

# BOARD COMPOSITION, OWNERSHIP CONCENTRATION AND DIVIDEND POLICY OF LISTED CONSUMER GOODS COMPANIES IN NIGERIA

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## Abstract

*Board composition is the combination of executive and non-executive directors on the board, executive directors are in charge of the company affairs are responsible for proposing a dividend to be paid to shareholders based on the organizational performance and the future outlook. This study examined the moderating effect of ownership concentration on the relationship between board composition and dividend policy of listed consumer goods companies in Nigeria. Expost facto research design was used and multiple regression analysis was used to analyze the secondary data extracted from the annual report and account of the companies under study. The findings indicate the composition board has a positive and significant influence the dividend payout ratio of listed consumer goods companies in Nigeria. The result also indicates the interaction effect has changed the relationship between ownership concentration and a dividend payout ratio of listed consumer goods companies in Nigeria to negative and significant. This implies that concentration ownership influenced an independent board to decline a dividend payment because the concentration of ownership is mostly owned by institutional shareholders who might be interested in capital gain than dividend payment. It is recommended that to improve board efficiency and reduce agency problems, the higher number of non-executive directors should be maintained by the Nigerian consumer goods companies as this will significantly increase the dividend payout ratio of the listed consumer goods companies in Nigeria. In addition, management should ensure that the profit retained is used to finance profitable investment opportunities to enable the maximization of shareholders' wealth.*

**Key Words:** Board Composition, Ownership Concentration, Shareholders, Dividend Policy, Listed Consumer Goods Companies

## Introduction

Successful companies earn a profit, and that profit can be reinvested in operating assets, used to retire debt, or distributed to stockholders; therefore, companies should be headed by an effective and efficient board composed of qualified individuals that are conversant with its oversight functions. The existing SEC code of corporate governance guidelines on appointment to the board of companies emphasized that only people of proven integrity and who are knowledgeable in business and financial matters should be on the board which should consist a number of executives and non-executive directors (Amarjit, Nahum & Rajendra, 2013).

According to Chinyere (2014), the frequently asked question about dividend payment is should the firm payout money to its shareholders? Or should the firm take the money and invest it for shareholders to earn better returns in the future? However, a firm would always want to give as much as possible to its shareholders by paying dividends. It might seem equally obvious that a firm can always invest the money for its shareholders instead of paying it out. Investors in developing countries like Nigeria mostly look at the performance of the firm while purchasing equity shares from the secondary market (Khadka, 2012). Since dividend paid to the shareholders is one of the best indicators of performance it is generally believed that dividend plays a crucial role in determining the value of the corporate share (Okafor & Mgbame, 2011).

However, the Board of directors of listed consumer goods companies have to be criticized for the decline in shareholders; wealth, for example, Union DICON Nigeria Plc. reported no sales from 2009 to 2019, other companies are consistently operating at loss Champion breweries Nigeria Plc. 2010 to 2014, NNFL 2015 to 2017, International brewery Nigeria plc and Union dicon Nigerian Plc 2018 to 2020 resulting to fall in their share price. As such, in line with dividend relevancy theory and the bird in the hand theory of Gordon (1962), investors demand dividends instead of waiting for capital gain that is not guaranteed and highly uncertain.

Board composition is the combination of executive and non-executive directors on the board, executive directors in charge of the company affairs are responsible for proposing a dividend to be paid to shareholders based on the organizational performance and the future outlook. However, non-executive directors may challenge the proposal if the executive directors fail to convince the board particularly when there is a need for future profitable investment opportunities to be financed internally.

On the other hand, the ownership structure is believed to have the foremost impact on corporate decisions such that different types of ownership have different preferences for how to cope with manager's agency conflicts and different investment priorities. However, the connection between large shareholders and the corporate decisions depends on who the large shareholders are. The ownership structure affects corporate decision in the sense that variation in concentration and resource endowments among owners establish their relative ability, power, and incentives to monitor managers. In addition, different owners have different goals and consequently have different influences on the decisions of a firm. The financial shareholders may show their interest in short-term returns on investment, while corporate shareholders may show serious behaviour towards establishing a long-term relationship (Zorica, 2014).

Previous empirical studies for example (Zulfiqar, Wasim, & Baqir, 2011); Nguyen & Harada, 2011); Okafor, Ugochukwu, & Hillary, 2016); and Murtaza, Ahmad, Aguir & Batool, 2020) proved that block shareholdings (ownership concentration) significantly influence certain board decisions including approval to pay a dividend. Hence, ownership concentration can affect the propensity to the increase dividends as such it can moderate the relationship between board composition and dividend decisions. This study examined the moderating effect of ownership concentration on the relationship between board composition and dividend policy of listed consumer goods companies in Nigeria.

### **The Concept of Dividend Policy**

The concept of dividends has been defined by many authors and researchers. Baker, Powell & Veit (2002) have described it as an appropriation of profits to shareholders after deducting tax and fixed interest obligations on debt capital. Dividends are returns to shareholders from company earnings. A dividend is a cash payment from a company's earnings announced by a company's board of directors and distributed among stockholders. In other words, dividends are an investor's share of company profit, given to him or her as per owners of the company (Jones, 1991). Jo & Pan (2009) assert that dividend payments could provide a signal to the investors that the company is complying with good corporate governance practices. Dividends are usually paid out of the current year's profit and sometimes out of general reserves. They are normally paid in cash, and this form of dividend payment is known as a cash dividend (Adefila, Oladipo & Adeoti, 2013).

### **Concept of Ownership Concentration**

Ownership concentration is defined as the number of large-block shareholders and the total percentage of shares owned by the firm. Large-block shareholders typically own at least 5% of a company's issued shares (Gunathilaka, 2014). Ownership concentration is significant internal governance in which owners can control and influence the management of the firm to protect their interest, these ownership effects provide promoters enough control over the management of the firm.

Banghaj & Plenborg, (2008) stated that the high level of ownership concentration may provide less voluntary disclosure, since shareholders may explore internal communication channels to obtain

information. In the same way, Bolbol (2012) and Javid & Iqbal (2008) argued that the connection between large shareholders and firm performance depends on who are the large shareholders.

### Concept of Board Characteristics

Some many factors or variables that may constitute yardsticks by which board characteristics can be measured in an organization. Some of these mechanisms are briefly discussed below.

### Independent Non-Executive Directors

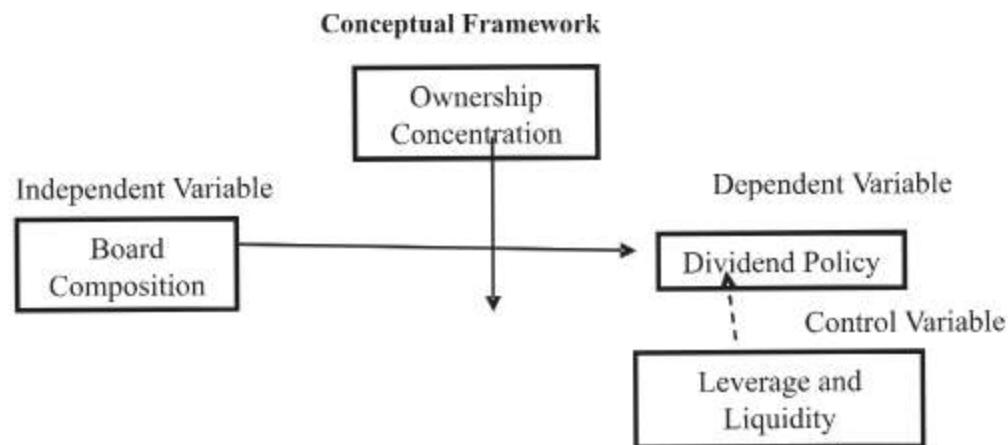
Independent non-executive directors are independent directors who have no connection with the company except for their directorship (Clifford & Evans, 1997). Ajanthan (2013) examines the influence of board independence and dividend payout ratio. The findings show that there is an insignificantly association between board independence and dividend payout among hotels and restaurant firms in Sri Lanka. Dadashi, et al. (2013) examine the relationship between board independence and dividend payout ratio. The findings show that there is no significant impact of board independence on the firm dividend ratio. Therefore, board composition influences dividend payout in significant and positive ways among the sample companies.

### Board Size

The effectiveness of the board of directors can be improved by the increase in the companies' board size as it provides management support in mitigating the agency cost as a result of poor management (Jensen & Meckling, 1976). Similarly, Jensen (1993) argues that for the board to function effectively the minimum number of members should not be less than eight. This is because boards with a small number of directors are more likely to decide on a certain outcome. But the study by Zahra & Stanton (1988), and Amran (2011) claim that a large board with many members is greater than a small one with fewer members as a result of their resources, capabilities, as well as their broader external contractual relationships.

### CEO Duality

According to the agency theory, it is important for companies to separate the CEO and chairman positions to establish an effective and efficient check and balance (Bolbol, 2012). The relationship between CEO duality and dividend payout has been established by many researchers such as (Arshad et al., 2013). The results show that CEO duality has a significant impact on a company's dividend payout. Similarly, Obradovich & Gill (2013) show that CEO duality has a significant impact on a company dividend payout among American service companies from 2006 to 2011.



**Figure 2.1 Conceptualization Model**  
Source: Chee, Pantamee & Razman(2020)

## **Empirical Review**

Studies on board composition, ownership concentration, and dividend policy include the following studies Shahid, Gul, Rizwan & Bucha (2016) examined the potential relationship between ownership structure, the board size, board composition, CEO duality, and dividend policy of 176 listed firms at KSE and 280 listed firms at BSI from 2010-2015. The study used pooled OLS regression test to analyze the association between corporate governance determinants and dividend policy. Findings revealed a positive association between managerial ownership, the board size, board independence, and dividend policy, while a negative association between ownership concentration and dividend policy.

However, Ting, Kweh, & Somasundaram (2017) examined how ownership concentration affects dividend payout, and ultimately firm performance. Regression analyses are performed on a dataset spanning 11 years (2005-2015) among Malaysian publicly listed firms. The results show that shareholders with concentrated ownership play an important role in determining dividend payout and driving firm performance. Specifically, ownership concentration is associated with low dividend payout, but it improves firm performance.

Murtaza, Noor-Ud-Din, Aguir & Batoool (2020) determined the role of ownership concentration and dividend policy on firm performance of chemical sector firms in Pakistan. Secondary data were extracted from the annual report and accounts of the companies listed on the Karachi stock exchange (KSE). The study covers a period from 2012 to 2017, and GLS regression analyzing was used in analyzing the data. The findings revealed that Ownership concentration has a significant positive association with dividend policy and financial performance. Leverage and tangibility have a significant negative relationship with financial performance.

At the same time, Keong & Fen (2020) determined the moderating effects of ownership concentration on the relationship between five firm characteristics (profitability, liquidity, leverage, growth opportunities, and cash flows) and dividend policy for the top 200 Public Listed Companies in Malaysia. The study is carried out in a sample of 528 observations over the period 2013-2017. Secondary data are used, and Normality and correlation test are conducted to confirm the reliability of data. Multiple linear regression models are used to analyze the data and to answer the research questions and research objectives. The findings indicate that profitability is positively related to dividend policy and growth opportunities are negatively related to dividend policy. Whereas, liquidity, leverage, and cash flow are found to be an insignificant determinants of dividend policy. Ownership concentration is shown to have significant moderating effects on the relationship of liquidity and growth opportunities with dividend policy.

Similarly, Habtoor (2020) investigated the potential effect of ownership concentration on the relationship between board composition and bank performance. The study employs a sample of Saudi banks listed on the Saudi stock exchange over the period of 2011-2018, data were analyze using ordinary least square and the two-stage least square regression analysis. The findings revealed a significant negative moderating effect of ownership concentration on the association between board composition and bank performance.

At the same time, Suwaidan & Khalaf (2020) examined the impact of board composition and ownership structure on the dividends pay-out policies employed by a sample of manufacturing companies listed on the Amman Stock Exchange (ASE) from 2013 through 2015. The study used the size of the board, board independence, gender (percentage of females on the board), and Chief Executive Officer (CEO) duality to represent the board composition. Meanwhile, managerial ownership, institutional ownership, and foreign ownership were used to represent the ownership structure. In addition, several control variables were used, such as Return on Assets (ROA) firm's age, firm size, Dividend per share, and financial leverage. The results of the multiple regression analysis revealed that board size, duality, institutional ownership, and earnings per share are found to be significantly associated with the variation in dividends per share at, at least, the five percent level. Chief Executive Officer (CEO) duality hurt, harmed on the dividends per share

### Theoretical Framework

Several theories have emerged to explain the relationship between board composition, ownership concentration, and Corporate Dividend Policy. Among these theories include the Catering Theory, Dividend irrelevant theory, Transaction cost theory, signaling hypothesis, and Agency theory. However, agency cost is the cost of the conflict of interest that exists between shareholders and management. This arises when management acts on their behalf rather than on behalf of shareholders who own the firm. This could be direct or indirect. Though this is contrary to the assumptions of Modigliani & Miller (1961) who assumed that managers are perfect agents for shareholders and no conflict of interest exists between them. This is somewhat questionable, as the owners of the firm are different from the management. Agency costs may also arise between shareholders and bondholders, while shareholders require more dividends, bondholders require fewer dividends to shareholders by putting in place a debt covenants to ensure the availability of cash for their debt repayment. Easterbrook (1984) also identified two agency costs; the cost of monitoring managers and the cost of risk aversion on the part of managers. As such this study adopts agency theory as the theoretical basis for explaining board composition, ownership concentration, and dividend policy.

### Research Design

The research design to be used is the correlational research design. This design is adopted given, because of its influence in analyzing the relationships between variables under study and it provides valuable and appropriate findings to the research hypotheses. The population of this study is made up of all the twenty (20) listed consumers' goods industry in Nigeria as of January 1, 2020. However, a filter technique was used to select the sample size, for a company to be part of the working population, the company must be listed on Nigerian Stock Exchange before 2010; there is no change in the fiscal year during the period; the company required data is available and accessible and the company paid dividend within the period under investigation.

The application of the criteria resulted in the selection of 16 companies as the working population of the study.

**Table 1: Variables of the Study and their Measurement**

Variables	Measurement
	<b>Dependent Variables</b>
Dividend Payout Ratio (DPR)	DPR is measured as DPS/EPS as used by Chen & Al-Najjar (2012); Chee, Pantamee & Razman (2020).
	<b>Independent Variables</b>
Board Composition (BC)	BOC is measured as the ratio of non-executive directors to the total directors on the board as used by Chen & Al-Najjar (2012).
	<b>Moderating Variables</b>
Ownership Concentration (OC)	OSC is measured as those with 5% and above out of the total shares in issue as used by Gunathilaka, (2014).
	<b>Control Variables</b>
Firm size	FS is measured as the log of total assets as used by Shah, Ullah & Hasnain (2011).
Leverage (LEV)	LEV is measured as the total liabilities divided by the total assets as used by Chee, Pantamee & Razman (2020).
Liquidity (LQD)	LQR is measured as the current assets divided by the current liabilities as used by Chee, Pantamee & Razman (2020).

**Source:** Literature Reviewed (2023)

### Techniques of Data Analysis

For this study, multiple regression techniques were used to analyze the secondary data extracted from the annual report and account of companies under study. The model is specified an empirical framework using board composition as the independent variable, ownership concentration as the moderating variable, and dividend policy as the dependent variable.

$$DPR_{it} = \beta_0 + \beta_1 BC_{it} + \beta_2 OC_{it} + \beta_3 BC * OC_{it} + \beta_4 FS_{it} + \beta_5 LEV_{it} + \beta_6 LQD_{it}$$

Where:

DPR = Dividend Payout Ratio

BC = Board Composition

OC = Ownership Concentration

FS = Firm size

LEV = Leverage

LQD = Liquidity

$\beta_0$  = Is the constant (i.e. the intercept)

$\beta_1 - \beta_6$  = coefficient of the independent variable (i.e. the slope)

e = Error term

### Results and Discussion

#### Descriptive Statistics

Table 2 provides a summary of statistics for the variables of the study. The summary statistics include measures of central tendency, such as mean, measures of dispersion (the spread of the distribution) such as the standard deviation, and minimum, and maximum of both the dependent variable and explanatory variables.

**Table 2: Descriptive Statistics of the Variables**

Variables	Obs.	Mean	Std. Dev.	Min	Max
drp	135	0.2668	0.3412	0	1.2
bcomp	135	0.7230	0.1013	0.5	0.8889
owc	135	0.7744	1.5273	0.0071	6.3284
fs	135	10.488	0.8129	8.3513	12.0872
lev	135	0.5890	0.2169	0.0034	1.5045
lqdy	135	1.2022	0.7732	0.0681	5.4586

**Source:** Generated from Annual Report Data of the companies using STATA

Table 2 shows the mean of 0.2668 for DPR meaning that the average dividend payout ratio of listed consumer goods companies in Nigeria is approximately 30% with a minimum 0 and 120% of their earnings. The standard deviation of 0.3412 showed that the DPR of the companies under study deviated significantly. The mean of the board composition is 0.7230 meaning that 72.3% of board members consist of non-executive directors which are good representation with minimum and maximum of 0.5 (50%) and 0.8889 (88.9%). However, the standard deviation of 0.1013 shows no significant variation within the period under review. Ownership concentration shows a mean of 0.7744 with a minimum and maximum of 0.0071 and 6.3284. However, the standard deviation of 1.5273 shows a high variation of ownership concentrations of the companies under study.

Firm size, measured by the logarithm of total assets has a mean of 10.488, a minimum and maximum of 8.3513 and 12.8712 but the standard deviation of 0.8129 suggests a considerable level of dispersion in size of the companies during the period under review. While leverage measured as the ratio of total liabilities to total assets shows a mean of 0.5890 with a minimum and maximum of 0.0034 and

1.5045 respectively. Similarly, liquidity measured as total current assets divided by total current liabilities has a mean value of 1.2022 a minimum and maximum of 0.06814 and 5.4586 with a standard deviation of 0.7732.

**Table 3: Correlation Matrix**

Variables	dpr	bcomp	owc	fs	lev	lqdy	vif
drp	1.0000						
bcomp	- 0.0103	1.0000					1.12
owc	-0.2971	0.1025	1.0000				1.35
fs	0.4855	-0.3171	-0.4635	1.0000			1.53
lev	0.0144	-0.0267	0.1562	0.1113	1.0000		1.30
lqdy	- 0.1211	0.1505	0.0068	-0.2694	-0.4475	1.0000	1.34

**Source:** Regression results computed by the authors using STATA

The correlation results presented in table 3 also indicate that three of the explanatory variables Board composition, ownership concentration, and liquidity are negatively correlated with the Dividend Payout Ratio variable while firm size and leverage are positively correlated with the Dividend Payout Ratio. However, multicollinearity an instance where more than two of the independent variables or predictors are correlated implies interdependence among the predictors or independent variables and if high in magnitude, adversely affects the predictive ability of the independent variables. Variance Inflation Factor (VIF) test was carried out, the results of which provide evidence of the absence of collinearity. This is because the results of the VIF test range from a minimum of 1.12 to a maximum of 1.53 VIF of 5.00 can still be proof of the absence of collinearity (Samaila, 2014). Hence, the predictive ability of the independent variables is not adversely affected by the relationship. The result of the heteroskedasticity test reveals that there is the presence of heteroskedasticity in the first and second models because the probability of the chi-square is 0.0003. Robust estimation should be considered when there is a strong suspicion of heteroskedasticity or where it exists. However, the Lagrange multiplier (LM) test revealed a p-value of 0.00 pieces of evidences of significant difference across the companies, this means we reject the null and conclude that random effects are appropriate and were interpreted.

Table 4: Regression Results on Board Composition, Ownership Concentration, and Dividend Payout Ratio

Ind var.	Robust Regression				Random Effect Regression				Fixed Effect Regression			
	Coefficient	Std error	T	p> z	Coefficient	Std error	T	p> z	Coefficient	Std error	T	p> z
CONSTANT	-2.2395	0.4466	-5.01	0.000	-0.6613	0.7535	-0.88	0.380	1.2157	1.0089	1.20	0.231
BoardComp	0.5401	0.2853	1.89	0.061	0.0877	0.2867	0.31	0.760	-0.1345	0.3019	-0.45	0.65
BoardCompo wship	-0.0247	0.0118	-2.08	0.039	-0.5561	0.0491	-1.13	0.257	-0.00076	0.0816	-0.09	0.926
Fs	0.2076	0.0310	6.69	0.000	0.0722	0.0625	1.15	0.249	-0.0915	0.0864	-1.06	0.292
Lev	-0.0553	0.0948	-0.58	0.561	0.1399	0.1154	1.21	0.225	0.0874	0.1296	0.67	0.501
Lqidity	-0.0119	0.0272	-0.44	0.663	0.0474	0.0308	1.54	0.125	0.0503	0.0308	1.63	0.105
R Square	0.2656											
P-value	0.000											
F- Value	18.35											
Mean VIF	1.33											
Hausman	0.3706											
Hetest	0.0003											
LM test	0.0000											
Number of obs	135											
Within					0.0082				0.0364			
Between					0.2791				0.4960			
Overall					0.1808				0.2098			
F-Value					5.44				0.87			
P-Value					0.3643				0.5037			

Source: Regression Results Computed by the Authors Using STATA



The interaction results as shown in Table 4 indicate that board composition has a positive and significant influence on the dividend payout ratio of listed consumer goods companies in Nigeria. This implies that as the number of nonexecutive directors increases, the DPR increases. The result also indicates that the interaction effect has changed the relationship between ownership concentration and a dividend payout ratio of listed consumer goods companies in Nigeria to negative and significant. Hence, the combined effect of board composition and ownership concentration is negatively related to a dividend payout ratio of listed consumer goods companies in Nigeria. This implies that concentration ownership influenced an independent board to decline dividend payment because the concentration of ownership is mostly owned by institutional shareholders who might be interested in capital gain than a dividend payment. This finding is consistent with Purbawangsa & Rahyuda (2021) whose results show that the ownership structure significantly affected the composition of the board of directors and dividend policy. Shahid, Gul, Rizwan, & Bucha (2016) findings revealed a positive association between managerial ownership, the board size, board independence, and dividend policy, while a negative association between ownership concentration and dividend policy. Ting, Kweh, & Somasundaram's (2017) results show that shareholders with concentrated ownership play an important role in determining dividend payout and driving firm performance and that ownership concentration is associated with low dividend payout, but it improves firm performance. Overall, the study suggests that ownership concentration can also be an effective monitoring mechanism.

Also in line with the findings of Keong & Fen (2020) whose findings indicate that ownership concentration has a significant moderating effect on the relationship of liquidity and growth opportunities with the dividend policy of publicly listed companies in Malaysia.

Firm size measured as a log of total assets have a positive and significant impact on the dividend payout ratio of listed consumer goods companies in Nigeria, this is because larger firms have enough resources enabling them to achieve economy of scale and pay a dividend. This is consistent with Okafor, Ugochukwu, & Hillary (2016) whose findings revealed that firm size has a positive and significant effect on dividend payout among Nigerian manufacturing firms.

Firm leverage measured as total liabilities divided by total assets have a negative but not significant impact on the dividend payout ratio of listed consumer goods companies in Nigeria, this is because firms with higher debt ratios may have restrictions for dividend payments because of debt covenants. This is consistent with the findings of Shafana & Sithy (2019) who found no significant impact of leverage on the dividend policies of non-financial companies in Sri Lanka. Tahir, Rahman, & Masri (2020) also confirmed that financial leverage hurts dividend payout policy.

Similarly, firm liquidity measured as current assets divided by current liabilities has a negative but not significant impact on the dividend payout ratio of listed consumer goods companies in Nigeria, this is contrary to theoretical explanations liquidity influences dividend payment. However, the negative but not significant impact of liquidity on the dividend payout ratio may be a result of measures taken by these companies to cushion the effect of Covid19 on the performance of these companies.

In summary, the combined effect of board composition and ownership concentration has a negative and significant effect on the dividend payout ratio of listed consumer goods companies (coefficient -0.0247 and p-value 0.039) this means that ownership concentration has significantly moderated the relationship between board composition and dividend payout ratio this provides evidence for the rejection of null hypothesis three of this study.

### **Conclusion and Recommendations**

This study examined the moderating effect of ownership concentration on the relationship between board composition and dividend policy of listed Nigerian consumer goods companies. Therefore, from the findings, the study concludes that board composition has a positive and significant influence on the dividend payout ratio of listed consumer goods companies in Nigeria. However, ownership concentration has significantly moderated the relationship between board composition and the dividend payout ratio of listed consumer goods companies in Nigeria. It is recommended that to

improve board efficiency and reduce agency problems, a higher number of non-executive directors should be maintained by the Nigerian consumer goods companies as this will significantly increase the dividend payout ratio of the listed consumer goods companies in Nigeria. Ownership concentration negatively moderated the relationship between board composition and dividend payout ratio; therefore, management should ensure that the profit retained is used to finance profitable investment opportunities to enable the maximization of shareholder wealth.

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