Available online at www.sciencedirect.com

ScienceDirect

Future Business Journal 3 (2017) 159–171

www.elsevier.com/locate/fbj

Ownership concentration and bank profitability

Peterson Kitakogelu Ozili*, Olayinka Uadiale

University of Essex, Wivenhoe Park, Colchester, Essex, United kingdom

Received 29 October 2016; received in revised form 17 June 2017; accepted 17 July 2017

Abstract

We investigate whether ownership concentration influences bank profitability in a developing country context. We focus on bank ownership concentration measured as the amount of direct equity held by a majority shareholder categorised into: high ownership concentration, moderate ownership concentration and disperse ownership. We find that banks with high ownership concentration have higher return on assets, higher net interest margin and higher recurring earning power while banks with dispersed ownership have lower return on assets but have higher return on equity. Also, higher cost efficiency improves the return on assets of widely-held banks and the return on equity of banks with moderate ownership. The findings have implications.
© 2017 Faculty of Commerce and Business Administration, Future University. Production and Hosting by Elsevier B.V. This is an open access article under the CC BY-NC-ND license (http://creativecommons.org/licenses/by-nc-nd/4.0/).

JEL: Code: G3; G34; G31

Keywords: Corporate governance; Ownership structure; Agency theory; Profitability; Firm performance; Banks; Return on asset; Return on equity

1. Introduction

We investigate whether ownership structure, a corporate governance determinant, play an important role for bank profitability. More specifically, we examine whether different levels of ownership concentration can explain differences in bank profitability. The question whether ownership structure influences the profitability of firms is examined by a fairly large literature with rather mixed results depending on the context examined (Arun & Turner, 2004; Choi & Hasan, 2005; Chen, Harford & Li, 2007), and such studies focus largely on foreign ownership (Greenaway, Guariglia & Yu, 2014), family ownership (De Massis, Kotlar, Campopiano & Cassia, 2013), state ownership (Cornett, Guo, Khaksari & Tehranian, 2010) and institutional ownership (Elyasiani & Jia, 2010), with little focus on direct equity holding of majority shareholders. In this study, we focus on a different ownership structure categorisation involving direct equity ownership concentration.

Bank ownership concentration is important because it can influence (or limit) bank managers' ability to divert bank profits as pecuniary benefits to themselves or as private control benefits to controlling shareholders which can lead to a reduction in firm value and could potentially hurt non-controlling shareholders that do not have control stake in banks. For instance, the 2004 to 2006 banking boom caused by excessive securitisation gains just before the 2008

*Corresponding author.

E-mail addresses: petersonkitakogelu@yahoo.com, pozili@essex.ac.uk (P.K. Ozili).

Peer review under responsibility of Faculty of Commerce and Business Administration, Future University.

http://dx.doi.org/10.1016/j.fbj.2017.07.001
2314-7210/© 2017 Faculty of Commerce and Business Administration, Future University. Production and Hosting by Elsevier B.V. This is an open access article under the CC BY-NC-ND license (http://creativecommons.org/licenses/by-nc-nd/4.0/).

global financial crisis proved that bank insiders (mainly managers and controlling shareholders) exploited banks for their own purposes, thereby increasing the risk of bank failure, and gave rise to the need to identify an optimal bank ownership structure that improves bank performance while discouraging excessive risk-taking and misappropriation of profits among banks.

In Nigeria, the 2000–2010 banking reform led to bank mergers, acquisition and consolidation activities intended to strengthen the banking sector, and the merger, acquisition and consolidation process led to significant changes in bank ownership to permit ownership by various wealthy families and rich individuals including few institutional ownership in an attempt to reduce government's control of banks, which consequently led to greater number of individual shareholders with large direct equity holding in Nigerian banks. Moreover, large direct equity ownership by controlling shareholders can have serious consequences for bank profitability depending on whether controlling shareholders have private control benefits or whether there are shared control benefits that accrue to both controlling and non-controlling owners, and this effect also depend on the levels of ownership concentration in Nigerian banks. Therefore, our curiosity leads us to investigate the case of Nigeria to examine the influence of differing levels of ownership concentration on bank profitability and we focus on banks because they play an important role in the financial intermediation process in Nigeria and because they have additional characteristics that make them distinct from non-financial firms.

Using a sample of Nigerian banks, we find that banks with high ownership concentration are more profitable: they have higher return on assets (ROA), net interest margin (NIM) and recurring earning power (REP) while banks with dispersed ownership have higher return on equity (ROE). Also, higher cost efficiency improves the return on assets of banks that are widely-held and the return on equity of banks with moderate ownership.

Our contribution to the literature is two-fold. First, we contribute to the literature that explores the relationship between ownership concentration and firm profitability. By focussing on banks, our analyses provide insights on how different levels of bank ownership concentration affect bank profitability, we show that high ownership concentration has positive effects for ROA while dispersed ownership has positive effects for ROE while we observe no significant effect for moderate ownership in a developing country context. This insight gained can improve our understanding of specific ownership structures that improve bank profitability in developing countries. Secondly, our analyses contribute to the rich literature that explores the impact of ownership structure on firm performance, we show that apart from institutional ownership, family ownership and foreign bank ownership, direct equity ownership concentration is also a determinant of bank profitability for developing countries like Nigeria although this depends on the profitability metric employed. Thirdly, we contribute to the literature that explores the relationship between firm profitability and corporate governance determinants. By investigating a developing country context, we show that ownership concentration, a corporate governance determinant, is a possible corporate governance factor affecting bank profitability for developing countries. Finally, in contrast to prior Nigerian studies (Tsegba & Herbert, 2013; Uwuigbe & Olusanmi, 2012; Gugong, Arugu & Dandago, 2014), we investigate Nigerian banks and divide banks into three ownership categories to detect how concentrated ownership, moderate ownership and dispersed ownership affects bank profitability, an approach that has not being adopted by prior studies. This is our main contribution to the literature on ownership concentration and bank profitability in developing countries.

The rest of the paper is organised as follows. Section 2 discusses the theoretical and conceptual framework. Section 3 presents the relevant literature. Section 4 describes data, sample selection and ownership structure categorisation. Section 5 describes the methodology. Section 6 discusses the results regarding the impact of ownership concentration on bank profitability. Section 7 concludes.

2. Theoretical and contextual framework

Agency theory shows that managers use their discretion to pursue strategies that enrich themselves at the expense of shareholders (Jensen & Meckling, 1976). Managers can appropriate profits for personal use or to enhance their non-salary income and this practice leads to the misallocation of profits (Gedajlovic & Shapiro, 1998). Jensen and Meckling (1976) demonstrate that when large shareholders are involved in firm decision making, as is the case in Nigeria, the conflict of interest shifts from managers versus shareholders to controlling shareholders versus non-controlling (or minority) shareholders. When the conflict of interest shifts to controlling shareholders versus non-controlling (or minority) shareholders, internal corporate governance mechanisms may become less effective to reduce the agency problems between controlling shareholders and non-controlling shareholders because controlling

متن کامل مقاله ← دریافت فوری

ISIArticles
مرجع مقالات تخصصی ایران

- ✓ امکان دانلود نسخه تمام متن مقالات انگلیسی
- ✓ امکان دانلود نسخه ترجمه شده مقالات
- ✓ پذیرش سفارش ترجمه تخصصی
- ✓ امکان جستجو در آرشیو جامعی از صدها موضوع و هزاران مقاله
- ✓ امکان دانلود رایگان ۲ صفحه اول هر مقاله
- ✓ امکان پرداخت اینترنتی با کلیه کارت های عضو شتاب
- ✓ دانلود فوری مقاله پس از پرداخت آنلاین
- ✓ پشتیبانی کامل خرید با بهره مندی از سیستم هوشمند رهگیری سفارشات