Effect of Ownership Concentration on Agency Cost of Industrial Firms Listed on the Nigerian Exchange Group

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Abstract

This study investigated the effect ownership concentration on agency cost of industrial firms listed on the Nigerian exchange group. The specific objectives were to examine the effect of government ownership, managerial ownership, institutional ownership and foreign ownership affects agency cost of firms listed on the Nigerian exchange group. Panel Least Squared (PLS) method of data analysis was used. Secondary sources of data were employed; the interested variables were sourced from the annual report of the quoted industrial firms. The variables were assets utilization as the dependent variables while government ownership, managerial ownership, institutional ownership and block ownership were the independent variable. The study employs descriptive statistics, correlation and regression analysis in the analysis. From the analysis result the study found that. Government ownership has no significant impact on agency cost of firms listed on the Nigerian exchange group (t-test 1.539283, p=0.1286). Managerial ownership has significant impact on agency cost of firms listed on the Nigerian exchange group (t-test 4.541870, p=0.0000). Institutional ownership has significant impact on agency cost of firms listed on the Nigerian exchange group (t-test -3.443344, p=0.0005). Foreign ownership has negative and insignificant effect on agency cost of firms listed on the Nigeria exchange group (t-test -0.336863, P= 0.7372). The researcher recommends that. Government ownership of sensitive firms should be minimized, as such ownership are usually inefficient and characterized by bureaucratic bottlenecks, which do not have clear incentives to improve asset. The study recommends that financial regulatory bodies in Nigeria such as the Central Bank of Nigeria (CBN), Nigeria Deposit Insurance Corporation (NDIC), and Securities and Exchange Commission (SEC) should ensure that a reasonable degree of managerial ownership is maintained by all banks due to its potential benefit in improving financial performance in Nigerian banks. Institution ownership should be increased against concentrated ownership for better performance.

Keywords: *Ownership Concentration, Agency Cost, Government Ownership, Managerial Ownership, Foreign Ownership and Institutional Ownership*

1.1 Introduction

Organizations exist to maximize profit and shareholder's wealth. Achievement of these objectives depends on the effectiveness of the managers. Ogbe, Ogbe and Alewi (2013) stressed that manager's decisions are expected to enhance shareholder's wealth. Unfortunately, companies with diverse ownership are seen to be controlled by managers even where formal control belongs to the shareholders. The dispersed shareholders themselves are becoming increasingly more passive in their roles, leaving the management with reasonably free hand to pursue goals that may not necessarily correspond with the objectives of the firm. Abdullah, Sarfraz, Qun, & Chaudhary, (2019) argued that this happens because shareholder have less power to control managerial activities, because the ownership structure is dispersed. This view is supported by Ghanbari, Rashidi and Abbasi (2018). They pointed out that lack of ownership concentration results in the shareholders' inability to consider the managers' actions and measures. Xiao (2009) added that the separation of management from ownership in modern corporations gives the managers the motivation and opportunity to conduct activities that serve their own interest instead of maximizing the value of the owners' wealth.

These incompatible interests have always been a source of conflict (Investopedia Team, 2021). The non-alignment of managers' interest and that of business owners can take the form of preference for on-the-job benefits and making self-interested and entrenched choices that can lower profit and shareholders wealth. Thus, separation of ownership and control is considered to be problematic for those firms in which managers are different from owners, and they would lack the incentives to operate corporations in the same manner as owner-managers. Agency cost theory is hinged on this divergent interest. The theory stressed that divergent interest could, result in deterioration of firm performance (Agubata & Ekwueme, 2019). According to Salawu, Asaolu and Yinusa (2012), the performance of publicly listed companies in Nigeria has been unsatisfactory, despite several reforms introduced over the years The unsatisfactory performance can be associated with agency conflict. Mehdi, Farshid, Mohammed, and Zakiya (2020) provided reasons for such agency problem, which includes disparity in knowledge between insiders and outsiders and information asymmetry between the company and the market. So for the principal to protect himself against opportunist behaviour and ensures that agents act in the owners' best interests, he has to design plans for them. The design as suggested by Mallin 2004, can be a monitoring mechanism put in place as an oversight tool for the owners.

The monitoring hypothesis, suggests that a large shareholder can mitigate managerial moral hazard problems by increasing the probability of a value- increasing takeover or by having greater ability and incentives to monitor and discipline the firm's manager (Crongvist, 2001, Shleifer and Vishny, 1986, 1997.). The study of Jensen and Meckling [1976] revealed that concentrated ownership structure can have positive influence on firm performance as this type of ownership structure can reduce the conflicts between owners and managers. This means that large shareholders could be an effective tool to reduce the agency cost of firms, given the roles in the management of the firm. In that regard, Isik and Soyan (2013) argued that the simplest and direct mechanism of dealing with shareholders and managers agency conflicts is internal mechanism of corporate control mechanism in which shareholders due to the fact that the larger shareholders have stronger incentive, and greater power to directly monitor managers activities, they can curb the conventional principal agent problems which Berle and Means (1932) identified. This argument is based on the fact that corporate actions are typically agreed upon by a company's

board of directors but must be authorized by the shareholders. In addition, shareholders can get the necessary information in a concentrated ownership structure. This can be helpful for the efficient monitoring system. Due to efficient monitoring system performance of the firm will be increased. (Abdullah, Sarfraz, Qun &, Chaudhary, 2019). Saifullahi, Mohammed and Hassan (2015), found that managerial ownership and independent directors ownership have a negative but strong and significant impact on the performance of listed Conglomerate firms in Nigeria, while institutional and ownership concentration were found to have a positive, strong and significant impact on same sector.

Investors are concerned regarding their investment decision. They want to invest in the firms which have good governance structure, and they are prepared to pay a premium for shares in well-governed firms. Government on the other hand, depend on the performance of firms for the growth of the economy, Unfortunately, companies with diverse ownership are seen to be controlled by managers who have reasonably free hand to pursue goals that may not necessarily correspond with the objectives of the firm. In this way, performance of the firm is deteriorated with subsequent decrease in the value of the owners' wealth and by extension, reduction in economic growth.

Previous studies have shown that some aspects of ownership improve financial performance while some. Aspect has shown negative effect on performance. For instance Saifullahi, Mohammed and Hassan (2015), found that managerial ownership and independent directors ownership have a negative and significant impact on the performance of listed Conglomerate firms in Nigeria, while institutional and ownership concentration were found to have a positive, strong and significant impact on same sector. Wang (2013) showed that managerial ownership had a negative relationship with financial performance of firms and a positive relationship exist between institutional ownership and financial performance of firms. Pavel and Alexander (2011) found out that the association between ownership by different groups of owners' ownership concentration, state ownership and firm's financial performance was relatively weak. Etale and Yalah (2022) investigated the ownership structure and financial performance of listed consumer goods sector firms in Nigeria for the period of 2011-2020. The result revealed that ownership structure has robust relationship with financial performance.

These studies have all concentrated on firm performance, but have not considered how the large ownership has influenced the performance of the managers which is a reflection of firms overall performance. Therefore this study is aimed at determining the effect of ownership concentration on the agency cost of firms, with the intention of finding out which of the block ownerships have significantly helped to reduce agency problem. The main objective of this study is to investigate the effect ownership concentration and agency cost of firms listed on the Nigerian exchange group. The specific objectives are to:

i. Determine the extent to which government ownership affects agency cost of firms listed on the Nigerian exchange group.

ii. Examine the extent to which managerial ownership affects agency cost of firms listed on the Nigerian exchange group.

iii. Ascertain the extent to which institutional ownership affects agency cost of firms listed on the Nigerian exchange group.

iv. Determine the extent to which foreign ownership affects agency cost of firms listed on the Nigerian exchange group.

2.1 Conceptual Review

2.1.1 Ownership concentration

Ownership concentration refers to an ownership fraction or stake in a firm that is held by shareholders with the controlling interest or with large stake. Ownership concentration affords the shareholders the motivation and ability to monitor and control management decisions. Therefore, concentrated shareholders use their large stake in reducing conflicts between managers and the organization by being more proactive in monitoring and protecting their investments. Ownership concentration is measured by natural logarithm of equity held by block holders as investors in the firm**.** Ownership concentration is a measure of the existence of large shareholders in a firm.

First, absolute concentration of ownership, that is, there is only one stockholder who has the absolute power to control the firm and usually keep 50% ownership; Second, absolutely dispersed ownership, implying that there are numerous stockholders; there is complete separation of ownership and control when the share ownership is highly concentrated than individual ownership as they keeps share below 10%. Third, where there coexists relative concentration of ownership and some large shareholders in a firm. However, in the firm, which has relative concentration of ownership and some large shareholders, ownership structure can almost decide the composition of board. It is always assumed that only shareholders who hold large share may closely the management and may have no power to decide for the board. Ownership concentration is a vital internal corporate governance component where principals can scrutinize and oversee the operations of the company to safeguard their investment, (Madhani, 2016).

Benjamin and Dirk (2015) and Nahila and Amarjeet (2016) concentrated ownership is defined by the distribution of stakes in relation to the distinctiveness of the equity holders and its classification within company's governance structure that has impacted firm financial performance for several decades. Jiang (2015) recommends that since rights concentration is an important component in present company's governance structure, there should be a departure of firm ownership from firm management. In order to enhance the growth of firms, firms' owners (principals) should take the firm operational privileges to skilled agents to run the firm hence retaining the residual power to acquire control. Clash of interest between owners and managers results in manager's self-seeking attitude of short-run profit damaging the welfare of principal by extension the prescribed agreement. Incentives provided by shareholders for managers can unite the owners and the agent towards promoting welfare of the two groups so that agents will give maximum concentration to the advancement of organizational goals besides considering themselves, thus leading to accomplishment of the contractual agreement (Matengo, 2018).

2.1.2 Government ownership concentration

Government ownership is estimated to enhance performance through political appointment of the managers. Mutisaya (2015) posit that government ownership is incompetent and rigid and the ownership rights of government firms do not have distinct incentive to better firm performance. Boubakri and Cosset (2015) suggest that government owned firms are

advantageous as the government can allocate capital to them for investment to promote economic and financial improvement, mostly, for nations that have economic institutions that are underdeveloped and utilizing government funds to finance projects with social benefits. However, he points out that government should transfer control rights of the decision making process from politicians to managers to improve firm performance as agents are highly interested in firm profitability than the officials.

2.1.3 Managerial Ownership

Separation of ownership and control and the conflicts of interests between the agent (managers) and the principal (owners) (Jensen and Meckling, 1976) are often the main focus of the corporate governance literature. However, a narrow definition of corporate governance, which only focuses on the classic agency conflict between managers and shareholders, ignores the potential conflicts of interest among other parties (Cornet et al., 2017). Hence, delegating the responsibility of monitoring management to the board of directors may lead to another agency conflict between the board of directors and shareholders (Edward et al., 2019). Accordingly, boards of directors may avoid efficient monitoring because they are dependent on managers or simply because they do not have an incentive to put much effort in monitoring managers. However, it is true that monitoring by regulators represents an additional governance mechanism; their presence may further complicate governance problems in firms. Thus, the presence of heavy regulations, informational asymmetries, sequences and a conflict of stakeholder interests in firms a special relevance on the internal corporate governance mechanisms which has the board of directors at its apex.

According to Loderer and Martin (2017) Managerial ownership is a situation where the manager owns shares in the firm they manage, in other words they serve as managers of the firm and as well as the company's shareholders. The definitions above look at the possession of shares from insider perspective which is not different from the shares held by those at the helm of affairs, (the managers of the company). This implies that, managerial ownership means the amount of share either in naira amount or units of shares held by those who manage the affairs of the business where they act as an agent of the public (shareholders). The opposing effect of managers become owners is that they also gain voting power as they will be involved in manipulation of results to make it look like the firm is operating better (Krivogorsky, 2016). Managerial ownership can provide a direct economic incentive for managers to engage in active monitoring and also align ownership and control through meaningful directors' stock ownership.

Managerial shareholding is the portion of equity shares held the managers of an entity and the reason behind discussing this corporate attribute is nothing more than the agency theory which assumes that managers that are actively participating in the managing the affairs of an entity tends to act in a way that will maximize the value of firms. Furthermore, in reference to the conflict of interest between owners and managers or 'agency problem' (resulting from the separation of owners and manager), several studies focus on the way to 'control' managers to work in the shareholders' interest. Most of them suggest that concentrated ownership directs a firms' management effectively and mitigates agency problem. Alternatively, Jensen and Meckling (1976) suggest that when managers hold a proportion of shares in firms, the interest of shareholders and managers are aligned and the conflict between them declines. In this regard, managers are less inclined to divert resources towards their own accounts. Moreover, with a higher proportion of shares in the hands of managers, they will work harder to improve

the firm performance, which will increase the value of the firm and consequently the managers' wealth.

2.1.4 Institutional ownership concentration

Institutional ownership is an important determinant of firm performance. The Literature argued that the institutional investors seeking to fulfill their fiduciary responsibility require the undertakings concerned to improve the governance of the company and the transparency of their management and to concentrate on the maximization of shareholder value (Soufeljil, Sghaier, Kheireddine, & Mighri, 2016). Obviously, institutional investors choose a good project to invest their money in looking for more returns and profitability. Furthermore, they play an essential role in corporate governance by imposing greater monitoring of the managers' performance or by taking control of the companies' affair. Subsequently, large investors who have a larger stake in the institution are more interested in monitoring management through representation on the board (Desender, 2019).

Institutional ownership refers to an ownership fraction or stake in a firm that is held by large financial organizations, pension funds or endowments. This ordinarily represents the proportion of shares owned by institutions to total number of shares issued by a firm .Institutional investors are organizations which pool large sums of money and invest those sums in securities, real property and other investment assets. They can also include operating companies which decide to invest their profits to some degree in these types of assets (Wikipedia, nd). An institutional investor can have some influence in the management of corporations because it will be entitled to exercise the voting rights in a company. Thus, it can actively engage in corporate governance. Furthermore, because institutional investors have the freedom to buy and sell shares, they can play a large part in which companies stay solvent, and which go under. Influencing the conduct of listed companies, and providing them with capital are all part of the job of investment management.

Institutions generally purchase large blocks of a firm's outstanding shares and can exert considerable influence upon its management. Therefore, institutional shareholders are usually professionals and they normally use their expertise in monitoring the management in ensuring that their interests align with those of the organization's interests. Institutional ownership is measured by natural logarithm of equity held by various institutions as investors in the firm. Institutional ownership as the fraction of a firm's shares that are held by institutional investors. Hence, by definition, institutional ownership of a company is one minus the fraction of its shares held by non-institutions (i.e., individual investors). Institutional equity holders are organizations that own huge sums of resources to invest and they do commit huge amount of funds into a firm's equity e.g. pension reserves, insurance firms, mutual funds and combined performance is termed as the neutrality assumption. Institutions play a supervising duty in minimizing the agency conflicts between principal and agent.

Institutional investors are considered as the key players in most financial markets and their influence on corporate performance is increasing because of the privatization policy adopted by various countries. Accordingly, one can argue that the major actors in many capital markets are institutional investors. This argument is based on the fact that institutional investors may affect the management performance and the activities directly through their ownership and indirectly by their ability to trade the shares (Gillan & Starks, 2003). Further, the institutional investors may play a key role in monitoring firms and transmitting information to other shareholders

2.1.5 Foreign Ownership

In recent times, many Vietnamese firms have been active in loosening foreign room to attract foreign capital and calling for more foreign investment capital such as Bidiphar, PVI, Haxaco, Everest, and the Nafoods Group, Quynh N.D(2021). Foreign ownership is the ownership of a portion of a country's assets (businesses, natural resources, property, bonds, equity etc.) by individuals who are not citizens of that country or by companies whose headquarters are not in that country. Foreign ownership of assets is widespread in a modern, globally integrated economy, at both the corporate and individual levels. At the individual level, foreign ownership occurs whenever a domestic asset is acquired by a foreign individual, such as an Indian businessman buying a house in Hong Kong, or a Russian citizen purchasing United States Treasury bond.

According to the State Securities Commission of Vietnam, as of the beginning of the fourth quarter of 2019, nearly 30 listed firms raised the ceiling of foreign ownership to 100% (Baker & McKenzie, 2019). In 2019, the total value of foreign investors' portfolios increased to about 36.4 billion USD. However, the increase in foreign ownership in the Vietnamese market has always been a controversial issue. The supportive point of view in the increasing foreign ownership ratio to attract investment shows the advantages of foreign investors such as strong capital capacity, good management capacity, operational efficiency, and corporate governance. On the contrary, the limitations of the increasing foreign ownership have been raised, such as transfer pricing, inadequate sanctions and adequate solutions to compulsory technology transfer, concerns about economic security, and national cultural identity loss.

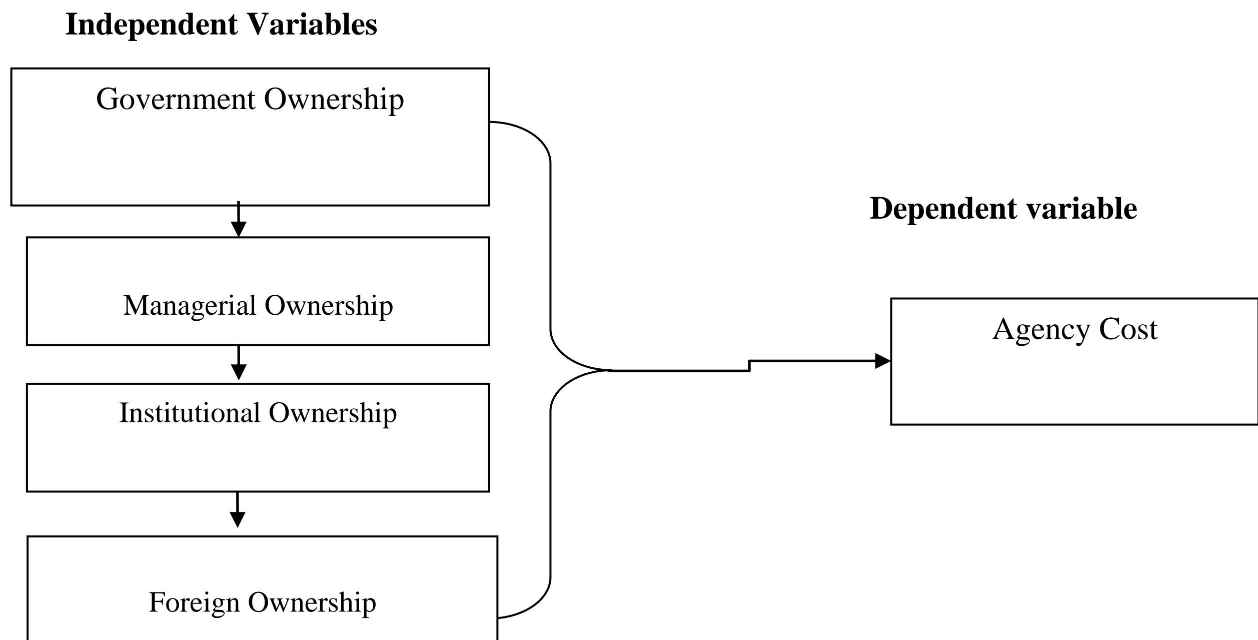
2.1.6 Agency cost

Agency cost is a type of cost that arises from an agent as hired by a principal. In the context of business relationship, an agent (management) acts on behalf of a principal (shareholders) to run a business. Agency costs also refer to expenses and other costs associated with agency problems. Since an agent and a principal have different own personal interests, the business relationship may generate agency problems. If managers' objectives are not aligned with the owners' goals, agency problems will arise. Managers prefer to provide excessive perks and make self-interest decisions rather than exert to enhance shareholder wealth (Ang et al., 2010). With the implementation of good corporate governance, agency costs can be controlled (Okpala & Omaliko, 2022). Here are various forms of agency costs.

Generally, agency cost refers to cost associated with an agency problems. For examples, a behavior of managers that focus on social status, use exclusive facilities (luxury buildings and executive cars), perform non-optimal investment, mismanage companies and take corporate fraud. Consequently, the existence of agency costs has lead to weaken a firm's competitiveness in global markets. Nontheless, monitoring hypothesis, suggests that a large shareholder can mitigate managerial moral hazard problems by increasing the probability of a value- increasing takeover or by having greater ability and incentives to monitor and discipline the firm's manager (Crongvist, 2001, Shleifer and Vishny, 1986, 1997.). The study of Jensen and Meckling (1976) revealed that concentrated ownership structure can have positive influence on firm performance as this type of ownership structure can reduce the conflicts between owners and managers. This means that large shareholders could be an effective tool to reduce the agency cost of firms, given the roles in the management of the firm. In that regard, Isik and Soyan (2013) argued that the simplest and direct mechanism of dealing with shareholders and managers agency

conflicts is internal mechanism of corporate control mechanism in which shareholders due to the fact that the larger shareholders have stronger incentive, and greater power to directly monitor managers activities, they can curb the conventional principal agent problems which Berle and Means (1932) identified. This argument is based on the fact that corporate actions are typically agreed upon by a company's board of directors but must be authorized by the shareholders. In addition, shareholders can get the necessary information in a concentrated ownership structure. This can be helpful for the efficient monitoring system. Due to efficient monitoring system performance of the firm will be increased. (Abdullah, Sarfraz, Qun &, Chaudhary, 2019). Based on this, the study is set to find out the role of ownership concentration on reduction of agency cost Saifullahi, Mohammed and Hassan (2015), found that managerial ownership and independent directors ownership have a negative but strong and significant impact on the performance of listed Conglomerate firms in Nigeria, while institutional and ownership concentration were found to have a positive, strong and significant impact on same sector.

The diagram below represented conceptual framework of the study



Source; Researcher's Concept, (2023)

2.2 Theoretical Framework

2.2.1 Agency Theory

This study is anchored on the theory of agency cost. This theory has its underlining foundation or origins in the 1970s in the field of economics and finance by Jensen and Meckling (1976). The agency theory comes as a result of agency relationship, which is "one or more persons (the principal[s]) engage another person (the agent) to perform some service on their behalf which involves delegating some decision-making authority to the agent" (Jensen & Meckling, 1976). The agency relation result in the separation of ownership (risk-bearing) and control (decision-making) function of a firm leading to agency conflict. The principal-agent conflict (agency conflict) comes about as a result of management not acting in the best interest of the shareholders or pursuing goals at the expense of shareholders, since

the latter bear more of the wealth effect." The "theory further posits that the agents are autonomous and are prone to increasing their personal gain at the detriment of principals Sharma, 1997)."Agency theory studies the agency relationship and the issues that arise from principal-agent relationship. The literature on agency theory try to align the interests of the principal and agent largely focuses on methods and systems, and their consequences (Delves & Patrick, 2008). The main objective is to minimize agency costs, protect shareholder interests and ensure principal- agent interest alignment is the governance structure." The key intuition of "Jensen and Meckling (1976) was to display or model the relationship between owners and managers as that of the relationship between principal and an agent (Laiho, 2011).

Meckling's approach mainly improve generalization, as this same approach can also be used to describe an agency problem between large and small shareholders, thus agency relationships are all around us. Jensen's and Meckling's insight have also prompt models, where not only how much the company insiders own in terms of ownership structure matters, but also in the sense of how concentrated the holdings of the outside shareholders are. Concentrated shareholders or large-block shareholders are argued to monitor the management better than small shareholders as they internalize larger part of the monitoring costs and have sufficient voting power to influence corporate decisions (Laiho, 2011). While higher ownership levels might align the incentives between principal and agent or stakeholders, it also means better ability for the controlling owners to acquire private benefits." There is a different view that owners with high ownership share might use their position to acquire private benefits, which are not enjoyed by other shareholders. Such private benefits might include the extraction of assets or takeover defense for insiders. If these benefits to high share owners have adverse effects on firm performance then higher ownership concentration either by outsiders or insiders might actually be detrimental to firm.

Empirical Review

Etale and Yalah (2022) investigated the ownership structure and financial performance of listed consumer goods sector firms in Nigeria for the period of 2011-2020. The data were gathered from the published financial statements of consumer goods sector firms with return on asset serving as dependent variable while controlling ownership and non-controlling ownership were used as explanatory variables, and analyzed through the descriptive statistics; correlation analysis, panel regression and fixed and random effect regression. The result revealed that ownership structure has robust relationship with financial performance. The study concluded that controlling ownership has positive and non-statistical significant with financial performance while non-controlling ownership has positive and statistical significant relationship with financial performance of listed consumer goods firms in Nigeria. The study recommended that firms listed under the sector should imbibe the corporate governance long run strategies to increase the organizational growth.

Onuora, Obiora and Joshua (2022) investigated the relationship which exists between ownership structure and financial performance of quoted non-financial firms in Nigeria. The study is vital as it portrays the extent to which ownership structure relates to financial performance of non-financial firms in Nigeria. In order to determine the relationship between ownership structure and financial performance, ownership structure was measured using institutional ownership, concentrated ownership, foreign ownership and block ownership while firms' performance on the other hand was represented by return on equity (ROE). Four hypotheses were formulated to guide the investigation and the statistical test of parameter

estimates was conducted using OLS regression model operated with STATA V.15. Ex Post Facto design was adopted and data for the study were obtained from the published annual financial reports of the entire consumer goods firms quoted on Nigerian Exchange Group (NGX) with data spanning from 2012-2021. The findings of the study generally indicate that institutional ownership, concentrated ownership, foreign ownership and block ownership have significant and positive influence on firms' performance measured by return on equity (ROE) at 1-5% significant level respectively. Thus, the study concludes that ownership structure ensures firms financial performance. The study however suggests the need for institutional ownership, concentrated ownership, foreign ownership and block ownership to be increased for better performance.

Nzau and Musa (2022) determined the effect of ownership structures on financial performance of listed manufacturing firms in Kenya. Specifically, the study sought: to evaluate the effect of board shareholding on financial performance of listed manufacturing firms in Kenya, to explore the effect of foreign shareholding on financial performance of listed manufacturing firms in Kenya, to investigate the effect of institutional shareholding on financial performance of listed manufacturing firms in Kenya, to determine the effect of individual shareholding on financial performance of listed manufacturing firms in Kenya. This study was pegged on five theories; agency theory, stewardship theory, Stulz's Integrated Theory, stakeholder's theory and Resource based theory. This study was undertaken using a descriptive research design. The target population comprised of all seven listed manufacturing firms in Kenya that traded at NSE from 2010 to 2019. The study adopted a census method of data collection. This was made possible using secondary data sheet. Data analysis was undertaken using panel data regression and data analysis results were presented on tables and graphs. The findings revealed that the model linking ownership structures and firm performance was significant. Moreover, the results revealed that foreign shareholding was inconclusive on the effect it has to the financial performance of listed manufacturing firms. Institutional shareholding has negative significant effect on the returns on assets while individual shareholding had a positive and significant effect on firm performance. This study recommended dispersed ownership as it improved financial performance of the manufacturing firms.

Aboud and Diab, (2022) investigates the relationship between two characteristics of corporate governance (concentrated and state ownership) and firm financial performance by bringing new and extensive evidence from an emerging market. Further, this study examines the impact of the recent stock split reform in China on the corporate ownership characteristics–firm performance relationship. The final sample of this study is comprised of 234 firms with 2340 annual observation values. The study hypotheses are examined using regression analysis of panel data. We found that concentrated ownership is positively and significantly related to firm performance. However, state ownership has a significant negative impact on firm performance. Further, we observed that the stock split reform has a substantial and positive effect on the ownership–corporate financial performance relationship. In particular, the positive relationship between ownership concentration and firm performance has increased following the split-share structure reform. The negative relationship between state ownership and corporate financial performance has been mitigated following the split-share structure reform. We contribute to the existing literature on corporate governance by investigating the ownership–corporate financial performance relationship in a unique research setting based on the impact of an exogenous regulatory change, namely, the split-share structure reform in China. The study presents implications for regulators, investors, and

researchers interested in examining developing markets such as China. Our results imply that the institutional reform of the Chinese stock market has benefitted investors through enhancing corporate financial performance. The findings suggest that the reform of the Chinese stock market has significantly shaped the impact of ownership structure on corporate financial performance in a valuable way for effective capital allocation. Thus, collectively, the split-share structure reform enhances the quality of corporate governance, which is pivotal to the growth of the country's economy. This, in turn, has policy implications for other emerging economies.

Neeraj, et al. (2022) examined the impact of ownership concentration on the performance of Indian commercial banks. A panel data approach has been used in this study. Particularly, the effect estimation and GMM has been used in this study to examine the relationship between ownership concentration and bank performance during 2009–2010 to 2018–2019. The findings reveal that the largest shareholder impacts the bank's performance positively. The results are robust across the various proxies of bank performance, and sub-samples based on ownership and size of the bank. The present study may be useful for Indian banking regulators and investors to understand the impact of ownership concentration on bank performance

Muriungi, et al. (2021) This study paper examines the influence of ownership concentration and firm financial decisions on firm value for firms listed on the Nairobi securities exchange. This study is supported by theoretical literature under the signaling hypothesis, institutional monitoring hypothesis, and agency theory. The study used longitudinal data for listed firms during the ten years (2008-2017) and regression analysis was used to study the nature and extent of the relationship. The target population was sixty-eight firms that traded equity securities during the period. Empirical results reveal that ownership concentration has no significant positive effect on firm value, but dividend payment significantly influences firm value, and the capital structure only compliments other corporate governance processes in a firm. Firms listed on the Nairobi Securities Exchange have a high level of ownership concentration and this suggests, contrary to the shareholder monitoring hypothesis, large shareholders could be entrenched and, unless other complementary corporate mechanisms are present, large shareholders may not act in the best interest of minority shareholders.

Amneh et al (2021) examined the impact of the ownership structure on firm performance in the Jordan. This study employed the multiple-regression model and fixed regression effect to analyze the data. The sample included all Jordanian first market firms listed on the Amman Stock Exchange (ASE) from 2012 to 2018. The paper's findings reveal a positive and significant relationship between institutional ownership and both accounting measure Return on Assets (ROA) and market measure Tobin's Q (TQ). Other ownership structure types, such as concentration of ownership, also affect ROA and TQ. While managerial ownership shows a negative relationship with ROA, but there is no association with TQ. This study has broad and comprehensive practical implications that are good for policymakers. On the one hand, it adds to the debate on agency theory from the ownership structure and firm's performance relationship. On the other hand, it helps the Jordanian.

3.0 Methodology

The study adopted *ex-post facto* and longitudinal research design. The study focused on industrial goods firms listed on the Nigeria exchange group limited. The study makes used of secondary data collected from annual financial reports of listed industrial goods firms in

Nigeria and Nigeria exchange group fact book. The population of the study is made up of 25 listed industrial goods in Nigeria, covering 12 years from 2010 – 2021.

3.1 Model Specification

The study adopted the model of Orumo, (2018) ROA = f(DOO, OWC, FOO, INO, MAO) The model was modified to suit the variables understudy. Hence the model for the study is anchored on the specific objectives.

AGC = f(GOO, MAO,INO, FOO)………………………………………..…..1

This can be econometrically expressed as

AGC = β0 + β1GOOit + β2MAOit + β3INOit+ β4FOOit + μ …………………..2

Equation 1 and 2 are the linear regression model used in testing the null hypotheses

Where:
AGC = Agency Cost
GOO = Government Ownership
MAO = Managerial Ownership
FOO = Foreign Ownership
INO = Institutional Ownership
μ = Error term

Decision Rule
Accept Null if P-Value is greater than 5% otherwise cccreject Alternate

4.0 Data Analysis

Table 1: Descriptive statistics of the model variables

	AGC	GOO	MAO	INO	FOO	FS
Mean	0.903333	0.437500	11.65552	49.44271	0.583333	6.613438
Median	0.715000	0.000000	4.415000	51.00000	1.000000	6.460000
Maximum	2.270000	6.000000	65.09000	84.00000	1.000000	8.760000
Minimum	0.000000	0.000000	0.010000	5.000000	0.000000	5.230000
Std. Dev.	0.476422	1.568187	17.73485	23.37868	0.495595	0.946866
Skewness	0.825217	3.285261	1.889768	-0.370816	-0.338062	0.777978
Kurtosis	2.907326	11.79294	5.633309	1.882178	1.114286	2.873936
Observations	96	96	96	96	96	96

Source: Author's Computation (2023)

Table 1 reveals the summary of statistics for the variables used in the empirical research. We noticed that Foreign Ownership (FOO) has a maximum value of 1, a minimum value of 0, and a range in between. This further demonstrates that the variable is a dummy, represented by 1 and 0, which represents the presence of foreign institutional stockholders and otherwise, respectively. The mean values of the variables also significantly diverge from one another. For instance, among the series, Government Ownership (GOO) has the lowest mean

distribution and Institutional Ownership (INO) has the largest mean distribution, both of which are 49.44271.

The institutional ownership and government ownership series' median values range as well, with 51.00000 and 0.00000 being the greatest and lowest, respectively. The outcome also demonstrates how the standard deviation values of the series fluctuate depending on the variable. The data shows that institutional ownership (INO), with a standard deviation value of 23.37868, has the greatest value. A bigger variance in the observation is shown when comparing the value with the mean value. The practical implication is that the cross-section's distribution of institutional owners changes significantly over time. As a result, the Agency Cost indicator is less scattered from the mean value than the other indicators, with a standard deviation that is the smallest at 0.476422 and closest to the mean. According to the research, Nigeria's industrial products sector's agency costs are less evenly distributed across the cross-section. According to the descriptive statistics, AGC, GOO, MAO, and FS are left-sided and negatively skewed, respectively, but INO and FOO are right-sided and negatively skwed, respectively. According to economic theory, all of the study's variables for the Kurtosis are platykurtic (less than 3) according to descriptive statistics (Zhiqiang et al., 2008). GOO and MAO are exceptions since they are leptokurtic (fat-tailed). This suggests that there are likely few or no outliers in the data for the different variables. As a result, the study examines the correlation between the variables to make sure they are not perfectly collinear.

Table 2: Correlation analysis of the dependent and independent variables

Correlation	AGC	GOO	MAO	INO	FOO	FS
AGC	1.000000					
GOO	-0.171888	1.000000				
MAO	-0.009810	-0.184078	1.000000			
INO	-0.331261	0.299579	-0.219120	1.000000		
FOO	-0.473311	0.237023	-0.584430	0.286370	1.000000	
FS	-0.318140	0.226961	-0.400692	0.219279	0.447119	1.000000

Source: Author computation (2023)

More specifically, the correlations between GOO and AGC are -0.171888, -0.009810, -0.331261, -0.473311, -0.318140, and between FOO and AGC are -0.473311. The relationship between the dependent variable and the regressors can be further investigated using a regression because it is within a valid range. Similarly, given that the correlation between the regressors is within acceptable bounds, this investigation identifies no multi-colinearity problem in the model that could result in illogical regression findings. The remaining diagnostic procedures can subsequently be carried out.

4.1 Test of Hypotheses

Regression Result

Table 3: Fixed Effect Regression Result

Dependent Variable: AGC

Variable	Coefficient	Std. Error	t-Statistic	Prob.
AGC(-1)	0.452102	0.100348	4.505356	0.0000
GOO	0.015790	0.021736	0.726476	0.4698
MAO	-0.006016	0.001823	-3.300088	0.0015
INO	-0.005071	0.002027	-2.502425	0.0145
FOO	-0.036605	0.108665	-0.336863	0.7372
FS	0.221573	0.147754	1.499613	0.1380
C	-0.645790	0.930186	-0.694259	0.4897

R-squared	0.850899	Mean dependent var	0.899545
Adjusted R-squared	0.824706	S.D. dependent var	0.483621
S.E. of regression	0.202483	Akaike info criterion	-0.211412
Sum squared resid	3.033951	Schwarz criterion	0.182710
Log likelihood	23.30214	Hannan-Quinn criter.	-0.052630
F-statistic	32.48529	Durbin-Watson stat	1.817647
Prob(F-statistic)	0.000000		

Source: Compiled by author

Table 3 present the fixed effect regression result showing an investigation of ownership concentration and agency cost in the industrial goods sector of Nigeria. Concerning the model, the R-squared statistic is 0.850899. The R-squared is very high and thus shows that the model can strongly predict the variation in the dependent variable. The implication of the evidence is that Government Ownership (GOO), Managerial Ownership (MAO), Institutional Ownership (INO), Foreign Ownership (FOO), and Firm Size (FS) jointly explains the variation in Agency cost (AGC) by about 85%. Moreover, even after the adjustment for possible error in estimation, the model could still explain the variation in Agency cost (AGC) as shown by the adjusted R-squared which is 82%. Also, the F-statistic is 32.48529, and F-prob is 0.000000. The F-value is high and significant at 1%. The implication is that the F-statistics also confirmed that the independent variables can significantly account for the changes in the dependent variable. Therefore, the study concludes that the model is a good fit for this dataset used in this analysis. In addition, the model has no serial correlation issues, as indicated by the Durbin Watson statistic of 1.817, which is approximately 2. As a result, we could proceed with the testing of hypothesis and discussion of the main findings.

Firstly, the past value of Agency cost (AGC) coefficient is 0.452102 and significant at 1%. This means that the previous lag of the Agency Cost has a positive and significant impact on

the current performance of Agency cost, such that a percentage change in the first lag of AGC cause the current AGC to rise by 45.2%. It shows that last year's Agency Cost positively and significantly influenced the current performance.

H0$_1$: Government ownership has no significant impact on the Agency Cost of the industrial goods firms listed on the Nigeria Exchange Group

Table 3 reveals that government ownership has a positive and insignificant impact on Agency Cost of the industrial goods firms in Nigeria at 5%. This is indicated by the coefficient value of 0.015790 and the probability value of 0.4698. The hypothesis government ownership, has a significant impact on the Agency Cost of the industrial goods firms in Nigeria is satisfactory and therefore accepted. The implication of this result is that as government ownership expands among the sample firms by one unit, the expansion will leave the Agency Cost of these firms the same. This evidence goes to encourage government ownership while stressing the need for proper regulation and monitoring. Doing so will keep the managers who see to the day-to-day running of the business up and doing. A common trend in government owned businesses is the issue of negligence and embezzlement which result from poor monitoring of management activities. This finding perfectly correlate to that of Suntrisno & Ulfah (2021) for Indonesia and Huu Nguyen, et al. (2020) for vietname. The only various is slightly with Huu Nguyen, et al. (2020) whose finding is statistically significant unlike the current study and that of Suntrisno & Ulfah (2021).

H0$_2$: Managerial ownership have no significant impact on the Agency Cost of industrial goods firms in Nigeria

The result in Table 3 shows that managerial ownership have negative and significant effect on Agency of industrial goods firms in Nigeria at 5%. This is as indicated by the coefficient value of -0.006016 and p-value of 0.001. As a result, the null hypothesis that managerial ownership have no significant effect on agency cost of industrial goods firms in Nigeria is rejected while the alternative hypothesis is accepted. The implication is that managerial ownership reduces Agency Cost of industrial firms in Nigeria. Thus, for every one unit increment in MAO, AGC will fall by -0.006016% all thing being the same. Therefore, the study concludes that managerial ownership is a significant driver of Agency Cost of the industrial goods firms toward the desired direction. Since the management are the owners of the business, there ultimate goal is not short of profit maximization. Hence, they will likely put in the needed effort to see that the business survives and maximize profit. Since this kind of business setting have no agency problem, its associated cost will equally be absent. This findings fails to agree with Huu Nguyen, et al. (2020) and Suntrisno & Ulfah (2021) who both exerted by reason of empirical findings that Mangerial ownership increases agency cost in Vietname and Indonesia respectively. But refutes Tumiwa & Mamuaya (2018).

H0$_3$: Institutional ownership have no significant impact on the Agency Cost of industrial goods firms in Nigeria

The fixed effect regression estimate shows that institutional ownership is negative and significant effect on agency cost of industrial goods firms in Nigeria at 5% level of significance. This is validated by the coefficient value of -0.005071 and p-value of 0.0145. By this outcome the null hypothesis is that institutional ownership have significant effect on agency cost of industrial goods firm is rejected while the alternative is accepted. This outcome suggests that increasing INO by one unit will reducing agency cost by -0.005071 % at thing being the same. This shows that the nature of effect on agency cost is benfitial. A

common trend among firms owned by institutions are the likelihood of strict regulation and monitoring. The institutional owners having the greater portion of stake in this firms and being different from the management keep close watch on the management activities. This is often regard as the key cause of the well-known Agency problem. Despite, the negative side of this agency problem its benfits are enormous, and include the growth of organizational performance. The finding refute Tumiwa & Mamuaya (2018) who found that INO has no significant effect on AGC in Indonesia. Chaudhary (2022) in agreement with the current study posited that pressure-insensitive institutional investor reduces agency related issues (cost).

$H0_4$: Foreign ownership have no significant impact on the Agency Cost of industrial goods firms in Nigeria

The fixed effect regression results presented in Table 3 shows that foreign ownership has a negative but statistically insignificant effect on the Agency Cost of the industrial goods firms in Nigeria. This is revealed by the coefficient value (-0.036605) and p-value of 0.7372 which is insignificant statistically at 5%. As a result, the study accepts the null hypothesis that foreign ownership have no significant effect on the Agency Cost of the industrial goods firms in Nigeria. The practical intuition of this result is that increasing foreign asset ownership by one unit will leave the Agency Cost of the sampled firms the same at thing being equal. This is revealing because foreign owners are liquidating their assets in Nigeria and moving to the shores of the neighboring economies due to the cost of doing business in the country. Afikuyomi (2021) allude to the fact that foreign ownership is declining in Nigeria due to the cost of running a business in the nation. Also, Ososuakpo (2021) put that high uncertainties characterize the Nigeria stock market as a result of institutional and structural problems; these problems constitute disincentives for foreign investors in the market, consequently affecting foreign capital investment. Therefore, as foreign ownership declines due to liquidation, the total Agency Cost of the industrial goods sector is expected to decline. This perhaps accounts for the negative and insignificant effect of foreign ownership on the Agency Cost in Nigeria's industrial sector.

In the case of control variable, firm size makes no significant contribution to the growth of Agency Cost of industrial goods firms in Nigeria as indicated by the coefficient and probability values of 0.221573 and 0.1380, which is insignificant at all level. Furthermore, the constant term indicates that all the necessary variables that influence AGC in the industrial goods sector are all included hence, it is statistically insignificant. The rest of the regression statistics shows that the model is a good fit for the dataset. Thus, the study finding reveals that managerial ownership and institutional ownership are so effect in reducing agency cost in the industrial goods sector of Nigeria.

5.0 Conclusion

The study therefore concludes, that managerial and institutional ownership help to reduce the agency cost in the industrial goods sector of Nigeria whereas, government and foreign ownership have no significant effect on Agency cost i.e they neither increase nor reduce agency cost in the sampled sector in Nigeria. This means that having more managerial and institutional owners are effective ways of reducing agency cost as well as agency related problem in the industrial goods sector of Nigeria.

5.1 Recommendations

Based on the findings of the study the researcher recommend that:

i. Government ownership among the industrial goods firms should be reduced in order to achieve greater efficiency and reduction in agency cost.
ii. Firms within the industrial goods sector of Nigeria should transfer greater percentage of their stock ownership to management as this is an effective way to cut down agency cost in the sector.
iii. Equally the industrial goods firm should place greater emphasis on institutional owners when seeking for ownership of their firms through stock.
iv. Finally, the industrial goods firms can achieve reduction in agency cost by increasing foreign ownership. This is valid looking at the fact that foreign ownership in this sector is insignificant as confirmed by the dataset showing the number of foreign ownership across the firms.

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