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Impact of Ownership Structure on the Incidence of Bad Debt of Money Deposit Banks

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Abstract: *The objective of this study is to ascertain the impact of ownership structure on the incidence of bad debt of money deposit banks in Nigeria. The research design adopted by this study is the quantitative approach. The population of interest for this study comprised the twenty-two deposit money banks listed on the Nigerian Stock Exchange (NSE) as at March (2016) for the period of sixteen years from 2000 to 2016. The study utilized only the secondary source of data. The variations in bad debt of the selected deposit money banks is not significantly influenced by ownership structure (OWS). It thus entails that just 35.8120% of the variations in bad debt is explained by OWS. This is indeed insignificant. Based on the findings, the study concludes that on the average, ownership structure has no significant positive effect on the incidence of bad debt of selected money deposit banks in Nigeria. It was also discovered in the study that ownership structure has no significant positive effect on the incidence of bad debt of selected money deposit banks in Nigeria. Hence, the recommendation to back up this finding is that the ownership structure and central controllers of the selected money deposit banks should be reviewed and readjusted if possible.*

Key words: bad debt, money deposit banks, ownership structure

1. Introduction

Ownership structure is the identity of company ownership and an important element of corporate governance which is potentially important. Ownership structure consists of two type, dispersed ownership to outside investors and concentrated ownership. Ownership concentration in some families or business group causes a big control to majority shareholder, which eventually a different treatment between shareholders emerge and the one who will be harm is the minority shareholders (Firth, Peter & Oliver, 2006).

Investor protection is high when the management ownership is high because outside investors expect the manager with their share ownership significantly will act in the best interest of all the shareholders to minimize the negative impact from unanticipated crisis of their share, claimed that the bigger the ownership that owned by the controller shareholders and it will improve the quality and performance of a firm (Leung, & Bertrand, 2007). Juliana (2006), proves that a high ownership concentration can give a trustable commitment from the controller owner with a purpose to build a reputation and not to exploit the interest of minority shareholders. In this regard, ownership concentration factor is one of the determinants of the performance of banks as business institutions.

Financial Performance of an establishment is a state of dealings where depositor's finances are safe within a constant banking system. The financial reliability of an institution may be well-built or unsuitable varying from one bank to another. External factors such as deregulation; lack of information among bank customers; homogeneity of the bank business, connections among banks do cause a bank failure. Some useful procedures of financial performance which are the proxy term as financial reliability are coined into what is referred to as CAMEL (Kiel, & Nicholson, 2003). Awino (2011), asserts that Capital Adequacy ultimately determines how well financial sectors can survive with shocks to their balance sheets. The bank monitors the adequacy of its resources using ratios recognized by The Bank for global Settlements. Capital adequacy in financial banks is measured in relation to the relative risk weights assigned to the various group of material goods held both on and off the balance sheet items. The solvency of financial institutions typically is at risk when their assets become impaired, so it is important to monitor indicators of the quality of their assets in terms of overexposure to specific risks trends in now- performing loans, and the health and profitability of bank borrowers especially the corporate sector. Credit risk is inherent in lending, which is the major banking business. It arises when a borrower defaults on the loan repayment agreement, (Bank of Uganda, 2002). Earnings: The continued viability of a bank depends on its ability to earn an adequate return on its assets and capital. Good earnings performance enables a bank to fund its expansion, remain competitive in the market and replenish and /or increase its capital (Juliana, 2006).

2. Literature Review

2.1. Board Structure

Higgs (2003), centers on board structure and firm's performance. Over the years, experiential studies do not disclose a specific relationship between these two variables. The structure and the powers of the board are determined by organizations' bylaws, which can have a number of members, the way in which they are selected, how often they are voted, and how frequently they award. The number of members of a board can differ in

size. Some cooperation has boards with as many as 31 members or as small as 3. The ideal size of a board is 7. The structure differs to some extent in some countries in the Europe and in Asia where the control of a firm is split into two tiers: an executive board, and managerial board. The executive board is made up of insiders nominated by workers and shareholders and is headed by the chief executive officer or administrative officer. This board is in charge on the daily basis business procedure of the firm. The Supervisory Board is chaired by someone other than the presiding representative of the executive board and concerns itself with matters related to what a board of directors would deal with in the U.S. (Skaggs, Stainback, & Duncan, 2012).

Kula, (2005) states that composition, structure, and size of the board and its effects on the performance in the banking sector are the most discussed issues of corporate governance. The study intends to look at the outcome of the board composition on the financial performance of the financial sector in money deposit bank Nigeria. The sample utilizes data from 2005-2016 belonging to 9 selected financial banks in Nigeria.

A large body of research has examined the relationship between board composition and firm performance. A majority of the studies investigated how board structure influence firm performance. There are a number of recent Nordic studies investigating board composition and firms' financial performance, for example, (Brammer, Millington, Rose, Smith, & Randøy, 2007).

The practical results of most studies, in general, support a negative relation between board size and firm performance. The consequences of other board composition factors such as age, gender and nationality are far less consistent. In particular, the question of how ownership structure influences board composition and afterward firms' performance is mainly unsettled since very little empirical research exists, as a result, ensures that operators of the firm or its management pursue those strategies that will protect the interest of the shareholders (Ahmadu & Tukur, 2005).

Thus, board composition is common, known as governance mechanism that is based on a higher point of corporate responsibility that a firm demonstrates in relation to liability, transparency, and moral values, for this reason, Monk, (2004) Adams & Mehran (2003), were of the view that good corporate governance represents a vital issue for the operation of the modern banking industry in the world today. It is aligned with this setting that this study seeks to examine the success of corporate governance with a view to determining the effect of board composition on the financial performance of money deposit banks in Nigeria.

Conceptual Models between Board Structure, Board Processes, and Board Performance
Figure 2.1 Board Structure Processes
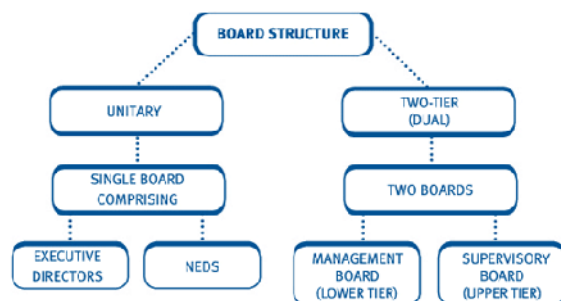
Source: Kula & Tian, (2005) **Board process board performance Downloaded 12 March 2017**

The Central Bank of Nigeria (CBN) (2006) attributed weaknesses in corporate governance of banks in Nigeria to include the following, amongst others:
 1. Ineffective board oversight functions;
 2. Disagreements between board and management giving rise to board squabbles;
 3. Fraudulent and self-serving practices among members of the board, management and staff;
 4. Overbearing influence of chairman or MD/CEO, especially in family-controlled banks.

All these weaknesses have to do with the structure and composition of the board of directors. The strategic importance of the board of directors in the promotion of corporate governance practices led the CBN to maintain that the board of directors for a bank in Nigeria should essentially be one that is committed and focused in the discharge of its responsibilities with a high degree of independence from the management and individual shareholders and so composed that there is a balance of power and authority so that no individual or coalition of individuals has unfettered powers of decision-making (Hagal, Brown & Davison 2010).

2.2. Board Size
Board size and firm performance are one of the focuses of board composition. Board size suggests that when the size of the group increases, individuals tend to put less effort. Having smaller groups may facilitate group cohesiveness.

Figure 2.2   Board   of   Directors   and   Corporate   Governance   Commission
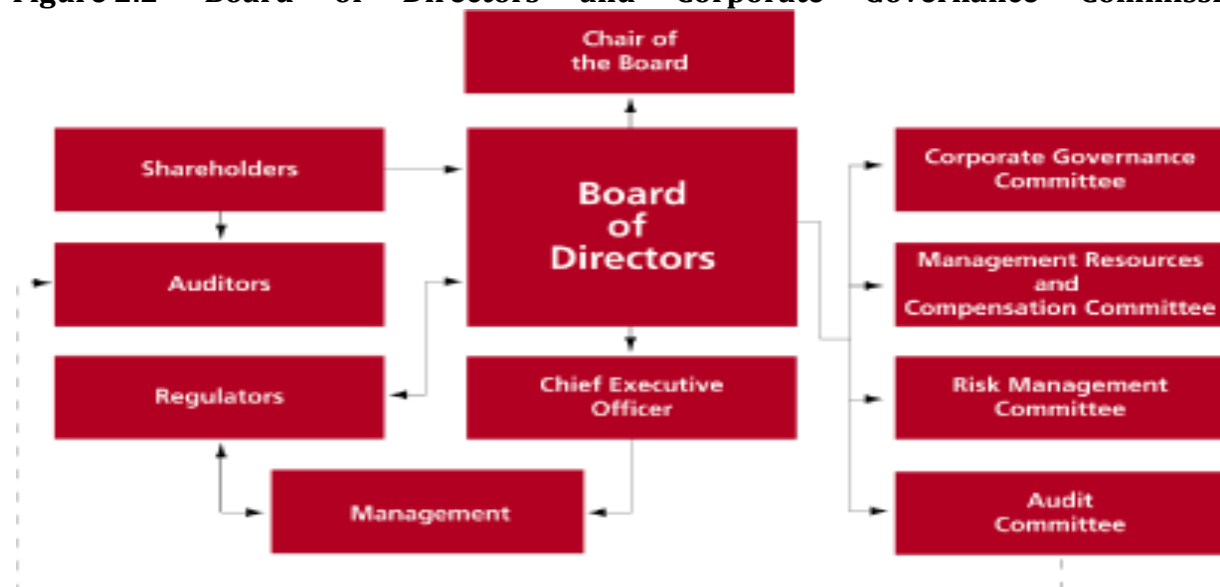
Source: Laksmana L.A. (2008), Downloaded 2 March 2017.

The board is the supreme decision-making unit in the company. The board of directors, therefore, has responsibility to safeguard and maximize shareholders' wealth, oversee firm performance, and assess managerial efficiency. (Adams & Ferreira, 2007).

The size of a board is a factor that can influence its effectiveness. However, there comes a point where the size of a board becomes unwieldy, difficult to control. It may be sensible, to begin with, a relatively small board perhaps four or five directors (Barako, Brick, Palmon & Wald 2006).

As a general guide, the board should, on the one hand, be small enough to have high quality, active discussions, but on the other hand, big enough to provide the skills and practice essential for the board to function successfully, it is better to put together the board than to lessen. Over time, as gaps in the board's knowledge, skills and experience become apparent, particularly as circumstances changes, appropriate changes can be made to the board. Ideally, this would occur as part of an established process of board assessment and renewal. The negative relation seems also to hold for Nordic firms, (Randøy, Thomsen & Oxelheim, 2009) for example, show that larger boards have a negative impact on firm performance.

A number of recent papers (Larker 2011 and Guest, 2008) showed that board size is determined by firm specific variables, such as Tobin's Q, profitability and firm size. In places with diverse institutional backgrounds, the functions of boards are special, and as a result of the anticipated board size performance, the relation may be expected to differ. The Board of Directors of a firm is a key mechanism to monitor manager's behavior and to advise them (Bear, Rahman and Post, 2010). In this case, Board size play a major role in the performance of every prospering organization. There is a convergence of agreement on the argument that board size is associated with bank financial performance. However, conflicting results emerge on whether it is a large, rather than a small board, that is more effective.

3. Methodology

3.1. Research Design
Agbaeze (2004), states that research design is simply a map or plan of action showing what and how the researcher will carry out the step-by-step procedure for accomplishing the research task. This study adopted *Ex Post Facto* design given that it is targeted at analyzing the impact of some independent variables on a specified dependent variables. It is appropriate because it aims at meassuring the relationship between one variable and another, in which the variables involved are not manipulated by the researcher. This study makes use of econometric procedure in estimating the effect of board composition on financial performance of selected money deposit banks in Nigeria. It is also pertinent to note that the research design adopted the quantitative approach based on the fact that it gives room for statistical and econometric estimations for the actualization of the research objectives.

3.2. Population of the Study
The population of interest for this study comprised the twenty-two deposit money banks listed on the Nigerian Stock Exchange (NSE) as at March (2016) for the period of sixteen years from 2000 to 2016. The total population are: Access Bank – acquired Intercontinental Bank, Citibank, Diamond Bank, Dynamic Standard Bank, Ecobank Nigeria – acquired Oceanic Bank, Fidelity Bank Nigeria, First Bank of Nigeria, First City Monument Bank – acquired FinBank, Guaranty Trust Bank Heritage Bank Plc acquired Enterprise Bank

(formerly Spring Bank), Keystone Bank Limited – formerly Bank PHB, Provides Bank Plc, Skye Bank – acquired Mainstreet Bank Limited, Stanbic IBTC Bank Nigeria Limited, Standard Chartered Bank, Sterling Bank – acquired Equatorial Trust Bank , Suntrust Bank Nigeria Limited, Union Bank of Nigeria, United Bank for Africa, Unity Bank Plc, Wema Bank, and Zenith Bank

3.3. Sample and Sampling Technique

Awotunde & Ogudulunwa (2004), defined sampling as a process in which a portion of a population is carefully selected and taken as being representative of the population. Considering this, Non- probability method in the form of judgmental sampling technique was employed in selecting nine banks into the sample. The nine banks are as follows: First Bank of Nigeria Plc, Diamond Bank Plc, Ecobank, Fidelity Bank, Union Bank, United Bank for Africa, Zenith Bank, Access Bank and Sterling Bank Plc.

3.4. Sources of Data Collection

The study utilized only the secondary source of data. This is because the estimation of the models in the study requires the use of panel data data in the form of financial information which are available through the financial statements of the sample banks. The data were sourced from the annual reports and accounts of the sampled banks for all the relevant years covered by the study.

3.5. Determination of Sample Size

Sample is a fraction or segment of the total population whose characteristics is used to represent the entire population (Onodugo, Ugwuonah & Ebinne, 2010). For the purpose of this study, the sample size is being based on the following criteria:

i.   Banks with missing values for the variable used were excluded.
ii.   The bank was not involved in any merger during the study period.
iii. For the empirical part of this study, the data is limited to the bank that is in existence throughout the period of the study.
      After applying the above criteria, nine deposit money banks were selected. They are First Bank of Nigeria Plc, Diamond Bank Plc, Fidelity Bank, Union Bank, United Bank for Africa, Zenith Bank, Access Bank, Eco Bank and Sterling Bank Plc.

3.6. Method of Data Collection

The data for the study were collected from annual reports and account deposit money banks quoted on the Nigerian Stock Exchange (NSE). Secondary financial data sources were used for the study. The dependent variables are: Capital adequacy, profitability, bad debt, return on assets and return on equity, were used as a measure of financial performance of the deposit money banks. Board composition data were obtained from corporate governance disclosure of individual listed deposit money banks in NSE.

3.7. Method of Data Analysis

In this research, the method of data analysis is the Linear regression with the application of Ordinary least squares (OLS) technique. The primary justification for adopting the linear

regression is based on the fact that it gives possesses the optimal properties of linearity, un-biasedness and minimum variance (Koutsoyannis, 2003).

3.8. Model Specification

$$BDEBT = \beta_0 + \beta_1 OWS + u...(3.3)$$

By Definition:

OWS = Ownership Structure, BDEBT = Bad Debt, B's = parameters to be estimated and Us = the stochastic error term.

4. Presentation and Analysis of Results

4.1. Ownership Structure vs Bad Debt

Dependent Variable: LOG(BADEBT)
Method: Least Squares
Date: 01/17/18 Time: 22:09
Sample: 2000 2016
Included observations: 17

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	8.599303	1.300614	6.611725	0.0000
OWS	-0.001287	0.003697	-0.348073	0.7326
R-squared	0.408012	Mean dependent var		9.007010
Adjusted R-squared	0.358120	S.D. dependent var		2.265984
S.E. of regression	2.330904	Akaike info criterion		4.640521
Sum squared resid	81.49672	Schwarz criterion		4.738546
Log likelihood	-37.44442	Hannan-Quinn criter.		4.650264
F-statistic	0.121155	Durbin-Watson stat		1.604937
Prob(F-statistic)	0.732622			

Source: E-views OutPut

Model Line: BAD-DEBT = bo + b$_1$OWS

Regression Line: BAD-DEBT = 8.599303 -0.0012**OWS**

The regression analysis carried out in section 4.3.3 above reveals that the numerical coefficient of Ownership Structure (OWS) yielded a negative value at the magnitude of -0.0012. This entails that there exists a negative relationship between the two variables. Hence, a percentage change in ownership structure reduces the level of incidence of bad debt by -0.001287 and vice-versa. The coefficient of determination which measures the

control power of the independent variable over the dependent variable was calculated with the instrument of adjusted R-Squared and it yielded 0.358120. This entails that the variations in bad debt of the selected deposit money banks is not significantly influenced by ownership structure (OWS). It thus entails that just 35.8120% of the variations in bad debt is explained by OWS. This is indeed insignificant.

4.2. Test of Hypothesis

Ho: Ownership structure has no significant positive effect on the incidence of bad debt of selected money deposit banks in Nigeria.

Hi: Ownership structure has significant positive effect on the incidence of bad debt of selected money deposit banks in Nigeria.

Dependent Variable: LOG(BADEBT)
Method: Least Squares
Date: 01/17/18   Time: 22:09
Sample: 2000 2016
Included observations: 17

Variable	Coefficient	Std. Error	t-Statistic	Prob.
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Log likelihood	-37.44442	Hannan-Quinn criter.	4.650264	
F-statistic	0.121155	Durbin-Watson stat	1.604937	
Prob(F-statistic)	0.732622			

Source: E-views OutPut

It can be seen from the regression table above that the computed t-statistics yielded -0.348073 and a check at the tabulated t-statistics at 5% level of significance yielded 2.131. This shows that the computed value of the t-statistics is less than its tabulated value.

The decision rule is to accept the alternate hypothesis (Hi) if the computed t-statistics (t*) is greater than the tabulated t-statistics ($t_{0.025}$) otherwise accept the null hypothesis.

Ownership structure has no significant positive effect on the incidence of bad debt of selected money deposit banks in Nigeria (t*$_{calculated}$ = -0.348073 < t* $_{critical}$ = 2.131).

From the above analysis, it is clearly seen that the computed t-statistics value = -0.348073 is less than its tabulated value of 2.131. This compels the acceptance of the null hypothesis (Ho) and the rejection of the alternative (H$_1$). Hence; ownership structure has no significant positive effect on the incidence of bad debt of selected money deposit banks in Nigeria.

It was discovered from the third objective/hypothesis that ownership structure has no significant positive effect on the incidence of bad debt of selected money deposit banks in Nigeria. This is however surprising but has its justification that ownership structure being an index of board composition has no direct and significant influence on the incidence of debt being a financial performance variable. This was in line with the findings of Adams & Ferreira (2009) that explored the ownership structure and corporate governance and its effects on performance of banks between the periods of 2003 to 2006 in Kenya and found out that there was no significant difference between ownership structure and financial performance and between banks ownership structure and corporate governance practices. It was also in tandem with the findings of Awino, (2011) that explored the relationship between ownership structure, board composition and firm performance among Swedish listed firms on the Stockholm Stock Exchange during 1999-2005 and discovered that ownership structure has no significant effect on the financial performance of Swedish listed firms on the Stockholm Stock Exchange.

5. Conclusion
Based on the findings, the study concludes that on the average, ownership structure has no significant positive effect on the incidence of bad debt of selected money deposit banks in Nigeria

6. Recommendation
It was also discovered in the study that ownership structure has no significant positive effect on the incidence of bad debt of selected money deposit banks in Nigeria. Hence, the recommendation to back up this finding is that the ownership structure and central controllers of the selected money deposit banks should be reviewed and readjusted if possible.

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