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Corporate Ownership Structure and Leverage Policy: Comparative Analysis of High – Low Leveraged Firms in Nigeria

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Abstract: *This study evaluates the impact of ownership structure on leverage policy of health care quoted companies in Nigeria. We employed secondary data, which is based on an ex-post facto research design and made use of a panel data set collected from the financial reports of health care companies between 2013 and 2017 financial year. The ownership structure variables used for the study are, managerial ownership, institutional ownership, private ownership and block ownership (explanatory variables) and leverage policy as response variable. The data collected were analyzed using descriptive statistics, correlation analysis and Ordinary Least Square Regression. Our result shows that ownership structure has positive and significant effect on leverage of quoted health care companies in Nigeria. Our result also shows that institutional ownership and managerial ownership has positive and significant effect on leverage policy of quoted health care companies in Nigeria. While block ownership has positive but not significant effect on leverage, private ownership has negative but not significant effect on the leverage of quoted health care companies in Nigeria. To this end, we recommend among others that health care companies whose target is to achieve the wealth maximization objective should formulate policy that will increase the proportion of institutional ownership and managerial ownership.*

Key Words: *Onwership Structure, Leverage Policy, Comparative Analysis, Shareholders.*

1. INTRODUCTION:

According to Marwa, Amon, Xiahui and Hadia (2017), the separation of ownership and control has represented one of the core discussions in much academic research, starting from Berle & Means (1932). The separation of ownership and control initiates the agency problem. One of the expected costs of this conflict of interest between managers and shareholders is that managers are encouraged to indulge in behaviours that may lead to a deterioration of firm performance (Marwa*et al*, 2017). With a distributed ownership structure, agency conflicts tend to be between the principal and the agent due to the separation of ownership and management. (Langit & Adhariani 2017).
Ownership structure and leverage are two important factors that influence important decisions made regarding an organization (Mukonyi, Basweti & Kamau, 2016)

The issue of ownership structure has remained a key factor in the implementation of best practice corporate governance. The owners might be having the funds required but they lack the managerial skills to manage the organization efficiently and effectively. On the other hand, they might be having business ideas but do not have sufficient funds to enable them implement the ideas. For this reason, they seek internal and external borrowing. This brings in the relationship between debt holders and shareholders and thus the agency conflict between the two parties (Damodaran, 1997). According to Lee, and Lee, (2014), debt financing enables owners to take actions to maximize their wealth. Consequently, ownership structure may play an important role in determining the capital structure of a firm (Huang, Lin, & Huang, 2013).

Previous studies on ownership composition study of this nature were mostly conducted in the US and other developed economies. Related studies such as that of Ozili (2017); Ozili (2015); Uwuigbe and Olusanmi (2012); covered a sample of both domestic and international (Global Brand) affiliated firms listed on the Nigerian stock exchange. This study is unique in that it is scarce to find any study in Nigeria that evaluates the extent ownership can affect high and low leverage firms, and also carefully isolated health care companies listed on the stock exchange for similar analysis.

2. Objective of the Study:

The main objective of this study is to evaluate the effect of ownership structure on the leverage policy of listed health care companies in Nigeria. However, the specific objectives were to: -

- Investigate the influence of private ownership on leverage policy of companies in Nigeria.
- Examine the effects of Institutional ownership on leverage policy of companies in Nigeria.
- Determine the influence of block ownership on leverage policy of companies in Nigeria.
- Ascertain the effect of Managerial ownership on leverage policy of companies in Nigeria.

3. Research Hypotheses:

$H0_1$. Private ownership does not significantly affect leverage policy in Nigeria.
$H0_2$. Institutional ownership does not significantly affect leverage policy in Nigeria.
$H0_3$. Block ownership does not significantly affect leverage policy in Nigeria.
$H0_4$. Managerial ownership does not significantly affect leverage policy in Nigeria.

4. REVIEW OF RELATED LITERATURE:

Leverage

Susanto, Kurnia, Pradipta, Arya, Cecilia and Ellen (2019) defined Leverage as the ratio between total firm's liabilities and total firm's asset. Periasamy, (2009) also defines leverage as the extent to which firms make use of their money borrowings to increase profitability. Generally, increase in leverage results in increasing risk and return while decrease in leverage results the decrease the risk and return (Gitman & Zutter, 2010).in view of these, this study therefore defines leverage as the proportion of total debt capital to total capital employed in a firm.

An entity whose exposure to risky assets exceeds its equity capital is said to be leveraged. Higher leverage magnifies market risk and liquidity risk as leveraged firms may be forced to sell assets in order to reduce exposure under adverse market conditions (Mukonyi, Basweti & Kamau, 2016).

There are three basic types of leverage, which are operating leverage, financial leverage and total leverage (Gitman & Zutter, 2010)

Ownership structure

Ownership structure refers to the distribution of equity with regard to votes and share capital and also by the identity of the equity owners. According to Jensen (1984), these structures are so important in corporate governance because they determine the incentives of managers and thereby the economic efficiency of the corporations they manage. Ownership structure is also an internal control mechanism that minimizes the conflict of interests between controllers and owners of firm. (Tuncay, 2014), The ownership structure of a company can be concentrated in one shareholder, spread unevenly among multiple shareholders, or spread relatively evenly among all shareholders (Langit & Adhariani**,**2017).

Managerial ownership

El-Habashy & Abdelkader (2019) defined managerial ownership as the ownership stake owned by top management. According to Shi (2011), managerial ownership refers to share percentage owned by corporate managers and directors at the year-end. Technical issue would not come to the fore if corporate ownership and management are not performed separately. Owners (principals) focus on maximizing fortune by looking at present value of cash flow energized by corporate investment, while managers focus on the increase of corporate growth and size.

Private ownership

Private ownership enhances the link between firm performance and top CEOs compensation (Yang 2017). Private ownership structure is simply the percentage of shares owned by a single individual in a company. It is often used as a barometer for measuring private's interest in a company. A company with a high private share ownership of 5% and above is often describe as having high private concentrated ownership structure. With higher concentration of individual properties, stakeholders tend to enforce monitoring and, thus, to ameliorate firm performance (Repei, 2000). Companies with private ownership are much more motivated to seek wealth maximization and reduce costs (Alipour, 2013).

Block Ownership

A block holder is the owner of a large block of a company's shares and/or bonds. These owners are often able to influence the company with the voting rights awarded with their holdings.
(https://www.investopedia.com/terms/b/blockholder.aspreviewed by James Chen and updated on Dec 9, 2017).

According to El-Habashy & Abdelkader,(2019), institutions in general acquire large blocks of a firm's shares and can exert significant impact on their management. A higher level of ownership concentration or more block holders suggest a stronger monitoring power from investors over a firm's managerial decisions because of the incentives from these owners to proactively safeguard their investment. As highly concentrated ownership is likely to change the agency problem from principal–agent conflict to principal–principal conflict (Bebchuk & Weisbach, 2010).

Institutional Ownership

According to Susanto, *et al*, (2019), institutional investors are the investors which pool a large sum of money, and then invest those sums in securities, real property, and other investment assets, or operating firms decided to invest a part of their profits in such investment assets.

The level of institutional ownership determines the mechanism of firm governance. However, the impact of in stitutional ownership on corporate decisions is determined by the proportion of ownership in the company. If institutio nal shareholders are high, hence, they have more incentive to monitor a corporate manager. Vice versa, when institutio ns hold reasonably few shares in a corporation, there is less incentive to monitor. Accordingly, institutional ownership with large stakes in large companies' forces managers to provide better performance because large ownership leads to good corporate governance and effective legal protection (El-Habashy & Abdelkader, 2019)

Yahaya and Lawal, (2018); and Lakshmi (2009) argued that institutional shareholders can decrease agency co sts by the close monitoring of the performance and ensuring the shareholders' interests.

Theoretical Framework

This study was anchored on agency theory although there are several existing theories that attempt to explain the relationship between ownership structure and leverage in accounting literature.

Agency theory proposed the conflict of interest between the shareholders and creditors of the firm (Jensen and Meckling 1976). Agency theory explains the relationship between the principals of the organizations and the operators of the firm. The managers like to invest in very risky investment to get high return but this can damage the interests of debt holders. Agency theory also looks at the interest variations between the owners, administrators and debt holders. Because of variation in profits, management may result in taking too many risks or it may deliberate avoid engaging in projects which may have positive returns (Mayers & Smith, 1987).

The conflict of interests between the majority and minority shareholders is also result in the decrease value of firm. This problem can be solved by improving the corporate governance standards (Shi, 2010; Hassan & Butt, 2009). The block holders expropriate the wealth of minority shareholders and this lowers the market value of share (Vishney.1997). Thus, Leverage reduces the conflict of interest between shareholders and managers but increases the conflict between shareholders and creditors of the firm. The ownership can be divided into two groups: inside ownership and external block holders. Inside ownership means the percentage of shares held by managers and board.

Empirical Studies

Using Pakistani market for 60 non-financial firms for the period of 2000 to 2007, Din and Javid (2011) investigated the impact of leverage, managerial ownership on firm's financial performance and financial policies. Their study found that leverage policy influenced managerial ownership negatively, supporting the assertion that the lower leverage level leads to high profitability in firms that engage in low managerial ownership.

Pushner (1995) studied the relationship between debt financing and distribution of ownership among managers and institutions. The results showed the direct relation between the ownership of financial institutions and debt financing and inverse relationship between the ownership of non-financial institutions and leverage. This study was conducted by taking the data from Japanese companies.

King and Santor (2008) investigated the effect of family ownership on the leverage and found the positive relationship between family ownership and leverage. Family owned businesses tend to issue debt to finance projects in order to avoid the takeovers. The sample firms were taken from Canadian stock exchange for the period of 1998-2005.

Ezeoha and Okafor, (2002) using regression model is applied by taking the data of 71 companies of Nigeria to examine the relation between leverage and corporate ownership. Consistency with the leverage is much depending on the ownership patterns in Nigeria and ownership is found to be the most dominant determinant of capital structure in firms of Nigeria. The results showed the positive relation of managerial ownership and leverage. This provides the base for the managers for aliening the ownership and capital structure to other determinants such as size of firm, growth, and profitability.

In their study, Alonso-Bonis and Andrés-Alonso (2007) selected 101 Spanish non-financial firms listed on the exchange market of Madrid over a period of 1991 to 1997 in order to study the influence of concentrated ownership on leverage policy. The study used the fraction of stakes held by the largest shareholders and the fraction of stakes held by the directors as ownership structure variables. It also employed Tobin's Q as a proxy for leverage. The study employed panel data methodology to control for the endogeneity of ownership structure. The Generalized Method of Moments (GMM) results obtained show that there exist a significant and positive relationship between firm performance and concentrated ownership.

Gonenc (2006) investigates the effect of concentrated ownership on debt financing. Concentrated ownership measured by the percentage of shares owned by the three largest shareholders and managerial ownership. He employed a dataset of 185 Turkish industrial companies listed on the Istanbul Stock Exchange (ISE) for the period of 1992-1998. Adopting a simultaneous equations framework to describe ownership-performance relationship, regression results suggest that there is a reverse causation between ownership concentration and debt financing of the company.

Pamelah Mukonyi1, Basweti, and Kamau (2016) evaluate the relationship between state ownership and leverage, to determine the relationship between private ownership and leverage, to determine the relationship between foreign ownership and leverage and to evaluate the relationship between institutional ownership and leverage. The data

for the study was obtained from 44 firms that had been consistently listed in the NSE from 2006 to 2014. Correlation and regression analysis was used to test the relationship between ownership structure and leverage. The results of the study indicated that there was no statistical significant relationship between ownership structure and leverage of firms listed at the NSE.

Martin Hovey (2007), examined the relationship that exist between leverage, performance and a firm's ownership structure among listed firms in China, between 1999 to 2005. The most significant result is that foreign holdings are found to have a significant relationship with the leverage of listed firms in China. Institutional ownership, holdings are not found to have a significant relationship with the capital structure choices of firms in China. The results also suggest that some firm-specific factors that are relevant for explaining firm leverage generally referred to in studies in developed economies, such as profitability, growth opportunities, size and tax shields, are also relevant in China. The age of the firms and the industry to which they principally belong also has significant bearing. Yet direct government grants and the use of an internationally renowned auditing firm do not show a significant relationship

Summary and Gap in Literature

Most previous study on ownership structure focus on its impact on performance and firm value, study that examine the how ownership structure affects the leverage policy of firms in Nigeria is scarce to the best of my knowledge.

Most of the study where done on ownership structure in Nigeria where done using other sector, most researcher in Nigeria has carefully isolated health care companies listed on the stock exchange.

None of the previous studies examine the impact of ownership structure on high and low leverage firms in other to evaluate if the impact of ownership structure is different in high or low leverage firms.

Furthermore, the ordinary least square regression techniques have been seen to be the prominent analysis tool used for most of the studies been reviewed. None of the study test for the impact of cross sectional or time impact on the panel data. This study used more robust regression technique (Fixed Effect Regression Analysis) which solves the problem of heterogeneity (difference in firms' characteristics) inherent in the sampled firms in addition to employing comparative approach so as to analyze their individual impact on high and low leverage firms in Nigerian stock exchange.

5. RESEARCH METHODOLOGY:

The study used panel data based on *ex-post facto* research design with a cross-section of health care companies over a period of 2013-2017. The study used secondary data that was collected from the published financial statement of the selected firms.

Population and Sample Size

The Population of the study is all the firms quoted under the health care sector of the Nigeria Stock Exchange. The sector has a total of eleven quoted firms. The sample size is the same as the population of the study. Hence, the sample size of the study was all the health care firms quoted in the Nigeria stock as at December 2017. The health care sector has a total of nine quoted firms.

Method of Data Collection and Analysis

The data used for this study was collected from secondary sources. The data were collected from the published financial statement of the quoted health care sector firms used in this study and the Nigeria Stock Exchange Fact Book. The data collected were analyzed using descriptive statistics, correlation analysis, regression and interaction analysis. However, other diagnostic test such as multi-collinearity, auto-collinearity, fixed and random effect test. The descriptive statistics was used to evaluate the characteristics of the data and test for normality of the data. The correlation was used to evaluate the relationship between the variables and to check for the presence of multi-collinearity. Multiple regression analysis was used to evaluate the effect of the independent variables on the dependent variables. The interaction was used to select the best combination of the financing mix that maximizes the shareholder's wealth.

Model Specification

The model for the study was premised on the main objective and anchored on the sub-objective. A linear regression model was design to test each of the Null hypotheses. The linear regression model to be used was adopted from the work of Enekwe *et al* (2014) and modified to suite the variables used in this study. The model of Enekwe *et al* (2014);

ROA = (INTCOV, DEBT-RATIO, DEBT-EQUITY).

The model for the study is anchored on the objective.

LEVPO = *f*(MANOW, INSOW, BLCOW, PRAOW, SIZE) ……1

Model for high leverage firms is denoted by ''h''

LEVPOh = *f*(MANOWh, INSOWh, BLCOWh, PRAOWh, SIZEh) ……2
This can be express econometrically as follows
$LEVPO_{it} = d_0 + d_1MANOW_{it} + d_2INSOW_{it} + d_3BLCOW_{it} + d_4PRAOW_{it} + d_5SIZE_{it} + \mu_{it}$ 3
Equation 2 is the linear regression model used in testing the null hypotheses.

Where:
LEVPO = Leverage; LEVPOh = Leverage (high leverage firm);
MANOW = Managerial ownership; MANOWh = Managerial ownership (high leverage firm);
INSOW = Institutional Ownership; INSOWh = Institutional Ownership (high leverage firm);
BLCOW = Block Ownership; BLCOWh = Block Ownership (high leverage firm);
PRAOW = Private Ownership; PRAOWh = Private Ownership (high leverage firm);
SIZE = Firm size; SIZEh = Firm size (high leverage firm);
d_0 = Constant
$d_1 \ldots d_6$ = are the coefficient of the regression equation.
μ = Error term;
i= is the cross section of firms used;
t = is year (time series)

6. DATA PRESENTATION & ANALYSIS:

The details of the data used for the study is presented in table 1, under the appendix. This study used panel data and adopted the ordinary least square regressions analysis to identify the possible effects of ownership structure on the leverage of quoted health care companies in Nigeria. The study however conducted some preliminary analysis such as descriptive statistics, correction analysis and husman effect test to ascertain the best effect between fixed and random effect.

Descriptive Statistics

The descriptive statistics result shows the mean (average) for each of the variables, their maximum values, minimum values, standard deviation and the Jarque-Bera (JB) statistics (normality test). The detail result of the descriptive statistics is present in table 2 under the appendix.

Descriptive Statistics

	LEVPO	*SIZE*	MANOW	BLOCW	INSOW	PRAOW
Mean	*43.73675*	*11.53080*	0.136746	0.213729	0.203339	0.134746
Median	*0.810000*	*10.93500*	0.125000	0.255000	0.072000	0.125000
Maximum	*75.00000*	*19.00000*	0.480000	0.400000	33.79000	0.225000
Minimum	*20.00000*	*3.900000*	0.024000	0.104000	0.000000	0.000000
Std. Dev.	*8.434854*	*3.981027*	0.087982	0.097422	6.156653	0.070561
Skewness	*7.894577*	*0.283943*	1.797116	0.332989	5.150642	-0.198645
Kurtosis	*67.78719*	*1.805006*	7.987242	1.864191	27.53125	2.027747
Jarque-Bera	*14822.26*	*5.835017*	92.90308	14.26170	1740.251	2.711824
Probability	*0.000000*	*0.054068*	0.000000	0.000814	0.000000	0.257712
Sum	*245.8940*	*922.4640*	8.068000	12.61000	70.99700	7.950000
Sum Sq. Dev.	*5620.595*	*1252.037*	0.448969	0.550480	2198.454	0.288771
Observations	*80*	*80*	*80*	*80*	*80*	*80*

Source: Researcher's (2019)

Firstly, it was observed that within the period under review, that the selected firms have average leverage of 43.737 percent, maximum and minimum value of 75.00 percent and 20.00 percent. The difference in the level of leverage indicates that some firms use more of debt than others. This increases the operating cost of those firms and bankruptcy chances of those firms.

Institutional ownership has a mean value of 0.20 maximum values 33.79 and minimum values are 0.000 respectively. The large difference between the mean, maximum and minimum value shows that in some sampled firms institutional ownership level is high while in some, there is no presence of institutional ownership. While the difference

between the mean and minimum value indicates that only few firms have high level of institutional ownership while the majority has low level of institutional ownership.

Managerial Ownership and private ownership result shows they have the lowest mean value than in other ownership forms. The result shows that private ownership is the least form of ownership; this is followed by managerial ownership. However, their standard deviation shows that managerial ownership is more disperse from their mean than private ownership. The mean value indicates that block ownership is the largest form of ownership among those firms used in the study. The maximum value reveals block ownership is highest among the other forms of ownership.

Lastly, the Jarque – Bera (JB) which test for normality shows that block ownership, institutional ownership, managerial ownership and firm leverage are normally distributed and the distribution is statistically significant at one percent level. Private ownership is not normally distributed. Though private ownership concentration is not normally distributed, its effect is not strong enough to distort our result due to the level of significance of other variables and proportion that were normally distributed.

Correlation analysis

In examining the relationship among the variables, the study employed the Pearson correlation coefficient (correlation analysis)

	LEVPO	***SIZE***	***MANOW***	***INSOW***	***PRAOW***	***BLCOW***
LEVPO	*1.000000*	*-0.020428*	*0.097183*	*0.100051*	*-0.018243*	*-0.065276*
SIZE	*-0.020428*	*1.000000*	*-0.111174*	*-0.103583*	*-0.280843*	*-0.025203*
MANOW	*0.097183*	*-0.111174*	*1.000000*	*0.697059*	*0.042420*	*0.095989*
INSOW	*0.100051*	*-0.103583*	*0.697059*	*1.000000*	*0.042368*	*0.110870*
PRAOW	*-0.018243*	*-0.280843*	*0.042420*	*0.042368*	*1.000000*	*-0.013357*
BLCOW	*-0.065276*	*-0.025203*	*0.095989*	*0.110870*	*-0.013357*	*1.000000*

Source: Researchers summary (2018).

The findings from the correlation analysis table, shows that leverage has negative relationship with firm size. This indicates that higher the level of leverage the smaller the firms size (relatively). From the result above, the study observed that leverage has a positive relationship with managerial ownership, and institutional ownership and a negative relationship with private ownership and block ownership. This indicates that the higher the level of private ownership and block ownership the lower the level of leverage will tend to be. While the positive relationship between managerial ownership and institutional ownership indicates that the higher the level of managerial ownership and institutional ownership is, the higher the level of leverage among health care companies in Nigeria.

In checking for multi-colinearity the study observed that no two explanatory variables were perfectly correlated. This indicates the absence of multi-colinearity problem in the model used for the analysis and also justifies the use of the ordinary least square.

Regression analysis result

Variables	HIGH LEVERAGE FIRMS				LOW LEVERAGE FIRMS			
	Coeff.	P - value	R. sq(adj.)	F- start prob.	Coeff.	P - value	R. sq(adj.)	F- start prob.
MANOW	5.358	0.0008	43.2%	0.000	-0.403	0.0729	0.445	0.000
INSOW	6.309	0.0548			0.397	0.6538		
PRAOW	8.802	0.7612			-2.556	0.1729		
BLOCW	-0.625	0.7140			0.009	0.3220		

Source: Researchers summary of regression Analysis from e-view 8

The analysis of the leverage model shows an R-sq (adj) of 0.43 and R-sq (adj) 0.44 for high and low leverage firms respectively. The R-sq (adj) value indicates that ownership structure can explain about 43.2% and 44% of changes in leverage policy (leverage) of high and low leverage health care companies used in the study. That is, about 43.24% and 44% of changes in leverage of health care companies can be attributable to the level of ownership structure. The study observed from the result that the impact of ownership structure in both high and low leverage firms are similar, thus there in no significant differences in the effect of ownership structure on leverage policy among health care firms. The F-statistics probability value of 0.0000 shows that the regression model is well specified and the specification is statistically significant at 1% levels.

7. SUMMARY OF FINDINGS:

The study finds that management ownership has positive and significant effect on leverage policy in both high and low leverage firms under the health care sector in Nigeria Stock Exchange. The result shows that institutional

ownership has significant effect on leverage policy among highly leverage health care companies but no significant on leverage policy among low leverage health care companies in Nigeria is significant.
The study further reveals that block ownership negatively affect the level of leverage policy in high leverage firms and positively affect the level of leverage among low leverage firms respectively but the effect is not significant on both high and low leverage health care companies in Nigeria Stock Exchange. It also shows that private ownership has positive effect on the level of leverage policy among high leverage firms and negative effect on low leverage firms but the effect is not significant among high and low leverage health care companies in Nigeria Stock Exchange.

8. CONCLUSION:

One of the main sources of financing available to companies beside the equity is debt financing. The holders of debt stock have no voting right and are not entitled to residual benefit in the company. However, their claims are first line on the assets of the companies during liquidation. This study examined how the shareholding structure impact on the leverage policy among health care company in Nigeria. Looking at the present economic instability in the country, couple with high cost of debt, it will not be advisable to rely on leverage financing use. Using the most current panel data and robust analysis tool. The findings provide useful information that can useful to management in planning and formulating financing that can enhance shareholding structure, their leverage policy in Nigeria context.

9. RECOMMENDATION:

Based on the findings, the study recommends the following

The study recommends that health care companies should formulate policy that will increase the level of managerial and institutional ownership as this will make their effect significant on leverage policy among low and high leveraged firms.

The study also recommends that health care companies should formulate policy that reduce their level of block ownership and private ownership as increase in block Ownership may have significant effect on their leverage policy health care companies.

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