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THE INFLUENCE OF LARGE SHAREHOLDERS ON DIVIDEND POLICY AND COMPANY VALUE: EVIDENCE FROM NAIROBI SECURITIES EXCHANGE

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Abstract
The influence of large shareholders in organization decision-making processes has attracted significant attention by researchers in recent times. Ownership control through large share concentration is one of the aspects of ownership structure theory and corporate governance mechanism that is increasingly under the focus of researchers especially after the fall of large corporations like Enron in the USA in 2001, scholars have increasingly developed a keen interest in understanding the role of influential shareholders in company decision-making processes. 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-six companies that traded shares during the period. The findings of this study indicate that the presence of large shareholders has no significant direct effect on dividend policy and company value, dividend payment significantly influences the firm value and jointly with large shareholder control have a positive complementary effect on company value. Companies listed on the Nairobi Securities Exchange have significantly large shareholders either through individuals or institutions 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.

Key Terms: *Shareholder control, Dividend policy, Capital structure, Firm value*

1.1 Introduction

Large shareholder control is one of the aspects of ownership structure theory and corporate governance mechanism that are increasingly under the focus of researchers (Machek & Kubicek, 2018) and identity and level of ownership by large investors have been under sharp scrutiny especially after the failure of Enron, WorldCom, and Parmalat in the United States, and Italy, respectively, between 2001 and 2002 (Dibra, 2016). Recent empirical studies that have examined the influence of large shareholders on dividend policy and firm value have highlighted the significance of

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ownership control and dividend policies as corporate governance mechanisms, that could potentially influence company value but the findings have not been consistent (Genc & Angelo 2012; Miguel, Julio, & Chabella, 2005; Hong & Nguyen, 2014). In Kenya, researchers have increasingly taken on the ownership control of listed companies as an object of key research interest in corporate governance processes (Mokaya & Jangogo, 2015; Kukenyi, Basweti & Kamau, 2016; Ongore, K'Obonyo & Ogutu, 2011; Kisavi Mukras & Oginda, 2013). The motivation for this study is based on the theoretical proposition by Shleifer and Vishny (1986; 1997) institutional monitoring hypothesis and Jensen and Meckling (1976), agency cost theory.

1.2 Research Problem

There have been numerous attempts by scholars to establish the link between ownership control, dividend policy and firm value and the results have been inconsistent Kisavi, Mukras & Oginda (2013; Yegon Cheruiyot & Sang, 2014; Miguel, Julio & Chabella, 2005; Gul, 1999; Hong & Nguyen, 2014). Corporate governance processes are dynamic and statutory regulation is equally dynamic, mostly triggered by changes and challenges within and outside of the business environment. In Kenya, studies in this field include; Yegon Cheruiyot and Sang (2014), who tried to establish the factors that influenced dividend policy at NSE, Kisavi Mukras and Oginda (2013) studied the relationship between Shareholder control and firm performance at the NSE. Most of the available studies on ownership structure and firm performance in Kenya date back to the period from 2010, implying that studies were motivated by the impact of the Enron scandals and the worldwide financial crises in 2008 which started as a subprime property bubble under the Lehman brothers.

During the period of study, Nairobi Securities Exchange (NSE) had sixty-six trading firms, but only fifty-seven were active in the market by 2017. Four firms were delisted, eleven more listed in the securities market and some were dormant others were suspended. Previous studies have determined that listed firms in Kenya have a high level of ownership concentration, and this implies the dividend policy and firm value relationship (Kisavi, Mukras & Oginda, 2013; Kiruri, 2013). This study sought to understand the influence of large shareholders on dividend policy and company value at Nairobi Securities Exchange. The objective of the study was guided by the following research question: What is the effect of large shareholder control on dividend policy and company value at the Nairobi Securities Exchange?

1.3 Research Objective

This study sought to understand the influence of large shareholders on dividend payment policy and company value.

2.1 Literature Review

Jensen and Meckling (1976) have argued that in a firm that is entirely owned by firm stewards there would be no contrasting interest between owners and stewards and therefore the firm would incur minimal agency costs because managers would be expected to work in the best interest of the firm. Alternatively, shareholders can put in place mechanisms that will ensure managers work in the best interests of the firm. These mechanisms include active monitoring, adequate compensation through salaries and bonuses, and curtailing managers' discretion in decision-making. Shliefer and Vishny (1986) hypothesised the role of large institutional shareholders to be that of providing a check on managerial excesses through their ability to monitor. Jensen (1986) further observes that shareholders can induce debt holder monitoring by reducing the amount of free cash flow available to managers, forcing them to seek alternative investment funding in financial markets and therefore get a self-appraisal. Jensen (1986) contended that dividend payments reduce the amount of free cash flow available to managers, preventing them from being tempted to overburden investment projects motivated by their interests to the detriment of minority investors. Ownership structure theories have mixed explanations on how ownership control influences key firm decisions and value. Theoretical literature underscores the significance of shareholder monitoring as a corporate governance mechanism, but equally, large shareholder entrenchment is a potential threat to value-maximizing in the firm (Shliefer and Vishny, 1997).

Empirical literature relating to large shareholders control, dividend policy and firm value is largely inconsistent. Studies in developed countries indicate that large shareholders have significant control over Companies decisions and that has a positive effect on firm performance (Georgeta & Stefan (2014; Genc & Angelo 2012; Miguel, Julio & Chabella, 2005,). Shareholder monitoring and entrenchment seem to manifest in developing economies and studies here show a negative relation for shareholder control and dividend policies on firm value (Alexandra, Lucian, Stefania, & Alma, 2019; Sakir & Fadli (2014; Thanatwee, 2014). Some studies observe that a single dominant shareholder will more likely be entrenched in the absence of any other significant shareholder (Georgeta & Stefan

2014). In Europe, Lopez and Rodriguez (2012) found that in state-controlled economies, higher Shareholder controlled to entrenchment and expropriation by dominant shareholders while in free-market economies, higher concentration led to greater firm value. Machek and Kubicek (2018) found increased Shareholder control reduced agency costs in the Czech Republic, but up to a certain level beyond which entrenchment and personal benefit-seeking behaviour ensued. They also noted firms with a controlling owner were more profitable than ownership dispersed firms. Kisavi et al. (2013) saw an insignificant effect on shareholder concentration and firm profitability at NSE. Alfaraih, Faisal, and Hesham (2012) observed the effects of different ownership structures on performance in the Kuwait Stock Exchange (KSE) and concluded that the identity of the dominant shareholder was a major determinant of the firm performance alongside the level of shareholder concentration. Alexandra, Lucian, Stefania, and Alma (2019) observed personal seeking behaviour by large and entrenched shareholders in Eastern European economies and positive performance for Shareholder control in Western European countries and noted Shareholder control was market-specific and the level of market development affected the influence of Shareholder control. Handayani, Sutrisno, Rahman, and Subekti (2015) noted that a pyramidal ownership structure provided ultimate shareholders with greater cash flow rights, which enhanced their entrenchment and dominance over other shareholders in the Indonesian stock exchange (IDX).

Maladijan and Rim (2014) found dividend policies were significantly affected by firm size, risk, and past years' dividends and negatively affected by investment opportunities and firm performance. Hong and Nguyen (2014) noted that managerial ownership had a positive effect on dividend payment, but dividend payment and leverage were negatively related in Vietnam. Sakir and Fadli (2014) observed a significant negative effect of managerial ownership on dividend payment, and that the dominant factor that affected dividend payment was free cash flow. Thanatwee (2014) observed that firms with more institutional and individual investors paid fewer dividends but firms with more government and foreign dominance paid more dividends in Thailand.

3.1 Research Methodology

This study followed a longitudinal survey design with quantitative data. The target population for this study was sixty-six companies listed and trading equity shares on the Nairobi Securities Exchange between 1st January 2008 and 31st December 2017. Data was obtained through secondary sources, mainly from financial statements of the respective firms at the capital market authority by the use of a pre-set data collection form. This study has four variables and their relationships were tested. The dependent variable is the firm value (Tobin q). The independent variables are Shareholder control (% of shares held by the top ten shareholders) and dividend policy (dividend yield).

3.1.1 Data Analysis

Descriptive analysis was used to determine the average values and the dispersion of the variables from their average score. Inferential analysis was carried out by subjecting the variables to simple, multiple, and stepwise regression analysis using longitudinal data. An F-test was used to assess the significance of the overall regression equation. The correlation coefficient (R^2) and p-values were used to interpret the regression functions at a significance level of .05. All individual regression coefficients were tested for their statistical significance. A summary of statistical tests and regression models used to examine the various relationships is presented below.

(i) Large shareholder control (SC) and company value

Simple linear regression

$FV_{it}= \beta_0+ \beta_1SC_{it}+e_{it}$

(ii) Large shareholder control and dividend policy

$Dyield_{it}= \beta_0+ \beta_1SC_{it}+e_{it}$

$\beta_{1=}$ Regression coefficient; e_i= error term

Relation exist if β_1 is statistically significant, model reliable when r^2 and F-test significant

(iii) The influence of dividend policy on company value

$FV_{it}= \beta_0+ \beta_1Dyield_{it}+e_{it}$

$\beta_{1=}$ Regression coefficient; e_1= error term

Relation exist if β_1 is statistically significant, model reliable when r^2 and F-test significant

(iv) The influence of shareholder control and dividend policy on firm value

Multiple regression analysis

$FV_{it} = \beta_0+\beta_1SC_{it}+ \beta_2 Dyield_{it-1}+ +e_{it}$

Tobin q =Firm value; SC = Shareholder control; Dyield = Dividend yield; $\beta_{1,}$ $\beta_{2,}$ = Regression coefficients; e_1= error term. A relationship exists if at least one of the regression coefficients are statistically significant and the relationship is strong if r^2 and F-test are significant where $p<0.05$.

Firm size is one of the internal factors that influence a firm capacity to generate value for its owners (Harvie, Narjoko & Oum, 2010). In this study, firm size is used as a control variable to discern and account for the pattern of behaviour of different categories of firms. Larger firms can generate more value than smaller firms by creating market barriers and the use of economies of scale to procure their inputs (Georgeta & Stefan, 2014). But this benefit may not flow to the owners if they are dispersed and have no control over the managerial activity. It is expected that smaller firms with dominant shareholders are likely to exercise greater control and check on managers' activities, and this could improve firm value. Larger firms will have greater diversity in ownership and a higher level of information asymmetry. Therefore, dividend payments would positively influence firm value as this would help to lower the information gap between managers and shareholders. Longitudinal data suffers from the effect of serial dependency or autocorrelation. In this study, the lag variable for Tobin q was used as an independent variable to help improve the model by accounting for the serial dependency of the dependent variable.

4.1 Statistical Results

4.1.1 Data Summary

Data for the analysis was derived from annual financial reports of listed companies at the Nairobi securities exchange for the trading period between 2008 and 2017. The number of firms listed and actively trading securities at NSE is analysed in table 1. The number of firms listed increased by 7 during the period. Four firms were delisted. Eleven new firms were listed during the period. At least six firms were suspended, dormant or inactive during the period.

Table 1: Listed firms at Nairobi Securities Exchange per sector (NSE handbook)

SECTOR	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Agriculture	7	7	7	7	7	6	6	6	6	6
Auto	4	4	4	4	4	2	2	2	2	2
Banking	10	10	10	10	11	11	11	11	11	11
Commercial	7	8	8	8	8	8	8	8	8	8
Construction	5	5	5	5	5	5	5	5	5	5
Energy And Petroleum	4	4	4	4	5	5	5	5	5	5
Insurance	4	4	4	6	6	6	6	6	6	6

Investment	3	3	3	3	3	3	4	4	4	4
Investment Services	0	0	0	0	0	0	1	1	1	1
Manufacturing	7	7	7	7	7	9	9	9	9	9
Telecommunication	2	2	2	2	2	1	1	1	1	1
Real Estate Inv. Trusts	0	0	0	0	0	1	1	1	2	2
Total	53	54	54	56	58	57	60	59	61	60

A summary of the descriptive characteristics of the listed firms is provided in table 2 below.

4.1.2 Descriptive Statistics

A summary of descriptive statistics for Shareholder control, dividend policy, debt policy, and firm value is presented in table 2. This information is derived from listed companies at the NSE for ten years (2008-2017).

Table 2: Descriptive Statistics

	N	Range	Minimum	Maximum	Mean		Std. Deviation	Skewness	
	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Statistic	Std. Error
Tobin q	349	10.043	.060	10.103	1.66	.085	1.59	2.048	.131
shareholder control	349	.683	.274	.957	.72	.007	.14	-.771	.131
Dividend yield	349	.139	.007	.146	.043	.001	.026	1.126	.131
Firm size NA	349	4.18	7.38	11.56	9.93	.038	.72	-.997	.131
Valid N (listwise)	349								

The average Tobin q for listed firms for the ten years was 1.66 with a high of 10.1 and a low of .06. Shareholder control, measured as the total percentage of the ten largest shareholders, was 72%. The highest was 96% and the lowest was 27%. The average dividend yield was 4.2%. The highest is 14.6% and a low of .007. The average size for companies measured as the logarithm of total assets is 9.88. The largest firm has 11.56 (shs.363.07 billion) and the lowest was 7.31(Shs. 20.42 billion).

4.1.3 Inferential Analysis

The relationship between ownership and the firm value was analysed by a linear regression model. The statistical hypothesis was to test whether there was a significant relationship between ownership and firm value. The statistical model for the relationship was:

Objective (i) the influence of Shareholder control on firm value

(i) There is no significant effect of Shareholder control on firm value

A simple regression model was used to test the hypothesis (H_1): The relationship between Shareholder control (SC) and Firm Value (FV), a regression model of Shareholder control with firm value was applied to the log-transformed values of the study.

Log Tobin $q_{it} = \beta_0+\beta_1 SC_{it}+e_{it}$

A summary of statistical regression analysis using the ordinary least square method (OLS) is provided below in table 3.

Table 3: Regression Analysis for Shareholder Control and Firm Value

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.087	.080		1.080	.281
	Tobinq1(lagged by 1yr)	.908	.025	.898	36.433	.000
	Shareholder control	.113	.074	.038	1.528	.128
a. Dependent Variable: Tobin q						
b. Predictors: (Constant), Shareholder control, Tobinq1						
R^2=.796, DW = 2.341, N = 349						

The model is strong (R^2 =.892) and significant (F-test =.000) parameter estimate for SC ($\beta_{1=}$ .113) is insignificant ρ =.128>.05. Therefore Shareholder control at the NSE has no significant effect on firm value.

4.1.4 Shareholder Control, Dividend Policy and Firm Value

To examine the influence of Shareholder control on dividend policy and company value, a multiple regression analysis was used to examine the relationship. Table 4 provides details of the analysis.

Table 4: Shareholder Control, Dividend Policy and Firm Value

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.892[a]	.796	.795	.18589	.796	674.415	2	346	.000	
2	.897[b]	.804	.803	.18226	.008	14.930	1	345	.000	
3	.897[c]	.805	.803	.18229	.000	.856	1	344	.355	2.281

a. Predictors: (Constant), shareholder control, Tobinq1

b. Predictors: (Constant), shareholder control, Tobinq1, Dyield1

c. Predictors: (Constant), shareholder control, Tobinq1, Dyield1, Firm size NA

d. Dependent Variable: Tobin Q

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Correlations		
		B	Std. Error	Beta			Zero-order	Partial	Part
1	(Constant)	.087	.080		1.08	.281			
	Tobinq1	.908	.025	.898	36.43	.000	.891	.891	.885
	shareholder control	.113	.074	.038	1.53	.128	-.113	.082	.037
2	(Constant)	-.152	.100		-1.52	.130			
	Tobinq1	.918	.025	.907	37.36	.000	.891	.895	.890
	shareholder control	.121	.072	.041	1.68	.094	-.113	.090	.040
	Dyield1	.138	.036	.092	3.86	.000	.004	.204	.092
3	(Constant)	.005	.196		.023	.981			
	Tobinq1	.915	.025	.904	36.89	.000	.891	.893	.879
	shareholder control	.101	.076	.034	1.33	.185	-.113	.071	.032
	Dyield1	.136	.036	.091	3.80	.000	.004	.201	.091
	Firm size NA	-.013	.014	-.023	-.93	.355	-.104	-.050	-.022

a. Dependent Variable: LogTobinQ

In model 1 above, shareholder control has no significant influence on company value $\alpha = .128 > .05$. When the dividend policy variable is introduced in model 2 shareholder control significance improves marginally to .094. The model is significant .000 and variable dividend policy is significant $\alpha = .000 < .01$. Firm size, the variable that represents firm characteristics in the regression modelling did not seem to have any significant impact on other variable relationships and this indicates that regardless of any firm size the joint effect of both dividend policy and shareholder control would be the same.

5.1 Discussion of the Findings

This paper examines the effect of shareholder control and dividend policy on firm value for firms listed at the Nairobi Securities Exchange between 2008 and 2017. Shareholder control is defined as the percentage of shares held by the top ten shareholders in a firm. The dividend yield is measured as a dividend paid over market value. A simple linear regression model was used to test whether a predictive relationship exists between shareholder control and firm value, and multiple regression was used to test the predictive ability of shareholder control on firm value through dividend policy. Statistical results indicate shareholder control has no significant effect on firm value at NSE. Dividend policy has a positive and significant effect on firm value and both ownership control and dividend policy have a significant positive joint effect on firm value.

The influence of large shareholders is a governance mechanism that finance theory suggests can support other corporate governance mechanisms in the firm. There are significant large share ownership by individuals or institutions at NSE (72%), a significant improvement from 65.3% observed by Kisavi et al., in 2013. The company value as indicated by Tobin q was on average 1.66, which compares favourably against Kisavi et al., (2013) 1.32. The effect of ownership control on firm value is consistent with the findings of similar studies in developing countries (Machek & Kubicek, 2018; Alfaraih et. al., 2012; Alexandra et. al., 2019; Kisavi et al., 2013). The findings are further consistent with the shareholder monitoring and entrenchment hypothesis (Shliefer & Vishny, 1997). Most similar studies in Europe presented a different perspective because ownership control provided a significant influence on firm value (Genc & Angelo, 20; Georgeta & Stefan, 2014; Gurgler & Yurtoglo, 2003) and therefore consistent with the large shareholder monitoring hypothesis (Shliefer & Vishny, 1986). The findings also support the relevance of the dividend hypothesis This study's findings are consistent with the theoretical proposition and a large body of empirical evidence. Empirical evidence has not established a clear pattern relating Shareholder control with dividend policy. The findings of this study indicate a marginal increase in dividend coefficient when the ownership control variable was introduced in the equation, Khan (2006) suggests that the level of shareholder control with the identity of the large shareholder could positively affect dividend policy when the dominant shareholder was an institution. Sakir and Fadli (2014) observed a significant negative effect of managerial ownership on dividend payment in Indonesia. Hong and Nguyen (2014) noted that managerial ownership had a positive effect on dividend payment in Vietnam. Thanatwee (2014) observed that firms with large government and foreign shareholders paid more dividends than firms with large institutional shareholders and individuals in Thailand, clearly a sharp contrast to the institutional monitoring hypothesis. In this study, size is an important variable that represents significantly the most distinguishing characteristics of firms at the NSE. In this study, firm size has no significant effect on hypothesized relationships study.

5.1.1 Conclusions

The empirical literature suggests that the effectiveness of large shareholders influence is context-specific. What is good in developed markets may potentially be different in developing and underdeveloped markets. For example, in Europe, Lopez and Rodriguez (2012) observe a poor firm value performance for civil law countries in Europe and a better performance for common law countries with increased large shareholder control. They note corporate dividend policies are taken instantaneously with other company decisions, other studies also highlight the significance of the identity of the significant shareholder with large owners influence and indicate that firm performance could be influenced more by the identity of large shareholders, the presence of government ownership, or even foreign investors (Alfaraih, Faisal & Hesham, 2012; Alexandra et al., 2019; Machek & Kubicek, 2018; Thanatwee 2014).

There is no conclusive evidence regarding the role of large shareholders as a corporate governance mechanism and more studies needs to be done with other key firm decisions like capital structure and investment decisions, however, the findings of this study have significant implications towards the literature of corporate governance. The study notes companies quoted at the Nairobi Securities Exchange have a significant large shareholder concentration and are likely to be entrenched and extract the benefit of control in the absence of complementary corporate governance mechanisms. We note a high dividend omission during the period of the study and most companies maintained a fluctuating dividend policy pattern over the period. The study notes stock prices have a strong correlation with the previous period prices suggesting a market in the weak form of efficiency. The study notes that ownership control as a governance mechanism is important when combined with other governance mechanisms like dividend policy. In this study, shareholder control and dividend policy, jointly have the potential to safeguard shareholder wealth and future studies in this subject should apply the identity of the dominant shareholder. Several studies have indicated that the effect of shareholder control on firm key decisions depends on the identity of the large shareholder (Khan, 2006; Sakir & Fakir, 2014; Machek & Kubicek, 2018; Alfaraih et al., 2012; Alexandra et al., 2019). Researchers in developing countries should empirically test the relevance and applicability of corporate governance theories developed through empirical evidence in developed economies, studies made in developed countries could lead to different theoretical explanations. The study is significant to the theory and practice of finance particularly in the field of corporate governance and knowledge gaps and avenues for further research have been highlighted.

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