agency cost situation. The agency theory stresses the separation of ownership (principal) and managers (agent) in an organization, therefore it is believed that managers may sometime pursue opportunistic behavior which may conflict the goal of the owners (principals) and therefore destroy the wealth of the shareholders. Advocates of the agency theory viewed the manager (directors) as an agent to the shareholders that mitigate conflicts and serves as the guardian to shareholders since they are involved in the day to day activities of the firm. (Hermalin and Weisbach 2000, Fama and Jessen 1988).

This study adopts agency theory because of its relevance in resolving conflict that may arise between managers (agent) and shareholders (principal) of the companies which captures the relationship between an independent variables(ownership concentration) of the study and the dependent variable (Return on Equity).

Ownership Concentration and Financial Performance

Reuben and Narine (2004) examined the impact of managerial shareholding and shareholder concentration on the performance of Armenian companies. The company's operation was evaluated by tree-factor model where the company operation index was determined by labor resources and investment amount, as well as with some vector of variables characterizing the structure of property. They found out that ownership concentration had no significant impact on performance of Armenian companies. Lina *et. al.* (2013) examined the relationship between ownership concentration and company performance using pooled data for Jordanian non-financial listed companies over the time period from 1994 to 2005. Their results showed that ownership concentration had no significant effect on firm's performance when it was measured by accounting measures but had a significant effect on the largest managerial block-holder when using market measure of firm's performance.

Kamran *et.al.* (2012) examined the in depth relationship between ownership structure and performance. They used panel data of 100 non-financial firms listed in Karachi stock exchange with a sample size of 600, from 2005 to 2010. Concentrated ownership was negatively correlated with market performance and positively correlated with both the indicators of financial performance. Pınar, Mandaci, Guluzar and Kurt (2008) examined the effects of ownership concentration and managerial ownership on the performance of non-financial firms listed on the Istanbul Stock Exchange in the context of an emerging market. They measured the firm's performance by Return on Assets (ROA) and Tobin's Q ratios. After controlling for investment intensity, leverage, growth and size, they found out that ownership concentration has a significantly positive effect on both firm performance measured by Return on Asset and Tobin's Q ratios. Waseem and Naila (2011) investigated the impact of ownership concentration on the operating performance of Pakistani firms. 50 non-financial firms were selected from 100 index of Karachi Stock Exchange of Pakistan. Descriptive analysis and Regression analysis were employed for their study. They found out that there was a significant positive correlation between ownership concentration and firm performance in Pakistani firms. Khoshkhoo *et.al* (2013) examined the relationship between ownership concentration and corporate performance in companies accepted in tehran stock exchange. They discovered that agency costs arises from conflict of interests among owners and managers. 81companies with shares traded actively in stock exchange between 2006 and 2010 were used for the study and panel data regression method was used to study significance of the relations. The result of the study showed that there was significant relationship between ownership concentration and two performance criteria such as stock return and P/E ratio in confidence level of 95%. Xiaozhou, Jin and Hong (2008) studied the relationship between stock ownership concentration and firm performance. They took a sample of Chinese initial public offering (IPO) companies in 2001 and 2002. They found a significant cubic relation between firm performance and stock ownership concentration (percentage of shareholdings by the largest shareholder or square sum of percentage of shareholdings by the first five bigger shareholders).

III. METHODOLOGY

This research adopted correlation research design and it was considered adequate and appropriate for this study because it describes the statistical relationship between independent variables of the study (ownership concentration) and the dependent variable (Return on Equity). The population consists of all six building materials manufacturing firms quoted on the Nigerian Stock Exchange as at 31st December 2017 and covered a period of thirteen years (2004-2017). Two criteria sampling technique was employed to select the sample which are: Cement Companies that made available their annual report of fourteen (14) years on the Nigerian stock exchange and Fact Book and Cement Companies quoted on the Nigerian Stock Exchange before 2004. In line with this, the sample size is four (4) building material firms.

The study employed panel data using statistical package for social sciences (SPSS 25) and Ordinary Least Square (OLS) method adopted in this study is a parametric statistical test that is based on a number of assumptions, the violation of which could affect the reliability of the results. The Pearson correlation and t-test statistics was used for inferential analysis. Two of the most commonly encountered problems addressed in this study relate to normal distribution of the variables and Descriptive statistics was used to test for normality using specifically the Z kurtosis and Z skewness.

Model Specification

The model that was used to test the hypothesis formulated for this study is presented below. The null

Hypothesis is tested considering the results for the P-values at 1%, 5% and 10% level of significance. The first model is the functional model from which the second model Ordinary Least Square (OLS) was derived that is firm performance model.

$ROE = f(\beta_1 OWNCON + \beta_2 LEV + \beta_3 FSIZE)$

$ROE = \alpha + \beta_1 OWNCON + \beta_2 LEV + \beta_3 FSIZE + \epsilon_i$

Where

α= the intercept

ROE = Return on Equity measured by profit after tax divided equity in book value

OWNCON = Ownership Concentration measured as percentage of shares owned by largest shareholders

LEV = Leverage measured by the total liabilities divided by total assets

FSIZE = Firm Size measured as natural log of total assets

ϵ_i= error term

Firm size and leverage are control variables.

IV. DATA PRESENTATION

This part presents the results of the descriptive statistics and regression results on the impact of ownership concentration on financial performance of building material firms in Nigeria. An explanatory variable and two control variables are employed for the purpose of explaining and predicting the impact of ownership concentration on financial performance of quoted building material firms in Nigeria.

Test of Normality

The normality tests are supplementary to the graphical assessment of normality. For this study, Z skewness and Z Kurtosis are used to test for normality of the one (1) independent variable; namely ownership concentration. The Z skewness was computed as skewness divided by standard error of skewness and the Z kurtosis was computed as kurtosis divided by standard error of kurtosis.

Table 4.1.1 shows the skewness, kurtosis and Z skewness and Z kurtosis.

TABLE 1 DESCRIPTIVE STATISTICS TABLE FOR THE VARIABLES

Variables	Skewness	Standard Error	Z Skewness	Kurtosis	Standard Error	Z Kurtosis
OWNCON	1.478	0.319	4.633	1.834	0.628	2.920

This table shows the normality test for ownership concentration.

In small samples like that of this study which the number of observations is 56, values of Z skewness and Z kurtosis greater or lesser than 1.96 are sufficient to establish normality of the data. The result of Skewness for Ownership concentration is 1.478.The Z skewness of Ownership concentration is 4.633 which is greater than 1.96 shows that the data is normal which indicates that the data for Ownership concentration relates linearly to the dependent variable (Return on Equity). The results of the Kurtosis for Ownership concentration is 1.834 and the Z kurtosis of Ownership concentration is 2.920 is greater than 1.96 and therefore, is normal which indicates that the data for Ownership concentration relates linearly to the dependent variable (Return on Equity). Ghasemi and Zahediasl (2012).

TABLE 2 OWNERSHIP CONCENTRATION IMPACT ON FIRM PERFORMANCE

Variable	**Coefficient**	**T – value**	**P – value**
Constant	0.082	1.837	0.072
OWNCON	0.147	4.430	0.000
LEV	0.025	1.852	0.070
FSIZE	0.134	3.349	0.002
R	0.679		
R^2	0.461		
Adj R^2	0.430		
F stat	14.823		
F-Sig	0.000		
DW	1.895		

Source: Author's computation using SPSS 25

The estimated equation of the study is presented as follows:

ROE = 0.082 + 0.147 (OWNCON) + 0.025 (LEV) + 0.134 (FSIZE)

The performance of firms measured by Return on Equity would be equal to 0.082 when all other variables are held to zero. A one unit change of Ownership concentration all other variables remain constant, would increase Ownership concentration by 0.147. The regression result of the study shows that the beta coefficient in respect of Ownership concentration is (0.147) and the t-value is (4.430) and it is significant at 1%. This means that, Ownership concentration has a positive significant impact on the performance of quoted building material firms in Nigeria. The implication of this is that, the higher the Ownership concentration the better the financial performance of the firm as a result of minimal misappropriation of shareholders fund managed by managers in quoted building materials firms in Nigeria. This provides an evidence of rejecting the only hypothesis stating that Ownership concentration has no significant impact on performance of quoted building materials firms in Nigeria. The total impact of the Ownership concentration is able to explain the dependent variable up to (68%). This shows a strong positive relationship as indicated by the R value and the remaining (32%) are controlled by other factors. Similarly, the result of the F- statistic shows the overall fitness of the model. The F- statistic has a value of (14.823) and is significant at 1% which implies that the model is fit because it is significant at all levels of significant. Durbin Watson of (1.895) shows that there is no problem of autocorrelation in the data set (Gujarati, 2004).

Findings of the Study

Ownership concentration has a strong positive significant impact on financial performance of quoted building materials firms in Nigeria. This result indicates that the presence of concentrated owners in the building materials firms leads to improved earnings and can also attract more potential shareholders to them. This finding is consistent with that of Kamran *et.al.* (2012) and Pınar, Mandaci, Guluzar (2008) and Kurt (2008).

V. CONCLUSION

This study has contributed to findings on corporate governance issues in Nigeria. The study concludes that Ownership concentration improves financial performance of quoted building material firms in Nigeria. Our study differs from most foreign studies on Ownership concentration. The acquisition of shares by concentration owners is seen as a monitoring device that helps to prevent misappropriation of funds by Non-managers and Managerial owners of the firms.

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