OWNERSHIP STRUCTURE AND ORGANIZATIONAL PERFORFORMANCE IN SELECTED LISTED MANUFACTURING COMPANIES, NIGERIA

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Abstract

This study examines the effect of ownership structure on organizational performance in selected listed manufacturing companies in Nigeria. The study incorporated survey research design. Big five (5) listed manufacturing companies were arbitrarily drawn from the population using judgmental sampling procedure. The sources of data employed were primary and secondary data. The primary data was through questionnaire while the secondary data was obtained through the company's annual financial report between the periods of 2013 – 2017. The instrument used was validated; Cronbach Alpha method of reliability was employed to test the internal consistency of the instruments. The data collected were analyzed using statistical package for social sciences (SPSS). The coefficient value of 0.815 revealed that the instruments were reliable against the targeted threshold of 0.7. The statistical method used for this study was regression (r^2) and analysis of variance (ANOVA) to test the individual coefficient and the mean value of the variables correlated. The findings revealed that the estimated model has a weak estimating control. Since about 99.3% outcomes of performance were unaccounted by the model. Hence, this captured the error term in the model with the Durbin-Watson value of 1.418 which was an indication of absence of autocorrelation in this model. Based on these findings, the study therefore recommends that the stakeholders should expediently adhere to corporate governance principles as its implementation lead to increase in organization performance.

Keywords: Corporate Governance, Organization Size, Financial Leverage; and Organization Performance

Introduction

Every company has a way of establishing its ownership structure. The vision of a company designs the type of ownership a company decides to establish. Ownership structure is one of the dominant factors engaged in designing the organization performance of a company (Yahaya & Lawal, 2018). These structures alleviate the performance of a company and most times, it has effect on their profitability. The Companies and Allied Matters Act (CAP59) LFN 1990 (CAMA) as amended, regulates the registration of companies. The legal forms of ownership structure are sole proprietorship, partnership, and incorporated companies. Wikipedia (2019) described organizational performance as the actual output or results of a company as measured against its intended outputs or goals. Inman, (2017) posit that performance could be measure as ratio of net profit to the total asset or debt equity.

In most companies, there are huge gaps existing between ownership structures and organization performance. These gaps are characterized by bad leadership and massive corruption due to the general problem of corporate governance in Nigeria. However, there are divisions between ownership and management of a company, this leads to Principal-Agent problem (Zheka, 2003). The structure of a company is a discernment aphorism to its performance. This determines the degree of performance to be expected from the company, either positive or negative. The top management of some of these companies add to their challenges by promising to meet certain targets which are usually difficult to achieve, thereby leading to low or no performance. There is a high rate of centralization where by decision making is done by an individual or some set of dominating people.

Prior studies revealed that the outcomes of research findings were motley and indecisive because it has not been recognised whether or not there was a major inference between ownership structure and organization performance. Those studies engaged in different models to examine the study. This is because it garrisons corporate governance, organization size and financial leverages which have the ability to address the endogeneity bias and prove to be the best and most efficient estimator since it has used lag value as instruments (Yahaya & Lawal, 2018). The question remains whether there is any significant inference amid ownership structure and organization performance of selected listed manufacturing companies in Nigeria. In the light of the above assertion, the study considers the following hypotheses?

$H_0$1: Corporate governance does not have any significance influence on organization performance
$H_0$2: Organization size has no significance influence on organization performance
$H_0$3: Financial leverage has no impact on organization performance

Literature Review

Ownership structure is a method of controlling a business or an enterprise and it is also an ability or capacity given to someone or group of people to dictate the organization's functions and their operations. Ownership structure has different types of ownership; these can be categorizing into executive and non-executive ownership. These classes of ownership include sole proprietorship, partnership, incorporation including private limited liability company and public limited liability company (Shobayo, Obasan & Amaghionyeodiwe, 2016).

Ownership structures of companies are convoluted and exorbitant. The central objective of a corporation is the restriction of owners' personal liability for business arrears. The difference between corporation and ownership structure is their legal forms of operation that separated them from those who owns, pedals and manages the company (Barako and Tower, 2006).

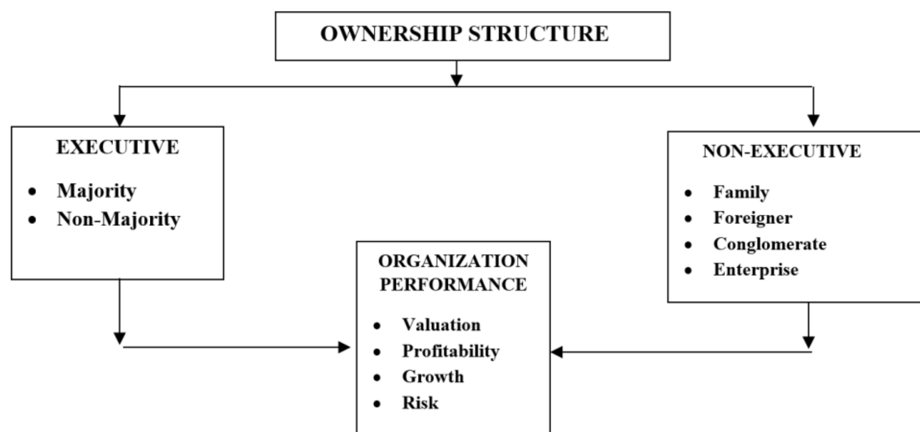

Figure 1. Ownership Structure. Researchers' Design Framework

Corporate Governance, the sole objective of decent governance was to enlighten and safeguards the devotedness of the panel in handling the company activities through the transparent manner of making use of the long-term goal of the company for its shareholders and all other stakeholders. Corporate governance is a multi-layered model that attracted numerous thoughtful and clarifications, therefore, no commonly solitary standard definition of corporate governance. Diverse poets have explained corporate governance contrarily with somewhat a choice of corporate issues. Their justifications mantle agency association and connection between corporate governance and the governance of the companies receive little thoughtfulness on the owners' benefits. The systems in which companies are absorbed and measured in piloting businesses are called corporate governance. This is a traditional tool with the intention of shielding owners' curiosities. The contention here is that corporate governance focus on the opinion of seriatim companies in an adequate direction to maximize owners' value (Ahmodu, Areo & Adeniyi, 2017).

Conversely, literatures revealed that after the plunge of some corporations in the US and UK. These headed to the US and UK governments to examine several studies in order to fortify the position of corporate governance. As a consequence, numerous codes have been known with the same detached of building corporate governance more effective. In US, the Sarbanes Oxley Act 2002 has been reported to have made far-reaching vagaries that affect corporate governance (Valenti, 2008). The UK also made certain vicissitudes to their corporate governance after the report of the Cadbury committee in 1992. Above all; currently the Nigeria Stock Exchange have engaged in making corporate governance codes in line with their registration requirements for the companies that seek to be listed.

Organization Size, Niresh and Velnampy (2014) believed that the size of a company determines the volume and multiplicity of production size and the strength company owned. These currently provide the variety of services require by the customers. They also posit that company size is a rudiment factor to be considered in analysing the performance of a firm. This concept was known as economics gauge which was found in the neo classical theory of an economics. The literatures also revealed the self-contradictory of small-large firms' relationships and the performance anticipation. Divergent views of unconventional principles of organization size recommends that bigger companies listed under the rheostat of regulators shadowing international market standard objectives and therefore optimum decision that will propel the company's performance to the barest minimum. Thus, the size is an imperative clairvoyant of the performance. Bigger companies display healthier business viability than smaller companies (Abbasi and Malik, 2015).

Financial Leverage, financial leverage is also measured companies usage of impartiality and obligation to finance its assets. As the liability increases, fiscal control increases. Financial leverage is a form of loan or other borrowing (debt) used to finance a business. The proceeds on these loan were re-invested with the

intention to receive a higher profit than the volume (Abubakar, 2015). The volume of liability recycled by the firm to fund its business is known as financial leverage. Therefore, financial leverage is system of augmenting the financial system of a company and estimates its return in a unit. Although, it is a threat to the business owner and create problems of repayment of the debt leverage on the business (Hussain, Shahid & Akmal, 2016).

Source: (Rajkumar, 2014)

Figure 2 Financial Leverage and Organization performance Chart.

Research Methods

The study incorporated survey research design. Since the aim of this study was to examine the association amid ownership structure and organization performance of selected listed manufacturing companies in Nigeria. Five (5) listed manufacturing companies were arbitrarily drawn from the population through judgemental sampling procedure. The rationale for selecting these companies was their ownership structure. These structures were in line with the objective of the study. These companies are (Dangote Flower Meal, Procter and Gamble, PZ Cussons, Guinness, and Vita Foam). This method ensures careful record of data collected so as to analyse the information sought from the representative sample of the population and describe situations as it exist.

The mechanism used was authenticated; Cronbach's Alpha was used to inaugurate the consistency of the instrument and the outcome shows the coefficient value of 0.815 consistency against 0.7 targeted. This revealed that the mechanism measured what it ostensible to measure. In addition, one hundred and thirty (130) copies of structured questionnaire were administered and one hundred and twenty nine (129) were returned.

Model Specification, the model specifications were based on multiple regression models for the investigation of the relationship amid ownership structure and organization performance. Below are the regression models adapted from Benjamin, Love and Kabiru (2014). For each cross section unit *i* and period *t,* the following model is estimated.

$PERFORMANCE_{it} = f(CGOV_{it} + OSIZE_{it} + FLEV_{it} + \varepsilon_{it})$……………………..(*eqn 1.1*)

The study would specify the above model in econometric form as follows:

$ROA_{it} = \beta_0 + \beta_1 CGOV_{it} + \beta_2 OSIZE_{it} + \beta_3 FLEV_{it} + \varepsilon_i$ ………………………………. (eqn.1.2)

Where:

ROA_{it}	=	Return on Assets
$CGOV_{it}$	=	Corporate Governance
$OSIZE_{it}$	=	Organization Size
$FLEV_{it}$	=	Financial Leverage
β_0	=	Intercept
β_{1-4}	=	Coefficient of explanatory variables
ε_{it}	=	Error term to represent other explanatory variables not mentioned in the research.

The apriori expectation with respect to sign: $\beta_1>0:\beta_2>0:\beta_3>0:\beta_4>0$

Table 1. Summary of Variables and their Measurement.

Variables	Abbrev.	Variable Categories	Measurement
Organization performance	CPERM	Dependent	This is measured by the ratio of net income to total assets.
Corporate Governance	CGOV	Independent	Measured by the managerial entrenchment due to the choice of shareholder-orientated strategies.
Organization Size	OSIZE	Independent	Measured by the total number of inside and outside directors on the board.
Financial Leverage	FLEV	Independent	Measured by the number of outstanding shares and shareholder equity.

Result and Discussion

This segment shows the analytical aspect of the study, based on the data collected. The table 2 below depicts the results of regression test of the variables.

Table 2. Regression Analysis

Variable	Coefficient	Std. Error	t-statistic	Prob.
ROA – C	-0.250	0.086	8.557	0.004
CORPORATE GOVERNANCE	0.345	0.083	17.244	0.000
ORGANIZATION SIZE	-0.261	0.085	9.361	0.003
FINANCIAL LEVERAGE	0.139	0.088	2.521	0.115
R-squared	0.007			
Adjusted R-squared	0.002			
F-statistic	1			
Prob (F-statistic)	1.418			
S.E. of regression	1.003			
Durbin-Watson stat	1.418			

Source: Field Survey, 2018

The regression outcomes show that about 2% of the systematic cross-sectional variation of organization performance which is a proxy to return on assets described by the independent variable of ownership structure. This means that other factors apart from the independent variable are responsible for organization performance in Nigeria. The table 2 above revealed negative relationship of (-0.250) coefficient for return on assets with organization performance. In terms of individual significance, both corporate governance and financial leverage show positive significant relationship of (0.345 and 0.139) respectively while organization size show negative coefficient value of (-0.261). Thereby, the coefficient determination of r^2 indicated that about 0.7% of changes in organization performance were accounted for ownership structure of the selected listed manufacturing companies in Nigeria. This further justifies the effect among the variables. Generally, the findings implies that the estimated model has a weak forecasting power since about 99.3% of the verification outcome of organization performance was left unaccounted by the model. Hence, this captured by the error term in the model with the Durbin-Watson value of 1.418 which was an indication of absence of autocorrelation in this model.

Hypotheses Testing

***H_0*1:** Corporate governance does not have any significance influence on organization performance

Table 3. Analysis of Variance

	Sum of Squares	Df	Mean Square	F	Sig.
Regression	15.434	1	15.434	17.244	.000
Residual	114.566	128	.895		
Total	130.000.	129			

a. Dependent Variable: Organization performance

b. Predictors: (Constant), Corporate Governance. *Source: Authors computation, 2018*

The table 3 above is ANOVA analysis that was carried out to check the cogency and the significance of the model adopted. This examine the significance of the overall model with the F-statistics value of 17.244, the result shows that the model is significant at 0.05% level of significance since the p-value is 0.000. Thereby, the null hypothesis (H_0) which state that corporate governance does not have any significance effect on organization performance is hereby rejected which conclude that corporate governance has significance influence on organization performance of selected listed manufacturing companies in Nigeria. The finding was in agreement with Todorovic (2013), he found that there was an obvious correlation and impact of implementation of principles of corporate governance on performance of companies. Also, Anthony (2007) discovered that the direction and extent at which corporate governance depend on the performance measure being examined. He concluded that corporate governance has an influence on a firm's performance.

***H_0*2**: Organization size has no significance influence on organization performance

Table 4. Analysis of Variance

	Sum of Squares	df	Mean Square	F	Sig.
Regression	8.859	1	8.859	9.361	.003
Residual	121.141	128	.946		
Total	130.000	129			

a. Dependent Variable: Organization performance

b. Predictors: (Constant), Organization Size. *Source: Authors computation, 2018*

The table 4 above is ANOVA analysis that was conceded to check the intensity and the significance of the model embraced. This test the significance of the model with the F-statistics value of 9.361, the result shows that the model is significant at 0.05% level of significance since the p-value is 0.003. Thereby, the null hypothesis (H_0) which state that organization size has no significance influence on organization performance is hereby rejected which clinch that organization size has significance influence on organization performance of selected listed manufacturing companies in Nigeria. Some literatures were in support of these findings while some were against. Abbasi and Malik (2015) agree with this finding by accepting the hypothesis that the firm size has moderating effect on firm performance. Niresh and Velnampy (2014) opposed that the impact of organization size on profitability are not correlated and it was rejected based on the parameter used and the location of the study.

$H_0$3: Financial leverage has no impact on organization performance

Table 5: Analysis of Variance

	Sum of Squares	Df	Mean Square	F	Sig.
Regression	2.511	1	2.511	2.521	.115
Residual	127.489	128	.996		
Total	130.000	129			

a. Dependent Variable: Organization performance

b. Predictors: (Constant), Financial Leverage. *Source: Authors computation, 2018*

The table 5 above was the outcome that checks the strength and the implication of the model incorporated. This test the impact of the model with the F-statistics value of 2.521, the result shows that the model is not significant at 0.05% level of significance since the p-value is 0.115 and its greater than 0.05 ($p > 0.05$) for 128 degree of freedom. Thereby, the null hypothesis (H_0) which state that financial leverage has no significance impact on organization performance is hereby accepted with the concluding statement that financial leverage has low effect on organization performance of selected listed manufacturing companies in Nigeria. Rajkumar (2014) accepts this finding and stated that 'financial leverage has no relationship with organization performance embraced John Keells Holdings PLC Sri Lanko between the periods of 2006-2012'.

Conclusion

Based on the findings of this study, it was concluded that ownership structure as independent variable has significant effect on organization performance. Corporate governance influences organization performance positively as shown by the model that organization performance increases when corporate governance principle is implemented and rejection of the hypothesis that corporate governance does not influence organization performance. The findings of this study also conclude that organization size affects the performance of companies but it affects it negatively as shown by the model that organization performance decreases when organization size increases especially in the aspect of over staffing. Also, Financial Leverage of selected companies does not improve their performance even though there is just a little increase in organization performance when financial leverage increases.

Based on these findings, the study therefore recommends that stakeholders should observe ownership structure carefully; the study found that ownership structure were absolutely influence the organization performance of selected listed manufacturing companies in Nigeria. They should implement corporate governance principle, as it was found that corporate governance would lead to increase in organization performance. The companies should manage their size especially their staffs and also monitor the way they trend with technology, as it was found that organization size affects the performance of companies negatively. The study also recommends that companies obtain financial leverage at a minimal level because it might increase organization performance but not improve it to a satisfactory level.

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