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Diagnostic Correlative Evaluation Of Ownership Structure And Earnings Yield

Sunday A. Effiong*

Department of Accounting, Faculty of Management Sciences,
University of Calabar, P.M.B. 1115, Calabar, Cross River State, Nigeria.

drsunnyeffi@yahoo.com

Nwafor Chidi Benson

Department of Accounting, Faculty of Management Sciences,

University of Calabar, P.M.B. 1115, Calabar, Cross River State, Nigeria.

chidibenson@yahoo.com

Ahakiri, Francis I.

Department of Accounting, Faculty of Management Sciences,

University of Calabar, P.M.B. 1115, Calabar, Cross River State, Nigeria.

ahakirifrancis.1@gmail.com

Fadenipo A. Adesola

Department of Accounting, Faculty of Management Sciences, University of Calabar, P.M.B. 1115, Calabar, Cross River State, Nigeria. horshinaiki@yahoo.com

Abstract

The study was set to investigate the diagnostic correlative link between ownership structure and earnings performance of quoted Consumer Goods Companies in Nigeria. The study correlatively diagnose causal link of the two constructs' relationship – the Institutional and Managerial Ownership Structures – with earnings yield. A quantitative technique was adopted for the study using the panel data obtained from the studied companies listed on the Stock Exchange from 2010 to 2019. A total of 21 consumer goods companies were studied for 10 years (2010 to 2019), giving a total of 210 observations. Structural Equation Model (SEM) was used to estimate the structural relationship between ownership structures constructs on earnings yield. The analysis was aided by AMOS software version 23. The results showed that institutional ownership structure has a significant positive effect on earnings yield of quoted consumer goods companies studied. Also, the study found out that managerial ownership structure has a significant positive effect on earnings yield of quoted consumer goods companies. Therefore, the paper recommended that management of consumer goods companies should ensure adequate reform of ownership structures and put in place an effective internal control mechanism that will enhance the performance of the firm and improve earnings yield. Equally, an adequate institutional ownership structure should be encouraged to improve the companies' earnings yield.

Keywords: Diagnostic evaluation, ownership structure, earnings yield, institutional ownership, managerial ownership, consumer goods

1.1 Introduction

A firm's ownership structure concerns the internal organization of the business entity and the rights and duties of the individuals holding a legal or equitable interest in the organization (Dakhlallh, et al., 2021). The significance of ownership structure and earnings yield of business is an important area of study in corporate governance which helps to further the corporate governance framework. This research explores the effect of ownership structure on the earnings yield of quoted consumer good companies. A firm's earnings yield is based not on its investment projects only but also on other factors such as ownership and financial structures, dividend policy, and corporate governance and control. The role of ownership structure in enhancing the earnings yield of businesses is significant. This is because ownership structures such as institutional and managerial structures are vital in enhancing the earning yield and performance of a business enterprise .

Al-Matari et al. (2013) indicated that the ownership structure of a business entity is vital for the success and earnings yield of the business. Firms that adopt adequate ownership structure often benefit in the long run through improved performance, business successes, and greater earnings yield over a long period which enhances organizational success. Ownership structure relates significantly with performance and earnings yield of companies (Khamis, et al., 2015). Effective utilization of institutional and managerial ownership structure is significant for business success and improved earnings yield. Institutional ownership is vital in an organization because they hold a large financial stake in a company which enhances the investment capability of the firm. Similarly, managerial ownership helps firms to measure the equity percentage share owned and controlled by the managers and directors of the organization which enhances efficiency, performance and earnings yield of the organization .

According to Zraiq, *et al,* (2018), good corporate governance is vital in streamlining the roles of owners, particularly institutional and managerial owners of the organizations. Corporate governance is a set of procedures, policies, and laws that influence the administration processes of a company. This is the relationship among the stakeholders and the goals for which the corporation is governed, (Akpan & Riman, 2012). Corporate governance is the system by which companies are directed and controlled. Boards of directors are responsible for the governance of their companies. The shareholders' roles in governance are to appoint the directors and the auditors and to satisfy themselves that an appropriate governance and ownership structure is in place (Olayiwola, 2010).

A corporate governance system comprises a good number of practices and institutions, from accounting standards and laws concerning financial disclosure to executive compensation to size, the composition of corporate boards, ownership structures, and internal control measures. A corporate governance system defines who owns the firm, dictates the rules by which economic returns are distributed among shareholders, employees, managers, and other stakeholders, and establishes measures to ensure that the overall objectives of the firms are met. As such, a country's corporate governance regime has deep implications for firms/organizations, employment systems, trading relationships, and capital markets. Thus, changes in the Nigerian system of corporate governance are likely to have important consequences on the ownership structures and conduct of business in the nation. Sound corporate governance practices help companies to improve their performance, earnings yield and attract investment while enabling them to realize their corporate objectives, protect shareholder rights, meet legal requirements, and demonstrate to the wider public how they are conducting their businesses. Good corporate governance contributes to enhancing good ownership structure and sustainable economic development as well as improved performance of companies .

The association between ownership structure and earnings yield has remained at the center of discussions, particularly in the framework of agency theory. This is due to the separation between firm ownership and firm control. Poor business performance and governance will be linked to the ownership structure. Many consumer goods companies have been involved in unethical practices, which put the credibility of the organizational structure in doubt. Such companies are faced with corruption issues and other sharp practices. It follows therefore that most consumer goods companies do not only have a weak corporate governance control system, but also a poor ownership structure. Given the importance of corporate governance, the absence of an adequate ownership structure, that could enhance earnings yield is, therefore, a cause for concern. Therefore, this paper examines the correlation link between ownership structure and earnings yield of consumer goods companies in Nigeria .

2.1 Theoretical background

The theoretical foundation for this paper is the agency theory. The agency theory postulates that ownership structure is a critical factor for good corporate governance of firms. The theory analyses the relationship between the owners of the organization and the managers within the nexus of contract. Jensen and Meckling (1976), explain that an agency relationship arises when one or more principals (e.g. an owner (s)) engage another person as their agent (or steward) to perform a service on their behalf. Drawing from this assertion, it is expedient that the principal engages in a contract with the agent based on trust and interest in achieving the overall organizational goals and objectives. This suggests that though the agent may have personal goals, loyalty and dedication lie in the ability to place corporate goals ahead of personal goals .

In corporate governance as well as ownership structure debates, the agency theory appears to be the foremost and the most emphasized, because it explains the relationship between the various ownership structures of the organization (Coleman, 2007). Jensen and Meckling (1976) made their contribution to this theory when they focused almost exclusively on the normative aspects of the agency relationship; that is how to structure the contractual relation including compensation incentives between the owners and managers of the organization to provide appropriate incentives and motivation for all the stakeholders to enhance the firm’s performance.

2.2 Ownership structure and firm’s performance

The ownership structure of a firm involves the internal control as well as the mechanism of the business enterprise which outlines the rights, duties, and privileges of owners, employees, and other stakeholders involved in the organization, and holding a legitimate and equitable interest in the organization (Jordan, 2018). The ownership structure of the business is vital in the corporate governance framework of the business enterprise. Adequate and effective ownership structure reduces conflict in a firm. Ownership structure ensures role clarity and effective assignment of duties which contribute to greater firm’s efficiency and earnings yield (Lin & Fu, 2017). The study by Suman, *et al*, (2016) indicated that ownership structure has a significant influence on a firm’s performance and leads to greater efficiency in the firm. Similarly, Adebiyi & Sunday (2011), stress that an effective ownership structure has a significant effect on a firm’s performance. Ahmed and Hadi (2017) indicated that ownership structure relates significantly to organizational performance

2.3 Institutional ownership

Institutional ownership involves ownership stake of a business enterprise that holds and controls investment entities, pension or mutual funds, insurance corporations, endowment funds, and other funds managed on behalf of the organization, which help to boost the firm’s financial position in the market as well as its performance and earnings (Rosyeni & Muthia, 2019). According to Effiong & Ekpoese (2020), institutional investors tend to spend their capital in search of good returns for their assets. In addition, they play an important role in enhancing the financial position of the business and implementing higher oversight of principals ' performance, or by taking charge of companies' affairs.

Large investors with greater stakes in the company are therefore more involved in supervising management by representation on the board (Desender, 2009). Suman, et al. (2016) suggests that institutional ownership plays an influential role in restricting opportunism and reducing the costs of the agency.

Institutional investors play powerful and important roles as a mechanism for improving the firm's performance. Therefore, Soufeljil et al. (2016) and Lin & Fu (2017) presented empirical proof that institutional ownership influences the firm's performance in a positive and significant way. In addition, Dakhlallh et al. (2019) demonstrated the impact of institutional ownership on Jordanian firms' performance as positive and significant. Meanwhile, Khamis et al. (2015) indicated the result of the influence of institutional ownership on a firm's performance through Tobin's Q as negative and significant. In addition, Arora & Sharma (2016), showed the association between institutional ownership and the company's performance as significantly negative.

2.4 Managerial ownership

Managerial ownership is the equity shares percentage company's directors and managers hold in a firm over some time, usually within a year (Wahla et al, 2012). Managerial ownership showed the percentage or ratio of the shares of board members of a firm owned in the organization. Managerial ownership is vital in the corporate governance framework. Managerial ownership plays a vital role in enhancing the corporate governance effectiveness of organizations as well as increasing the earnings yield of the organization. It is an important mechanism because it also helps balance the interests of shareholders and managers (Zraiq et al., 2018).

According to Jensen & Meckling (1976) "convergence of preferences occurs between managers and shareholders as the ownership of the management rises, and higher management ownership will minimize an agency's costs and thus improve the company's efficiency and earnings yield". Researches have shown that a company's managerial ownership is a critical tool to mitigate the problems of the agency and increase the company's performance (Rosyeni & Muthia, 2019). Kumar and Singh (2013) indicated that enhanced managerial ownership improves the performance of organizations and leads to an increase in earnings. Similarly, Jordan (2018) further stresses that managerial ownership enhances the performance of organizations. Again, Marwa *et al*, (2017) indicated that managerial ownership has a significant relationship with organizational performance.

2.5 Earnings yield

Earnings yield is the proportion of earnings-per-share of an organization over some time. It shows the percentage of earnings retained by a company over a particular period. Essentially, earnings yield shows how much earnings per share a company generates from its investment over some time. According to Al-Matari et al. (2013), it helps the investors to understand how much earnings they will generate from their investment in the company, and helps them to make comparisons between corporations' share values, and then decide on the company to invest in. Ahmed (2018) indicated that organizations with enhanced earning could attract investment, which could improve the firms' performance and competitive position in the market.

3.0 Methodology

The study made use of panel data obtained from quoted consumer goods companies listed on the Nigerian Stock Exchange between 2010 and 2019, with the criteria that the companies had institutional ownership and managerial ownership during the period studied, and had complete and accessible financial data for the study period. Twenty-one consumer goods companies qualified for selection based on these criteria. Data were obtained for 10 years, that is, 2010 to 2019, giving a total of 210 observations. Data were gathered from annual reports of consumer goods companies included in the study and from the Nigerian Stock Exchange factbook. Structural Equation Model (SEM) was used to estimate structural/causal relationships between ownership structure (institutional structure and managerial structure), and earnings yield.

4.0 Results

Table 1: Result of descriptive statistics

Constructs	N	Minimum	Maximum	Mean	Std. Deviation
Institutional ownership	210	-0.086	0.251	4.135	1.746
Managerial ownership	210	0.061	4.861	4.336	1.583
Earnings yield	210	0.327	3.142	4.481	1.767

The descriptive statistics of the study results are presented in Table 1. The analysis capture all the 21 companies studied with a 10 year observation period totaling 210 observations. The ownership structure constructs (institutional and managerial ownership structures) had minimum and maximum values ranging from -0.086, 0.061, and 0.251, 4.861. The constructs had mean values of 4.135, 4.336 and 4.481, for institutional ownership, managerial ownership, and earnings yield, with their corresponding standard deviation values of 1.746, 1.583, and 1.767 respectively.

4.1 Structural modeling

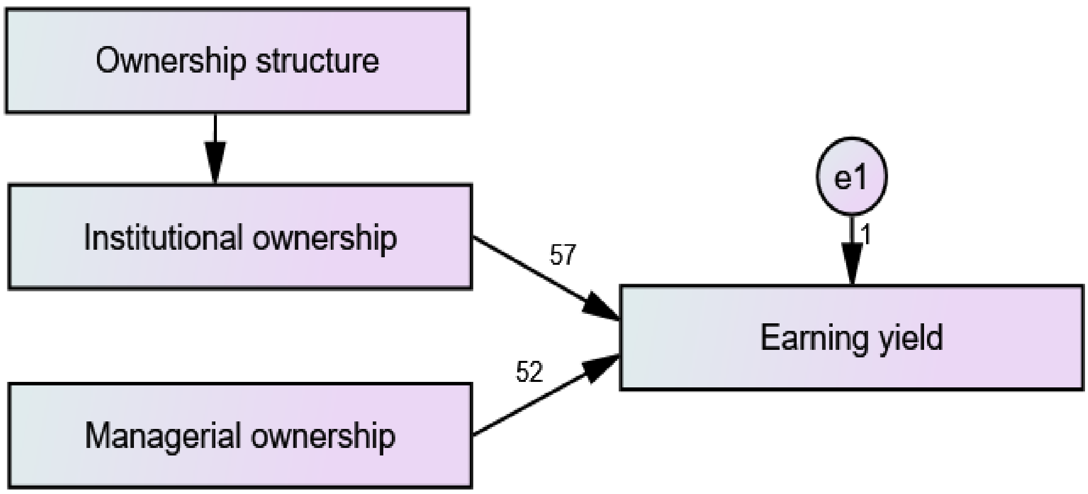

Figure 1: Path diagram showing standardized regression weight estimates of the relationship between institutional and managerial ownership structures on earnings yield

To examine the influence of ownership structure (institutional and managerial structure) on earnings yield, the SEM analysis was employed. The SEM analysis is a multivariate approach used in examining structural relationships among constructs in a study, (Kline, 2015). Figure 1 shows the standardized regression weight estimates of the influence of ownership structure (institutional and managerial ownership structures) on earnings yield. The path diagram indicates that institutional structure impacted earnings yield by 57%. This revealed that adequate institutional structure in consumer goods firms has a 57% predictive influence on earnings yield. Furthermore, managerial structure impacted earning yield by 52 %, thus, indicating that enhanced managerial structure in consumer goods companies has a 52% predictive effect on earnings yield.

Table 2: Summary of the direct effect of institutional and managerial ownership structures on earnings yield

Hypotheses	Constructs	Path	Constructs	Estimate	S.E.	C.R.	P-value	Result
H_1	Earning yield (EY)	<---	Institutional structure	.478	.046	11.433	0.00	Significant
H_2	Earning yield (EY)	<---	Managerial structure	.417	.044	8.191	0.00	Significant

Table 2 shows the summary of the direct influence of institutional and managerial ownership structures on earnings yield. The table shows that the direct effect of institutional ownership structure on earnings yield was significant at 0.478 (p=0.00). This implies that a 1% change in institutional ownership structure will consequently lead to a 47.8 % increase in earnings yield. Hence, hypotheses (H_1) was supported that institutional ownership structure has a significant effect on earnings yield of quoted consumer goods companies in Nigeria. Second, the direct effect of managerial ownership structure was significant at 0.417 (p=0.00). This result implies that when managerial ownership structure changes by 1%, earnings yield changes by 41.7%. Based on the study result, hypothesis (H_2) was validated, thus, supporting that managerial ownership structure has a significant effect on earnings yield of quoted consumer goods companies in Nigeria. Clearly, the study result shows that ownership structures (institutional and managerial ownership structures) have a significant effect on earnings yield of quoted consumer goods companies in Nigeria .

Table 3: Summary of the goodness of fit indexes of the measurement model

Model	Chi-sq/df	RMSEA	CFI	GFI	AGFI	p-value
The direct effect of the constructs	2.543	0.072	0.923	0.922	0.932	.000

Table 3 shows the goodness of fit indices of the model for institutional ownership and managerial ownership structures on earnings yield. The indices from Table 3 revealed that the model achieved the goodness of fit for the measured model.

Table 3 showed Chi-square df value of ($\chi2/df = 2.543$), RMSEA value of (0.072), CFI value of (0.923), GFI value of (0.922), AGFI value of (0.932) and a Probability value of ($p = 0.000$), which meet the recommended goodness of fit indexes ($\chi2/df<3$, RMSEA <0.08, CFI >0.9, GFI >0.9, AGFI >0.9 and p-value<0.05) (Hair et al, 2010). These results validate the study hypotheses and confirm that ownership structures (institutional and managerial ownership structures) have a significant positive effect on earnings yield of quoted consumer goods companies.

4.2 Discussion of findings

The study results showed that institutional ownership structure has a significant positive effect on earnings yield of quoted consumer goods companies in Nigeria. The finding was established after the analysis of the direct influence of institutional ownership structure on earnings yield indicated an estimated value of 0.478 and a p-value of 0.000 which is statistically significant. The estimated value of 0.478 is an indication that a percentage change in institutional ownership structure leads to a 47.8% change in earnings yield of quoted consumer goods companies in Nigeria. Also, the regression weights standardized estimate in the path diagram showed a value of 57 % which implied that institutional ownership construct influenced earnings yield of quoted consumer goods companies in Nigeria by 57%. This result is supported by the research of Rosyeni & Muthia, (2019) who found out that ownership structure and capital structure have a significant positive effect on enterprise performance in Indonesia and play a vital role in enhancing firms' earnings yield. Furthermore, Dakhlallh et al. (2021) indicated that an effective ownership structure has a significant positive effect on Jordanian firms' performance. Similarly, Ahmed (2018) indicated that ownership structure and block holder's ownership have a significant positive effect on organizational performance. Therefore, it becomes pertinent for firms to pay particular attention to its ownership structure due to the significant influence on the firm's performance and earnings. Rosyeni and Muthia (2019) further stressed that it is important for organizations to pay particular attention to the dynamics of the firm's institutional ownership structure, due to the importance of such structure on the business earnings and performance.

Institutional investors spend significant capital on the firm to enhance greater returns for their assets due to their important role in enhancing the financial position of the business and implementing higher oversight of principals ' performance or by taking charge of companies' affairs. Large investors with a greater stake in the company are therefore more involved in supervising management by representation on the board (Desender, 2009). Suman, *et al.* (2016) suggested that institutional ownership plays an influential role in restricting opportunism and reducing the costs of the agency. Institutional investors play powerful and important roles as a mechanism for improving a firm's performance. Therefore, a firm's institutional ownership structure is vital to business success and earnings yield, (Effiong & Ejabu, 2020).

The managerial ownership structure has a significant positive effect on earnings yield of quoted consumer goods companies in Nigeria. Hence, the result is in accordance with the initial hypothesis (H_2) which states that managerial ownership structure has a significant positive effect on earnings yield. The finding was reached after the result indicated an estimated value of 0.417 with a statistically significant p-value of 0.000. The estimated value of 0.417 indicated that a unit percentage change in managerial ownership will lead to a 41.7 percentage change in the earnings yield of quoted consumer goods companies in Nigeria. Furthermore, the standardized regression weights estimate in the path diagram revealed a value of 52%, implying that managerial ownership structure construct influences earnings yield of quoted consumer goods companies by 52%.

The result was in line with the study of Marwa *et al.* (2017), who indicated that ownership structure has a significant positive effect on the performance of Egyptian Listed firms. The result corroborates the work of Ahmed and Hadi (2017), who stress that ownership structure significantly influences a firm's performance and leads to increased earnings yield. Similarly, Wahla, *et a*l, (2012) found out that a firm managerial ownership structure has a significant positive influence on the firm's performance. Therefore, it is pertinent to ensure an adequate managerial ownership structure to improve the performance of firms. Managerial ownership represents the proportion or ratio of a company's shares owned by its board of directors. The importance of managerial ownership in the corporate governance framework cannot be overstated. Managerial ownership is important for improving the efficacy of corporate governance as well as raising the organization's earnings return. Therefore, managerial ownership is a crucial tool for balancing the interests of both shareholders and managers as well as enhancing the earnings of the firm.

5 Conclusion

This study explored the effect of ownership structure on the earnings yield of quoted consumer goods companies in Nigeria. Two dimensions of ownership structure were considered for the study: the institutional and managerial ownership structures. The results from the analyses showed that the two constructs of ownership structure influenced the earnings yield of consumer goods companies positively and significantly. Specifically, the study concludes that institutional ownership structure has a significant positive effect on the earnings yield of quoted consumer goods companies in Nigeria. Similarly, managerial ownership structure has a significant positive effect on earnings yield of quoted consumer goods companies in Nigeria.

Based on the findings of the study, it is concluded that adequate and guided ownership structure, such as institutional and managerial ownership structures, that are in line with global best practices as well as internal control measures, is essential in enhancing the performance and earnings of consumer goods companies. In other words, a proper ownership structure creates enabling environments for improved performance.

6 Recommendations

Based on the findings of the study, the following recommendations were proffered: The management of consumer goods companies should ensure adequate reform of ownership structure and put in place an effective internal control mechanism that will enhance the performance of the firm to improve earnings. The management of consumer goods companies should ensure an adequate institutional ownership structure for the firm to improve the companies' earnings. Managements should put in place a proper managerial ownership structure in line with global best practices in their organizations to ensure improved performance. Also, regulators should enact relevant laws to check exclusive control of equity by a particular group of owners.

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