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Dispersed Equity Holding and Financial Performance of Banks in Nigeria

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Abstract
The Nigerian banking system went through another type of reform since the completion of banking consolidation exercise in 2005, this came after a stress test which was done to ascertain the level of compliance with corporate governance code and soundness of banks in the country. Consequently, the sector witnessed another merger and acquisition, nationalization of some banks considered unhealthy and the granting of clean bill to some banks considered healthy. The directives on dispersed equity holding is an example, these healthy banks complied with. Thus, the granting of the clean bill is influenced by evidence of compliance with the code of corporate governance to some considerable extent by these banks. This only implies that, the effective operational performance of their function is tied to adherence to the code of good corporate governance practice. However, the problem is unlike operational performance, financial performance is not completely tied to adherence to the code but several other internal and external business strategies. This study has, as a major objective to study the impact of dispersed equity holding on the performance of banks considered healthy by the central bank of Nigeria. Data covering the period 2006-2010 were extracted from their financial statements. The study employed the technique of t-test with independent samples to reveal whether there was any impact of dispersed equity holding on the performance of these banks. Findings revealed an impact that is significant. Compliance with the corporate governance code as well as intensifying strategies that promotes financial performance should be further upheld.
Keywords: Dispersed Equity Holding, Post Consolidation, Financial Performance

Introduction

Extant literature particularly in the last decade has revealed public outrage over financial misdeeds around the world as evidenced in the sudden failure of major corporate institutions in the developed countries and developing economies like Nigeria. This had brought to the fore front, the need for the practice of good corporate governance, which is a system by which corporations are directed and managed with a view to increasing shareholder value and meeting the expectations of other stakeholders. In Nigeria, corporations are directed by regulatory organs like the Securities and Exchange Commission (SEC), the Central Bank of Nigeria (CBN) and governed by their board of directors through management. In directing

corporations, it was discovered by SEC in 2003, that in the financial sector, poor corporate governance was identified as one of the major factors in virtually all known instances of financial institutions' distress in the country as a result of corporate governance being at a rudimentary stage, as only about 40% of quoted companies, including banks, had recognized codes of corporate governance in place.

Consequently, in 2003, the Nigerian Securities and Exchange Commission (SEC) in collaboration with the corporate affairs commission released a Code of Best Practices on Corporate Governance for public quoted companies. Banks had been expected to comply with its provisions. In addition to that, banks were further directed to comply with the Code of Corporate Governance for Banks and Other Financial Institutions approved earlier in the same year by the Bankers' Committee. However, in 2006, the consolidation of the banking industry necessitated a review of the existing code for the Nigerian Banks. The new code therefore was developed to compliment the earlier ones and enhance their effectiveness for the Nigerian banking industry. Compliance with the provisions of the Code was mandatory.

One of the provisions the code made imperative to comply with was that on equity holdings in banks. The provisions required the encouragement of a private sector-led economy, that is, holdings by individuals and corporate bodies in banks and such holdings should be more than that of government. This provision was influenced by the recognition that, individuals who form part of management of banks in which they also have equity ownership have a compelling business interest to run them well. Banks were required to encourage such arrangements. Furthermore, the code emphasized that, the practice of free, non-restrictive equity holding has led to serious abuses by individuals and their family members as well as government in the management of banks. Consequently, the code further stated that Government direct and indirect equity holding in any bank shall be limited to 10% by end of 2007 and an equity holding of above 10% by any investor is subject to CBN's prior approval.

From the picture painted above, reforms carried out by the CBN in the banking sector as well as the code issued by the SEC was to bring about optimized corporate governance practices in the industry, if banks do actually comply with these codes in their entirety. However, the stress test revealed that recent developments in the banking industry were as a result of non-compliance with the code by some banks in the industry. This made the CBN to classify some banks as unhealthy. This only implies that, the effective operational performance of their function is tied to adherence to the code of good corporate governance practice. However, the problem is unlike operational performance, financial performance is not completely tied to adherence to the code but several other internal and external business strategies. These strategies are not the focus of this paper. From this view, the following can be deduced; banks considered healthy by the CBN actually work with the directives enshrined in the code of best practice and employed several other strategies to achieve both operational and financial performance. It is in this context that the study, has as a major objective to establish the extent to which equity holdings, impacted on financial performance (FP) of the 12 banks that were considered healthy by the CBN? Based on this objective the following null hypothesis was formulated:

H_{o1} *Dispersed equity holding (DEH) do not significantly impact on earnings per share (EPS) and dividend per share (DPS) of banks in Nigeria.*

Besides seeking to address this question, there is an attempt by the study to contribute to bridging the existing gap on the impact of dispersed equity holding on financial performance in financial institutions. This is influenced by the fact that, there are virtually

little or no studies in Nigeria, known to us, that had looked at the impact of dispersed equity holding on the performance of banks in the period covered by this study. The remaining part of this paper is structured into five sections, section one is the introduction including this paragraph. Section two, presents the literature in concepts with prior studies. Immediately after that is the methodology, presenting the models and how the study defined and measured it variables. Afterwards, is the discussion of findings and based on the findings the paper concludes and highlights the study's implication in the last section of the paper.

Literature Review

The term corporate governance is derived from an analogy between the government of cities, nations or states and the governance of corporations. The early corporate finance textbooks saw representative government as an important advantage of the corporation over partnerships but there has been and still is little agreement on how representative corporate governance really is, or whom it should represent (Becht, Bolton and Roell, 2005). Corporate governance is about making certain that the company is directed appropriately for reasonable return on investments (Magdi and Nadereh, 2002). It is the system by which corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation such as, the board, managers, shareholders and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs. By doing this, it also provides the structure through which the company's objectives are set and the means of attaining those objectives and monitoring performance (Wolfensohn and OECD, 1999; Uche, 2004; Akinsulire, 2006).

Corporate governance is concerned with the processes, systems, practices and procedures that govern institutions. (Mensah et. al., 2003). It is also concerned with the resolution of collective action problems among dispersed investors and the reconciliation of conflicts of interest between various corporate claim holders, corporate governance rules can be seen as the outcome of the contracting process between the various principals or constituencies and the CEO (Becht, Bolton and Roell, 2005). There are other perspectives on corporate governance – the corporation's perspective and the public policy perspectives. The corporation's perspective is about maximizing value subject to meeting the corporation's financial, legal, contractual, and other obligations. This perspective stresses the need for boards of directors to balance the interests of shareholders with those of other stakeholders – employees, customers, suppliers, investors, etc – in order to achieve long term sustained value for the corporation. From a public policy perspective, corporate governance is about nurturing enterprises while ensuring accountability in the exercise of power and patronage by firms. The role of public policy is to provide firms with the incentives and discipline to minimize the divergence between private and social returns and to protect the interests of stakeholders. These two perspectives provide a framework for corporate governance that reflects the interplay between internal incentives (which define the relationship among the key players in the corporation) and external forces (notably policy, legal, regulatory and market) that govern the behavior and performance of the firm (Iskander and Chamlou, 2000). It is important to note here that, there is no broad unanimity on the definition of corporate governance. However, there is such a degree of consensus of the literature on the mechanisms of corporate governance, which includes the following:

Dispersed Equity Holdings

Equity holding is the same as equity ownership or position. It can also be referred to as share ownership which is defined as the ownership by an investor of a number of shares in a corporation. Ownership is dispersed in the sense that no one institution or individual holds a large stake in a single Company; this is described as an outsider system (Mayer, 2005). In Nigeria, as earlier mentioned, the corporate governance code requires the encouragement of a private sector-led economy, that is, holdings by individuals and corporate bodies in banks and that, such holdings should be more than that of governments. Furthermore, the code emphasizes that, the practice of free, non-restrictive equity holding has led to serious abuses by individuals and their family members as well as governments in the management of banks.

This provision was influenced by the recognition that, individuals who form part of management of banks in which they also have equity ownership have a compelling business interest to run them well. Quite a handful of studies have upheld mixed positions, specifically for employees of a corporation and ownership that is dispersed regarding this provision. For example Becht, Bolton and Roell, 2005; Roberts and Van den Steen; Bolton and Xu, 2001). On the employees equity holdings in corporation, the study of (Becht, Bolton and Roell, 2005) posit, Models of corporate governance shows that some form of shared control between creditors and shareholders may be optimal and can sometimes also be reinterpreted as models of shared control between employees and the providers of capital. This is the case of Chang's model, where the role of employee representatives on the board can be justified as a way of dampening shareholders' excessive urge to dismiss employees.

In the same vein, Roberts and Van den Steen (2000); Bolton and Xu (2001) consider firms in professional service or R&D intensive industries, where firm-specific human capital investment by employees adds significant value. From a different angle, Carlin and Mayer (2000) argues investment in R&D is closely related to the dependence of industries on equity finance and highly skilled labor. Earlier on, Hart and Moore (1990) stressed that, the important issue in these firms is how to protect employees against the risk of ex-post expropriation or hold-up by management or the providers of financial capital. More concretely, the issue is how to guarantee sufficient job security to induce employees to invest in the firm.

According to (Becht, Bolton and Roell, 2005) any provider of capital (financial or human), employees will tend to under-invest in firm-specific human capital if they do not have adequate protection against ex-post hold ups and expropriation threats. They show that in firms where (firm-specific) human capital is valuable it may be in the interest of the providers of capital to share control with employees, although generally the providers of financial capital will relinquish less control to employees than is efficient. Indeed, the providers of financial capital are concerned as much with extracting the highest possible share of profits as with inducing the highest possible creation of profits through human capital investments. Sharing control with employees can be achieved by letting employees participate in share ownership of the company, by giving them board representation, or by strengthening their bargaining power through, say, increased unionization.

From a different perspective, Holmstrom (1999); Roberts and Van den Steen (2000) argues that, when employees cannot participate in corporate decision-making a likely response may be unionization and/or strikes. There are many examples in corporate history where this form of employee protection has proved to be highly inefficient, often resulting in extremely costly conflict resolutions. Thus, in practice an important effect of employee representation on boards may be that employees' human capital investments are better

protected and that shareholders' excessive urge to dismiss employees is dampened (Becht, Bolton and Roell, 2005). This position was further emphasized by Roberts and Van den Steen (2000) that, it may even be efficient to have employee-dominated boards when only human capital investment matters.

On dispersed ownership, some studies have posited inconclusively that, there is a link between ownership dispersion, voting control and corporate performance (value). For example, more than Four decades ago some studies argued that free-riding among dispersed shareholders leads to inferior company performance (Monsen et al., 1968). However, for Short (1994); Gugler, (2001) they rejected the hypothesis that greater dispersion results in lower performance.

From a different perspective, there are studies that ruled ownership concentration improves governance and performance at least for family owned firms, like the study of Anderson and Ribstein (2003) revealed that family firms consistently outperform their peers, as measured by both accounting yardsticks like return on assets and market-valuation measures such as Tobin's *q*. For Ungureanu, (2008) diffuse ownership can effectively exert corporate control directly through their voting rights and indirectly through electing the board of directors. Information asymmetries are an impediment for shareholders and debt holders to exert control over management. In the case of banks, due to their opaqueness, diffuse shareholders and diffuse debt holders find it difficult to exercise control. This situation is managed by more concentrated ownership and increased regulation. Concentrated ownership enhances firm's control and monitoring of its activity through a better flow of information. Large shareholders and large debt holders are more effective in exercising their rights, thus having more control over management. This context should theoretically lead to better governance of firms. In practice, evidence shows that large shareholders may exploit their interest in the firm, thus undermining its governance.

Generally, banks have a concentrated equity ownership, which makes it more difficult for small equity holders to exert influence over the management of banks. Controlled ownership by large investors may also affect the interest of debt holders – either diffuse or concentrated – and on other stakeholders, leading to a more complex corporate governance environment for banks. A legal system that prevents large shareholders controlling a bank from taking advantage of the small and diffuse stakeholders has the potential to stimulate good corporate governance. It is important to note here that, some studies like Demsetz and Lehn (1985) explain that ownership concentration is endogenous. Some firms require large shareholder control while others don't. They argue that without accounting for this endogeneity it is to be expected that a regression of firm performance on a control dummy in a cross-section of heterogeneous firms should produce no statistically significant relation if the observed ownership-performance combinations are efficient.

Financial Performance

Financial performance of companies is also referred to as corporate financial performance. It is the ability of corporation to utilize its resources effectively and efficiently towards accomplishing financial managerial goals (Kwanbo and Kwambo, 2011). One of such goals is when corporations strategize their social activities goals to be in line with customers' expectations; it means more and huge turnover or gross earnings, which implies corporate financial performance (Lou and Bhattacharya, 2006). Various accounting and marketing indicators are employed to measure the performance of a corporation. For example some studies have revealed that one of the performance indicators to corporate financial

performance is seen from a corporation's earnings per share, which has a strong significant relationship with a corporations share price (Hartone, 2004; Altamimi, 2007; and Christopher, Rufus, and Ezekiel, 2009) and patronage of such shares at the stock market.

Theories

There is a close relationship between the types of activities undertaken in a country and its institutional structures. The following theories have established this relationship. Firstly, is the Information theory: According to Allen, (1993) The advent of new technologies, backed by legitimate grounds for diverse expectations, with benefit from securities markets that includes; more traditional investments which are prone to asymmetries of information between borrower and lender are a product, brought from the economies of monitoring that banks can provide. For example, certain types of institutional arrangements in particular, like information disclosure, appear to be related to growth of Research and Development activities (Mayer, 2005). Secondly, is the control theory: This theory proposes that, fragmented banking systems are associated with short term investments, while concentrated banking system is associated with investments in the long term. Similarly dispersed ownership system is associated with high risk research and development investments. On the other hand, concentrated ownership is associated with lower risk and more imitative investments (Dewatripont and Maskin, 1995).

Thirdly, is the commitment theory: Frank and Mayer, (1997) proofed concentrated ownership, is associated with activities that involve investments by other stake holders, while dispersed ownership is associated with the activities that encourages the adoption of new technologies that would be resisted by other stakeholders. Lastly, is the concentration theory, According to Sathye, (2002) Concentration refers to the degree of control of economic activity by large firms. Some studies have argued that, economies of scale drive bank merger and acquisition so that increased concentration goes hand in hand with efficiency improvement (Demirguc-Kunt and Levine, 2001). They discovered this position while examining 122 bank holding companies, they find that, there was an increase relationship between size and the volatility of assets returns. However, their findings are based on the situation in which consolidation are voluntary. It is important to note here that, the consolidation that took place in the banking sector was not voluntary. Furthermore, research has shown that, a less concentrated banking sector with many small banks is more prone to financial crises than a concentrated banking sector within a few large banks (Allen and Gale, 2003; Beck, (Demirguc-kunt and Levine, 2004). From a different perspective, some studies establish that, banking concentration goes with reduction in credit supply (Peck and Rosengren, 1996, Beiga and Udell, 1996; Canonero, 1997). Also, bank consolidation tends to increase the risk of bank portfolios (Chong 1991). Concentration intensified market power and political influence of financial conglomerates, stymie competition in access to financial services, reduce efficiency and destabilize financial systems as banks become too big to discipline and use their influence to shape banking regulations and policies (Demirguc-kunt and Levine, 2004; BIS, 2001). While excessive competition may create an unstable banking environment, insufficient competition and contestability in the banking sector may breed inefficiencies.

What is clear from these theories reviewed is that, regulation has a role to play in the close relationship between the types of activities undertaken in a country and its institutional structures. This further implies, regulation has a significant influence on institutional structure. For example, the degree of risk taking by financial institutions and the diversity of their investment are affected by the way in which competition and stability in financial

systems are traded off and the form in which investor protection is provided (Mayer, 2005). This protection is brought from the economies of monitoring that the central bank can provide as a result of reforms in the banking sector that warranted consolidation as proposed by the information and concentration theories, which are the framework of this study.

Methodology of Research

The objective of this study is to determine the impact of Dispersed equity holding (DEH) on financial performance (FP) of the 12 banks that were considered healthy by the CBN for the period 2006-2010. The choice of this period is influenced by the fact that, it is in the era of post stress test that came after the consolidation exercise. The study developed two models as the basis for testing the hypotheses formulated for the study. The study specified two accounting ratios (Earnings per share [EPS] and Dividend per share [DPS]) as proxies for the dependent variable financial performance (FP). The choice of these proxies is based on the assertion that, earnings paid and dividends declared are an indication of a bank's ability to retain earnings for expansion and further distribution to shareholders, which implies good corporate governance. For the independent variable Dispersed equity holding [DEH] was identified. The choice of this proxy is influenced by the fact that there is the encouragement of a private sector-led economy (more holdings by individuals and corporate bodies in banks than government holdings). SPSS version 17 was used to aid the analysis of data collected.

Population and Sample of the Study

The population of the study is the 12 banks (Access bank, Fidelity bank, Guarantee trust bank, First bank, First city monument bank, Stanbic IBTC bank, Skye bank, Zenith bank, Sterling bank, Eco bank, Diamond bank, and United bank for Africa) quoted on the Nigerian stock exchange that were considered healthy by the CBN. These banks are also the sample of this study. This implies n = N = 12.

Where: n = Sample size

N = Population size.

Arising from the above, considering the period under review (2006-2010), data for the study were collected from 60 annual reports and account,

Models and Variable Specification

Two mathematical models were developed based on the proxies specified for the dependent variable, financial performance (FP). The formula for the proxies' earnings per share (EPS) and dividend per share (DPS) are:

$$\frac{\text{Net profit after tax}}{\text{Number of ordinary shares issued and fully paid}} \times 100 \quad (1)$$

$$\frac{\text{Dividend declared}}{\text{Number of ordinary shares issued and fully paid}} \times 100 \quad (2)$$

The following mathematical models; FP (EPS) = F (DEH) and FP (DPS) = F (DEH) was developed to test the following null hypothesis:

Ho$_1$ Dispersed equity holding (DEH) do not significantly impact on earnings per share (EPS) and dividend per share (DPS) of banks in Nigeria.

Techniques of Data analysis

The independent samples t-test was employed to analyze data gathered for the study. The choice of this technique is based on the fact that, all the study is trying to do, is to compare the means of two groups for a single variable. To achieve the independent samples for the study, the proxies for the dependent variable were grouped into 2. As a result, the EPS for the period under review was assigned binary number 1 as the group one. For group two, DPS, binary number 2 was assigned.

Discussion of Findings

Hypotheses were formulated to achieve the objective of this study, which is to determine the extent to which (DEH) impacts on FP (EPS and DPS) in Nigerian Banks.

Table 1a. Group Statistics

	Financial Performance (FP)	N	Mean	Std. Deviation	Std. Error Mean
Corporate Governance (CG)	EPS	5	85.3600	41.63326	18.61896
	DPS	5	40.8200	9.71272	4.34366

Source: spss output listing 2012

In the table 1a above, the mean for group one (EPS) is 85.3600 and that of group two (DPS) is 40.8200. The standard deviation for group one is 41.63326 with an error mean of 18.61896. For group two, the deviation is 9.71272 with an error of 4.34366. The result reveals there is a difference between the means of the two groups is significant even though the mean of the second group is almost half of the first group.

Table 1b. Independent Samples Test

		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	T	Df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
		Lower	Upper	Lower	Upper	Lower	Upper	Lower	Upper	Lower
Corporate Governance (CG)	Equal variances assumed	4.35	.071	2.330	8	.048	44.54000	19.11892	.45170	88.62830
	Equal variances not assumed			2.330	4.434	.074	44.54000	19.11892	-6.55453	95.63453

Source: spss output listing 2012

In the table 1b above, the levene test is significant, so the t value calculated with the pooled variance estimate (equal variance) is not appropriate. With a 2- Tail significant value (i.e. p-value) of 0.048 (i.e. 5% approximately), the difference between the mean is significant. This implies Dispersed equity holding, does have an impact on the earnings and dividend of banks. Based on these results the hypothesis that states:

Ho_1 Dispersed equity holding (DEH) do not significantly impact on earnings per share (EPS) and dividend per share (DPS) of banks in Nigeria, is rejected. This finding is in line with the findings of (Short, 1994; Holmstrom, 1999; Roberts and Van den Steen, 2000; Gugler, 2001; Becht et al., 2005).

Conclusions

In Nigeria, as earlier mention, the corporate governance code requires holdings by individuals and corporate bodies in banks to be more than that of governments. The provision was influenced by the recognition that, individuals who form part of management of banks in which they also have equity ownership have a compelling business interest to run them well. Based on this premise, the study had, as an objective to determine the impact of Dispersed equity holding (DEH) on earnings per share (EPS) and dividend per share (DPS) of the 12 banks that were considered healthy by the central bank of Nigeria. Based on the findings, the study concludes (DEH) has a significant impact on FP (EPS and DPS) because these healthy banks actually work with the directives enshrined in the code of best practice and employed several other strategies to achieve both operational and financial performance. This a pointer to the economies of monitoring that the central bank of Nigeria (CBN) can provide. In this wise, the study recommends the practice of free restrictive equity holding in banks be upheld.

Furthermore, intensifying strategies that promotes financial performance should be maintained.

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Appendices

Financial Performance Proxies of the sampled banks: 2010

YEAR: 2010			
S/N	**BANKS**	**EPS**	**DPS**
1	Access	72	50
2	Diamond	45	11
3	Eco	12	0
4	Fidelity	20	14
5	First	83	10
6	First city monument	45	5
7	Guarantee trust	157	105
8	Skye	70	40
9	Stanbic IBTC	42	39
10	Sterling	33	0
11	United bank for Africa	8	5
12	Zenith	0	0

Source: Annual Reports and Accounts of the 12 banks (2012)

Financial Performance Proxies of the sampled banks: 2009

YEAR: 2009			
S/N	**BANKS**	**EPS**	**DPS**
1	Access	141	70
2	Diamond	-34	0
3	Eco	-64	0
4	Fidelity	45	8
5	First	141	1.35
6	First city monument	21	5
7	Guarantee trust	128	100
8	Skye	15	5
9	Stanbic IBTC	33	30
10	Sterling	-53	0
11	United bank for Africa	60	0
12	Zenith	73	0

Source: Annual Reports and Accounts of the 12 banks (2012)

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Financial Performance Proxies of the sampled banks: 2008

YEAR: 2008			
S/N	**BANKS**	**EPS**	**DPS**
1	Access	173	65
2	Diamond	110	56
3	Eco	-03	0
4	Fidelity	45	0
5	First	223	0
6	First city monument	123	0
7	Guarantee trust	188	70
8	Skye	166	60
9	Stanbic IBTC	64	40
10	Sterling	52	10
11	United bank for Africa	305	100
12	Zenith	345	170

Source: Annual Reports and Accounts of the 12 banks (2012)

Financial Performance Proxies of the sampled banks: 2007

YEAR: 2007			
S/N	**BANKS**	**EPS**	**DPS**
1	Access	87	40
2	Diamond	89	55
3	Eco	34	24
4	Fidelity	25	11
5	First	156	100
6	First city monument	61	35
7	Guarantee trust	163	103
8	Skye	73	35
9	Stanbic IBTC	46	25
10	Sterling	5	0
11	United bank for Africa	244	120
12	Zenith	189	100

Source: Annual Reports and Accounts of the 12 banks (2012)

Financial Performance Proxies of the sampled banks: 2006

YEAR: 2006			
S/N	**BANKS**	**EPS**	**DPS**
1	Access	11	0
2	Diamond	57	56
3	Eco	21	0
4	Fidelity	19	11
5	First	269	100
6	First city monument	36	13
7	Guarantee trust	145	70
8	Skye	32	0
9	Stanbic IBTC	0	0
10	Sterling	0	0
11	United bank for Africa	186	100
12	Zenith	191	110

Source: Annual Reports and Accounts of the 12 banks (2012)