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# Ownership Structure and its Effect on the Performance of Pension Fund Administrators in Nigeria

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## Abstract

This study assesses the impact of ownership structure on the financial performance of Pension Fund Administrators (PFAs) in Nigeria. The main objective of the study is to ascertain the level to which ownership structures influence financial performance. While managerial ownership is represented as the proportion of shares owned in the firm by insiders and board members or insider ownership, foreign ownership firms are firms with majority shares owned by foreign shareholders in the firm operating in a host country. The methodology employed is the use of secondary data and Pearson Product Moment Correlation method of data analysis. The population of the study is IBTC Pensions and Premium Pensions while taking their published financial statement as at 2015 and 2016 into perspective. The findings of the study show that foreign ownership has positively impacted the performance of IBTC Pensions compared to firms without foreign influence such as Premium Pensions as observed within the study period. The study recommends among others that PFAs in Nigeria should explore the possibilities of selling its shares to foreign multinational companies as this will bring a lot of expertise into the operations of the PFAs.

**Keywords:** Ownership structure, financial performance, corporate governance, Pension Fund Administrators (PFAs), foreign ownership, managerial ownership

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## 1. INTRODUCTION

The influence of ownership structure on financial performance is critical in the Nigerian pension industry which has not been given much emphasis. This study therefore looks at the relationship between ownership structures such as managerial ownership and foreign ownership in the financial performance of Pension Fund Administrators in Nigeria. Most local Pension Fund Administrators in Nigeria are not performing as well as the foreign owned Pension Fund Administrators in terms of turnover, return on asset (ROA), and paid up capital.

In Nigeria, it has not been clearly established whether there exists any relationship between ownership structure and the financial performance of Pension Fund Administrators as no prior research has been conducted out on thus far. It is the intension of this study to investigate for the first time the influence of ownership structure on with regards to managerial ownership structure and foreign ownership structure. Managerial ownership in the contest of this study represented as the proportion of shares owned in the firm by insiders and board members or insider ownership (Liang et al., 2011). In Nigerian, there are twenty-one Pension Fund Administrators, out of which majority of the firms, including Premium Pensions have their major shares owned by insiders and board members, while the insider ownership and board members appears to act as corporate mechanisms, while Stanbic IBTC have their majority shares owned by foreigners.

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A number of studies have sought to evaluate the relationship between ownership structure and the financial performance of Insurance Company conducted by Benjamin et al., (2014) which result indicated a positive significant relationship between institutional shareholding and two financial performances (ROA and ROE) with a probability value of less than 0.05. Another study conducted by Hassan and Marton (2003) found that the higher presence of foreign pension companies is associated with a robust environment and have significant impact on performance of commercial Pension Companies resulting in higher profit.

The linkage between ownership structure and performance has been a subject of importance and an ongoing debate in corporate finance literature (Demsetz & Villalonga, 2001). There are some factors that determine a firms' financial performance, some of which are associated with external factors that are beyond the control of the firms, some refer to factors that are internal and under the direct purview of the firms, such as managerial efficiency, governance structure and ownership structure among others that affect the ability of the firms to cope with external factors, and other factors such as firm size, leverage, and the type of industry also affect firm performance (Kechi, 2011).

## **2. LITERATURE REVIEW**

### **2.1 The Concept of Ownership Structure**

Ownership structure can be viewed as the group or classes of owners that exercise control over the activities of a business organization. However, many scholars have penned down different definition for ownership structure. Demsetz and Lehn (1985) in their own definition, see ownership structure as the fraction of shares owned by firm's management, which include shares owned by members of the corporate board, chief executive officer (CEO) and top management.

Ram and Camela (1998) in their own view defined ownership structure as directors' equity which they opined can be summed up as the percentage stake owned by beneficiary and non-beneficiary directors. Wang (2003) viewed ownership structure as the combination of three different groups of ownerships namely; managers, control group and institutional investors. Alipour and Amjadi (2011) defined ownership structure as the composition of the biggest five shareholders, which are made up of institutional shareholders, individual and managerial shareholders. Uwalomwa and Olamide (2012) in their postulation defined ownership structure as decisions made by those who own or who would own shares and measured ownership structure as the composition of Board ownership, Institutional ownership and foreign ownership. However, the basic composition of ownership structure studied by this work is domestic and foreign ownership structure with relationship to firm financial performance.

### **2.2. The Concept of Financial Performance**

Pension Fund Administrators in Nigeria like other private business organization aim at maximizing profits. Therefore, pension companies design their activities in such a way as to maximize return on investment. It is however worthy to note that profit maximization is not the only goal of commercial pension companies and they also pursue social and economic goals. The scope of this study therefore is profitability, with the aim of measuring the profitability of Pension Fund Administrators in relation to ownership composition.

In analyzing a firm financial performance, emphasis should be made in formulating an adequate description of the concept of a firm's financial performance which uncovers the different dimensions upon which firm's financial performance should be evaluated. In terms of measurement, several scholars measures firm financial performance differently. Demsetz and Lehn (2001) measured firm financial performance as accounting profit rate. Uadiale (2010) measured firm performance by return on equity as the proportion of profit after tax to issued share capital and return on capital employed as the proportion of profit after tax to issued share capital plus reserves. Kechi (2011) measured firm financial performance by return on asset (ROA) and profit margin (PM). Among the number of ratios and measurements required to achieve firm financial performance as mentioned above, this study adopted return on equity as measured by the proportion of profit after tax to total shareholders' equity at book value.

### **2.3 Relationship between Ownership Structure and Financial Performance**

In any business enterprise, good corporate governance is critical in ensuring its success and sustainability. In some cases, due to lack of close supervision, management may make decisions which are not in the best interest of the stakeholders. On the other hand, some ownership structures delegate corporate responsibilities to elected

board of directors who in turn determine the outcome of the companies. These elected directors have enormous powers to benefit themselves over the minority shareholders hence, directly affecting the Pension Companies performance. Mercial et al, (2002) contends that corporate governance is an essential purpose of protecting the interest of all shareholders.

Kurt (2009) examined the relationship between the ownership structure and the role of the board and how it affects performance. His study found out that the ownership structure has an important influence on the priorities set by the board, and that these priorities will determine the optimal composition of the board of directors and influence on firm financial performance.

## **2.4 Managerial Ownership and Firm Performance**

Managerial ownership is considered by Jensen and Meckling (1976) as a signal to align the shareholders' interests with that of the manager's. On a similar note to the latter contention, Khan et al. (2011) revealed that high managerial ownership may lead to management entrenchment as they have less board of director governance and market discipline for corporate control. That is, a sufficient level of managerial ownership can help in aligning the interests of managers and shareholders which will result in superior performance.

There are theoretical and empirical evidence that examined the relationship between managerial ownership and firm's financial performance and revealed mixed findings. This inconclusive finding will be reviewed in the following discussion. First of all, the agency theory perspective as discussed by Jensen and Meckling (1976) stated that managerial ownership leads to the improvement of manager-owner agency conflict as managers are also the owners of a majority of firm shares and hence they are encouraged to maximize job performance to realize superior performance. However, Demsetz (1983) and Fama and Jensen (1983) considered high managerial ownership as the cause of management entrenchment and thus leading to serious agency problems. Moreover, Jensen and Meckling (1976) claimed that agency cost and managerial ownership are negatively related, while firm's performance and managerial ownership are positively so. On the other hand, Morck et al. (1988) and Wahla et al. (2012) stated that high managerial stake on firm ownership can act as a mechanism that influences the alignment of interests between managers and owners and eventually affect firm market value. Manoranjan (2005) viewed managerial ownership as the fraction of equity shares held by insiders and promoters. Vethanayagam and Kanapathy (2005) viewed managerial ownership as the proportions of director's equity ownership which includes their deemed interest.

## **2.5 Foreign Ownership and Firm Performance**

There are from some studies in different developed countries which suggest that foreign Pension Companies and other foreign owned financial institutions are generally less efficient than domestic Pension Companies. This was ascertained from a study of Spain, German, France, the US and the UK which documented that domestic pension companies and other domestic financial institutions have both higher cost efficiency and profit efficiency than foreign owned companies (Berger et al, 2000). However, this study is focused on pension administrators in Nigeria. Lower performance of foreign owned pension companies as compared with their domestic counterparts especially in developing countries has been explained by different viewpoints. These can be pointed to the different competitive, markets and other conditions existing in developed countries. Considering that Nigeria is more likely to have similar financial and economic environment to that of developing countries, this study expects that the performance of pension fund administrators in Nigeria mirrors those of developing countries in a similar spectrum.

The influence of foreign ownership on firm financial performance has been an issue of interest to academics, researchers, and also policy makers. Gorg and Greenaway (2004) in their study posited that it is duly accepted that foreign ownership plays a crucial role in firm performance, after considering some challenges, particularly in developing and transitional economies. Researchers such as Aydin et al. (2007) also posited from their findings that multi-national enterprises have performed better than the domestically owned firms. A profound evidence suggest that extent and concentration of foreign pension companies will have an impact on performance. By this implication, the higher the concentration by local shareholders the higher the net interest margin, therefore the lower the pension companies net effect to the economic efficiency. Conversely, the higher the foreign concentration, the lower the net interest margin and therefore, the higher their contribution to economic development. A study in Hungary found that the higher presence of foreign pension companies is associated with a robust environment and have significant impact on performance of commercial Pension Companies resulting in higher profit in all Pension Companies (Hassan & Marton (2003).

### 3. METHODOLOGY, DATA ANALYSIS AND DISCUSSION OF FINDINGS

In analyzing the relationship between ownership structure and financial performance of pension firms in Nigeria, this study made use of secondary data. In order to determine the impact of ownership structure on the financial performance of Pension Fund Administrators in Nigeria, the researcher adopted a regression analysis to analyze the data collected from the financial statement of Stanbic IBTC Pensions (foreign ownership) and Premium Pensions (domestic ownership). The study consists of a range of data drawn from the published annual reports of the IBTC Pensions and Premium Pensions as at 2016. This data base contains detailed information on the financial performance of the selected firms between 2015 and 2016. Thus, the study makes use of regression analysis method of data analysis. This study therefore developed a mathematical model that covers two performance measures; Company Turnover and Shareholders fund (Paid Up Capital) based on two variables; dependent variable and independent variables.

Dependent Variable = Financial Performance i.e. Turnover and Shareholders Fund  
Independent Variables = Foreign Ownership  
Managerial Ownership

#### 3.1 Model Specification for the study

$$Y_{it} = \beta_0 + \beta_1 FO_{it} + \beta_2 MO_{it} + e_{it}$$

Where  $Y_{it}$  represents firm financial performance variables; Turnover and Shareholders Fund for Pension Fund Administrators,  $i$  in time  $t$ .  $FO_{it}$  is a vector of Foreign Ownership Structure and  $MO_{it}$  is a vector of Managerial Ownership Structure.

Given regression method as

$$r = \frac{N(\sum XY) - (\sum X)(\sum Y)}{\sqrt{[N\sum X^2 - (\sum X)^2][N\sum Y^2 - (\sum Y)^2]}}$$

#### 3.2 Variables and Explanation

The variables for the study were chosen based on data availability and computational purposes.

Where,

- X = Turnover
- Y = Shareholders fund
- N = Number of years
- r = Regression Analysis

Table 1. Financial Statement of IBTC Pension and Premium Pension for 2016 and 2015 Respectively

STATEMENT OF COMPREHENSIVE INCOME	IBTC PENSION N (000) 2016	PREMIUM PENSION N (000) 2016	IBTC PENSION N (000) 2015	PREMIUM PENSION N (000) 2015
Revenue (X)	27,780,190	6,313,222	19,832,555	5,989,048
Operating Expenses	7,678,061	3,407,533	5,809,626	2,643,315
PAT	13,784,956	2,151,802	9,471,609	1,765,693
ROA	43.49%	45.84%	65.22%	41.76%
Earnings yield	1378.50	328.50	947.16	268.70
Paid Up Capital (Y)	31,695,890	4,694,270	14,522,345	4,397,614

Source: Comparative Financial Statement for PFA 2015/2016

#### 3.3 Using Regression Analysis

Table 2. IBTC Pensions

STANBIC IBTC PENSION MANAGERS					
	X (000)	Y (000)	X <sup>2</sup>	Y <sup>2</sup>	XY
2015	19,832,555.00	14,522,345	393,330,237,828,025.00	210,898,504,299,025.00	288,015,205,941,475.00
2016	27,780,190.00	31,695,890	771,738,956,436,100.00	1,004,629,442,892,100.00	880,517,846,419,100.00
<b>TOTAL</b>	<b>47,612,745.00</b>	<b>46,218,235.00</b>	<b>1,165,069,194,264,120.00</b>	<b>1,215,527,947,191,120.00</b>	<b>1,168,533,052,360,570.00</b>

$$r = \frac{2(1,168,533,052,360,570.00) - (47,612,745)(9,091,884)}{\sqrt{[2,330,138,388,528,250.00 - (220,057,704,552,440,745,015)] [1,215,527,947,191,120.00 - (213,612,525,662,415,330,015)]}} = 10$$

Table 3. Premium Pensions

PREMIUM PENSION MANAGERS					
	X (000)	Y (000)	X <sup>2</sup>	Y <sup>2</sup>	XY
2015	5,989,048.00	4,397,614.00	35,868,695,946,304.00	19,339,008,892,996.00	26,337,521,331,472.00
2016	6,313,222.00	4,694,270.00	39,856,772,021,284.00	22,036,170,832,900.00	29,635,968,637,940.00
<b>TOTAL</b>	<b>12,302,270.00</b>	<b>9,091,884.00</b>	<b>75,725,467,967,588.00</b>	<b>41,375,179,725,896.00</b>	<b>55,973,489,969,412.00</b>

$$r = \frac{2(55,973,489,969,412.00) - (12,302,270)(9,091,884)}{\sqrt{[151,450,935,935,176.00 - (151,345,847,152,900)] [82,750,359,451,792.00 - (82,662,345,669,456)]}} = 0.8$$

### 3.4 Correlation Result

Using the regression analysis method of data analysis as shown in Table 2 above, the regression analysis result using the formula revealed that there is a positive relationship between foreign ownership structure and financial performance of Stanbic IBTC Pension Managers at 10. Table 3 also showed a not to impressive relationship between managerial ownership structure and firm performance of Premium Pension Managers at 0.8. However, the result shows that both managerial ownership structure and foreign ownership structure both have positive influence on the financial performance of Pension Fund Administrators in Nigeria.

Managerial ownership effect on firm performance in Nigeria has not been very encouraging. Judging from the level of paid up capital; it shows that most managerial ownership firms posit a lower shareholders fund compared to firms with foreign ownership structure. The findings of this study is in line with Hassan and Marton (2003) which found that the higher presence of foreign pension companies is associated with a robust environment and have significant impact on performance of commercial Pension Companies resulting in higher profit.

## 4. CONCLUSION AND RECOMMENDATION

This study is an attempt to provide a comprehensive review of the relationship between ownership structure and the performance of pension fund administrators in Nigeria. Authors as shown in this study proved that ownership structure has a value and positive role in enhancing the financial performance of the firm. As it can be seen that Stanbic IBTC Pension Limited has a higher turnover and PAT when compared to Premium Pension Limited. The positive regression analysis result of Stanbic IBTC Pension shows that it has a more robust paid up capital as against Premium Pension owing on the structure of ownership of the two companies. The shareholding structure of Stanbic IBTC shows that 70.9% of the shares owned in the firm are owned by foreigners, and Premium Pensions shareholding structure shows that majority of the shares are owned by insiders and board members (PFAs operations shareholding, 2012).

Based on the findings, the researcher would recommend that opening of national economies to foreign trade and investment has great significance on corporate governance practices and financial returns on the economy, especially in developing economies like Nigeria. The introduction of foreign financial institutions into developing economies also brings about the greater capital investment which are mostly lacking among local investors. Khanna and Palepu (2000) asserted that foreign financial institutions, as they are privately owned and managed, have greater incentives to monitor management to guarantee higher returns on investment compared to public financial institutions. Second, the institutions have superior expertise to monitor managers compared to their local counterparts in developing economies (Khanna & Palepu, 2000). This study further recommends that developing countries as Nigeria should encourage foreign participation in the financial sector and pension fund management while promoting local content, as this will bring about accelerated economic growth.

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