



**EFFECT OF OWNERSHIP STRUCTURE ON EMPLOYEE COMPENSATION:
EVIDENCE FROM LISTED MANUFACTURING FIRMS IN NIGERIA****By****DENNIS ONUTOMAHA AKRAWAH¹, DR. BENSON AISAGBONBUOMWAN ESAN²**¹*LPO Institute for Microfinance and Management Studies, Benin City, Edo State,*²*University of Benin, Benin City, Edo State Nigeria,**Corresponding authors' email and mobile: dennakra@yahoo..com /09065611055¹,**esanbenenson69@gmail.com/07068842624²*

Abstract

This study examined ownership structure and employee compensation. The objective of the study is to examine the effect of institutional ownership, managerial ownership and foreign ownership on employee compensation. The empirical research design was employed in the collection of secondary data from listed manufacturing firms in the Nigeria Exchange Group for the period of 2016 to 2022, and analysed using descriptive statistics, correlation and ordinary least square regression. The regression results revealed that institutional ownership had a significant positive relationship with employee compensation at 1% level of significance. Managerial ownership had a significant positive relationship with employee compensation at 1% level of significance, and foreign ownership had a significant positive relationship with employee compensation at 1% level of significance. The study recommended that manufacturing firms should place more effort in rewarding compensation in relation to ownership change, and creating enabling positive feedback in our business environment.

Keywords: employee compensation, equity theory, foreign ownership, institutional ownership, managerial ownership

1. Introduction

Researchers and scholars had undermined the relationship between ownership structure and employee compensation in Nigeria (Nnorom, et al., 2016; Agbaeze & Ebirim, 2020). Onuorah, et al. (2019) affirmed that compensation package is the main barometer for driving the performance of business organisation in Nigeria. Compensation practices have to be taken seriously by management of corporate organization irrespective of the size, industry or otherwise. According to Orakwe (2021), employee compensation is implemented and structured by management to improve the performance of the organization positively. *Mouna and Maha (2018) added that poor compensation packages given to employees had been impaired by companies in strengthening the financial positions and meet up the risks associated with the presence of globalization.*

Employee compensation has the potential of influencing ownership structure of the firm. Ishaka, et al. (2023) affirmed that ownership may be concentrated when there is high percentage of shares by majority shareholders held in a firm. Albart, et al. (2020) noted that the traditional theories is of the view that ownership concentration is likened to better performance when is vested with large shareholders with favourable compensation packages offer to employees. This implies that reduce agency problem because these shareholders have the incentive to monitor the managers' action through direct intervention.



Anwar (2019) posited that ownership structure is the distribution of ownership within firm's stakeholders to reduce agency problem for the ability and incentives to control the management. This problem is even more conflicted when some of the stakeholders of the company are also managers of the company. Abdullah, et al. (2018) argued that ownership structures is the rudiment principle of corporate governance for minimising the conflicting of interests between controlling shareholders and minority shareholders for the determination of employee compensation.

Ownership structure that is skewed to foreign investors from development countries coupled with solid investor rights have the likelihood of maintaining sound corporate governance (Li, et al. 2021a). Ownership is always regarded as the corporate owners, while directors are agents or representatives of shareholders who are supposed to allocate business resources in a way to increase their wealth. In most cases, ownership structure skewed to foreign ownership tends to offer improved compensation to employees.

Almadi and Lazic (2016) observed that the relationship between the management obligation in terms of compensation and creative accounting depends on the level of corporate governance mechanisms put in place by the companies. The stakeholder commits financial resources to the managers to drive the performance of the firm through proactive strategies in implementing policies that can maximise their interests (Alregab, 2021).

Researchers and scholars had investigated the relationship between ownership structure and employee compensation in developed countries with no emphasises in Nigerian context (Liu & Yin, 2023; Ali, *et al.*, 2022; Yin, et al., 2021; Potharla, 2020). However, the relationship between ownership structure, employee compensation and performance had been examined in Nigeria (see Nnorom, *et al.*, 2016; Nnabuike, *et al.*, 2017; Akewushola & Saka, 2018; Omotola & Akrawah, 2019; Barde & Zik-Rullahi, 2020; Oyedokun, *et al.*, 2020). Therefore, the uniqueness of this study is to examine the implications of a new phenomenon for ownership structure components and employee compensation since no or little empirical studies had been conducted in this area among Nigeria listed firms.

This study addressed the problem in knowledge to examine the relationship between ownership structure and employee compensation of listed manufacturing firms in Nigeria by taking managerial, institutional, foreign ownership to proxy for ownership structure. Therefore, the objective of the study is to:

- (i) To examine the effect institutional ownership on employee compensation in Nigeria.
- (ii) To investigate the effect of managerial ownership on employee compensation in Nigeria.
- (iii) To ascertain the effect of foreign ownership on employee compensation in Nigeria.

Research Hypotheses

The statement of hypothesis was formulated in the null form as stated below:

- H₁: Institutional ownership has no significant relationship with employee compensation.
- H₂: Managerial ownership has no significant relationship with employee compensation.
- H₃: Foreign ownership has no significant relationship with employee compensation.



2. Literature Review

Concept of Employee Compensation

Employee compensation is a reward system normally employed by organisations to encourage staff to stay long in the organisation (Azeez, 2017). Compensation packages given to staffs to motivate them for total commitment towards achieving the goals of the business organisation are mainly salaries and wages. In the opinion of Aslam, et al. (2015), a good compensation structure enhances the performance and effectiveness of the firm. Meanwhile, good compensation motivates the employee to perform better.

Employee compensation means the actual money employees receive from their employers for jobs done or services rendered (Naukrihub, 2009). Employee compensation systems based on employee performance are seen as a way to correct some of the imperfections in labour, product and capital markets that affect the employment relationship (Pendleton, et al., 2009).

More importantly, compensation is a monetary and non-monetary reward offered in the exchange of labour to improve the performance of the organisation. In the euphoria of business organisations, compensation is based on the experience and the level of education attained by the staff. In the view of Osibanjo, *et al.* (2014), compensation offered to staff in organisation can either be direct compensation or indirect compensation for improving the performance of the organisation. Meanwhile, wages, salaries, bonuses, commissions, overtime work, and holiday premium are mainly the direct Compensation offered by management to staff while the indirect form of compensations are made up of medical benefits, housing allowance, meal allowance, utility allowances, incentive bonus, shift allowances, hospitalization expenses, out of station allowance, vehicle loan benefits, annual leave allowances and car basic allowances (Osinbajo, *et al.*, 2012).

Overview of Ownership Structure

Ownership of companies and the crisis associated with the style of ownership of organization has also become a center of agenda for both business leaders and regulators all over the world. Oyedokun, et al. (2020) stated that firm's ability to survive in the future as the world's economies are becoming more and more globally integrated depends on the acceptable returns in the competitive global market. Shareholders are usually equity owners of firm and the directors are agents of shareholders that harness the resources of these investors for the maximisation of wealth (Benjamin, *et al.*, 2014).

Shareholders are always regarded as the corporate owners, while directors are agents or representatives of shareholders who are supposed to allocate business resources in a way to increase their wealth. The ownership structure components employed in this study include institutional ownership, managerial ownership and foreign ownership.

Institutional Ownership

Institutional ownership is seen as complex investors that possess first-hand information at the expense of the individual investors, and they explore this vital information in making corporate decision in relation to employee compensation. Aryani, et al. (2023) defined institutional ownership as an equity holding entitle to investment firms, banks, insurance companies, and other institutional entities from a proportion of stock held by institutional investors. Institutional ownership is a form of ownership



structure which is fully concentrated and has the tendency of feeding the management favorable incentives in order to maximize the value of the firm by bridging the gap between management and shareholders' interests.

Maqbool, et al. (2021) asserted that majority of the institutional investors are skewed to deposit money banks. The concentration of ownership to institutional investors is the basis for reducing agency problem through effective monitoring of managerial the activities. In this study institutional owners are seen as mortgage houses, investment houses, deposit money banks as well as insurance companies etc.

Managerial Ownership

Managerial ownership structure ranges from individual to institution which brings about causes in the area of financial resource management for the purpose of offering higher compensation to employees. Bhutta and Hizmo (2021) defined managerial ownership as the holding of shares by management. The stakeholders expect the management (accountants) who prepare these financial statements to observe high ethical standards because they rely on the financial statements to make informed choices and investments decisions.

Herdjiono and Indah (2017) asserted that managerial ownership is mathematically computed as the percentage of shares owned by the management. Aryani, et al. (2023) opined that the essence of managerial positions through equity holdings in a company for improving the cultivation of optimal performance as well as motivating factor for managers to exercise prudence decision making concerning employee compensation. In this study, managerial ownership is seen as the percentage of shares entrusted in the hands of managers in a firm.

Foreign Ownership

Foreign ownership is seen as foreign individuals, foreign business organisation, and foreign governments that carry out investment in the territory of another country (Arman, 2015). Foreign ownership is mainly mutual funds or other institutional foreign investors. An and Naughton (2015) argued that the presence of foreign ownership improves or reduce financial reporting quality.

The foreign investor's influences strategic decision making in the banking sector in the area of investment decision for better efficiency, better capitalization and technical capacity that brings about the expansion of the organization holistically. Foreign equity ownership is defined as a system where foreign investors command higher percentage of shares held in a company (Adebayo, 2021). Foreign ownership is seen as foreign investors who are interested in high investments devoid of information asymmetry and uncertainty.

Empirical Reviews

Liu and Yin (2023) conducted a study on the influence of institutional investors monitoring CEO compensation. Secondary data were collected from UK and analysed using correlation matrix and regression technique. The empirical result showed that institutional ownership monitoring has moderate correlation and significant relationship with CEO compensation.



Ali, et al. (2022) sampled 70 listed for the period of 2010–2016 in Pakistan to investigate the effect of leverage, ownership structure and performance in relation to compensation policy. The study used descriptive statistics, correlation and panel regression to analyse the data. The results show that leverage, managerial ownership, institutional ownership and family-owned ownership has significant negative effect on employee compensation policy leading to perfection.

Yin, et al (2021) examined the relationship between compensation policy, institutional changes corporate governance and performance in China. Data were collected from China Stock Market & Accounting Research (CSMAR) database for the period of 2009 to 2017 and analysed using descriptive statistics, correlation and panel effect estimation. The result revealed that CEO compensation of state-owned firms and institutional ownership significantly affects CEO turnover and firm performance.

Rehman, et al. (2021) opined that shared-based compensation also regarded as equity-based remuneration recommended as substantial part of net compensation arrive at by stock options for bridging the alignment of shareholders and executives. Barde and Zik-Rullahi (2020) did a study on the effect of executive compensation and share ownership on financial performance of listed Deposit Money Banks in Nigeria. The research for the is ex-post facto research design while the population of the study comprised of the quoted deposit money banks in Nigeria listed on the Nigeria Stock Exchange (NSE) as at December 31st, 2018. The sample bank is made up of the fourteen (14) deposit money bank for the period 2007-2018. The data is analysed using robust ordinary least square regression, multicollinearity test, normality test, heteroscedasticity test and found out that CEO compensation exerts a positive and significant effect on financial performance.

Potharla (2020) studied the impact of managerial ability and power on the compensation of CEOs in India. Secondary were collected from listed Indian companies for the period of 2006 to 2018 while ordinary least squares regression and quantile regression adopted for the analysis of data. It was established that managerial ownership and CEO compensation is significantly related.

Oyedokun, et al. (2020) used a judgmental sampling technique to sample 19 firms covering 2010 to 2018 to examine the effect of OS on firm value of quoted consumer goods in Nigeria and using panel regression technique in the analysis of data. The results show that a negative relationship between managerial ownership and firm value while institutional ownership, foreign ownership, and ownership concentration is positively related with firm value.

Rely and Arsjah (2018) carried out a study in Indonesia on the effect of foreign ownership structure on firm value based on compensation structure towards offshore debt financing in manufacturing firms. The study used purposive sampling to select a sample of listed manufacturing firms in Indonesia from 2014 to 2016 and multiple regressions was used to analyse the data. The result of the study revealed that foreign ownership structure had a significant influence on firm value based on compensation structure. Nnabuike, et al. (2017) conducted an empirical study on the relationship between ownership structure and financial performance of selected banks in Nigeria. Secondary data was collected from a sample of ten (10) deposit money banks for the period 2000 to 2015 and panel regression in analysing the data while financial performance measured by ROE. The findings reveal that *a positive significant relationship between ROE and foreign ownership while institutional ownership and managerial ownership is negatively and significantly related to ROE.*



Nnorom, *et al.* (2016) study on the effect of compensation administration on employee productivity in Dangote Plc Lagos, Nigeria and the result show that compensation administration is driven by employee productivity and performance. They noted that employers and management of business organisations should develop a good compensation structure that would attract, motivate, retain and satisfy the staff based on the foreign structured firm.

Theoretical Reviews

The equity is the anchored theory of this study. The theory is developed by Adams in the year 1965. The theory stresses that employees are motivated not only compensation but by measuring the balance between their efforts, performance and rewards but by comparing these with others, Adam, 1965). Perry, *et al.* (2006) stressed that good compensation practices adopted increases the level of employee satisfaction only when these compensation packages are valued and perceived as equitable by the employees.

The employee in a work place needs to feel that their contributions and work performance are being compensation with a given level of pay. Equity theory further identifies four mechanisms for job satisfaction (dissatisfaction) as follows: employees seek to maximize their outcomes (compensations minus outcomes); groups can maximize collective rewards by developing accepted systems for equitably apportioning rewards and costs among members (that is, systems of equity will evolve within groups, and members will attempt to induce other members to accept and adhere to these systems); when employees find themselves participating in inequitable relationships, they become dissatisfied or distressed (theory explains that in this situation, both the person who gets 'too much' and the person who gets 'too little' feel dissatisfied). The theory is relevant to this study in the sense that compensation is keen to the progress and survival of any business organizations.

3. Methodology

Research Design

The study used empirical research design. The empirical research design helps the researchers in the collection of secondary data from selected quoted company which can be empirical proven or tested. Research design is the overall framework of a research that explains the direction and the method to be used in the study to collect the information needed.

Population and Sampling Technique

In this study, population is seen as the number of tangible objects and items explained and entertained by a phenomenon. Therefore, the population of this study was made up of quoted manufacturing companies in Nigeria. The population is made up of listed manufacturing firms in Nigerian Exchange Group (NGX). There was a total of fifty-one (51) listed manufacturing firms which constitute the population of this study at 31 December, 2022. The sample size for this study was based on consistency of delivering audited annual reports and accounts for the period of 2016 to 2022. Therefore, the simple random sampling technique which helps to ensure internal validity, reduce the impact of potential confounding variable (filtering method) and have high external validity.

The period of 2016-2022 was used to sample 36 firms that consistently delivered annual reports since 2023 audited annual reports and accounts of the sample firms were no available with 252 statistical observations. These manufacturing companies were chosen because they are potential drivers of the



market. This data collected were analysed using descriptive statistics, Pearson correlation matrix and ordinary least square regression technique. The analysis in this study was conducted using E-Views 9.0 econometric software.

Model Specification and Measurement of Variables

In specifying the model of this study, a multivariate linear regression technique was adopted. The justification of ordinary least square regressions model was based on the fact that the explanatory variables were more than one (1). Specifically, the regression model was specified in equation 1 below:

$$EMPC_t = \beta_0 + \beta_1 INO_t + \beta_2 MGO_t + \beta_3 FRO_t + e_t \dots\dots\dots (1)$$

Where;

EMPC =Employee compensation

INOW= Institutional ownership

MGO = Managerial ownership

FRO = Foreign ownership

β_0 = Constant

$\beta_1 - \beta_3$ =Coefficients

e_t = Error term

Measurement of Variables

The measurement of variables for the study was presented in the table shown below;

Table 1

Measurement of Variables

Variables	Definition	Measurement	Sources	Apriori sign
EMPC	Employee compensation (dependent variable)	Employee compensation was measured by the amount of money paid to the employee	Omotola&Akrawah (2019)	
INO	Institutional ownership (Independent variable)	Institutional stakeholders were measured by the proportion of shares held by institutional investors to the total number of shares in issue.	Tulepova (2017)	+-
MGO	Managerial ownership (Independent variable)	It was measured by the proportion of shares held by management on board	Bazhair&Alshareef (2022)	+-
FRO	Foreign ownership (Independent variable)	It was measured by the proportion of shares held by foreign investors and individuals	Oyedokun, et al, (2020)	+-

Source: Researcher's Compilation (2024).



4. Results and Discussion

Descriptive Statistics

The descriptive statistics in Table 2 revealed that employee compensation (EMPC) has a mean value of N7324489 million with a standard deviation value of 14605045. The mean value was > than the media value of N1206641 million. This implies that majority of the sampled firms had a favourable compensation structure for employees. Institutional ownership (INOW) has a mean value of 58.95% with a standard deviation value of 19.67. Managerial ownership (MGO) has a mean value of 17.89% with a standard deviation value of 26.78 and foreign ownership (FRO) has a mean value of 23.04% with a standard deviation value of 30.91. The Jarque-Bera statistical value of the variables showed that all were normally distributed at 1% level of significance with 252 statistical observations. The descriptive statistics of all variables was presented in Table 2 below.

Table 2
Descriptive Statistics

	EMPC	INOW	MGO	FRO
Mean	7324589.	58.95833	17.89917	23.04831
Median	1206641.	62.50000	1.310000	0.000000
Maximum	90323000	92.00000	88.99000	87.27000
Minimum	13970.00	6.000000	0.000000	0.000000
Std. Dev.	14605045	19.67514	26.78638	30.91504
Skewness	3.101683	-0.641324	1.345148	0.701606
Kurtosis	13.09792	2.768529	3.373342	1.700756
Jarque-Bera	1404.497	16.98767	73.77081	36.57039
Probability	0.000000	0.000205	0.000000	0.000000
Sum	1.76E+09	14150.00	4295.800	5531.595
Sum Sq. Dev.	5.10E+16	92519.58	171485.0	228421.8
Observations	252	252	252	252

Source: EViews 9.0 Output (2024)

Correlation Matrix

The correlation coefficients result in Table 3 that institutional ownership (INOW) has a positive and moderate correlation relationship with employee compensation (EMPC= 0.3729), managerial ownership (MGO) has a positive and moderate correlation relationship with employee compensation (EMPC= 0.2025) and foreign ownership (FRO) has a positive and weak correlation relationship with employee compensation (EMPC=0.0998). A critical evaluation of the correlation coefficients results, none of the variable was perfectly correlated. This indicates there is absence of multicollinearity issue in our analyses. The correlation result was presented in Table 3 below.



Table 3
Correlation Analysis

	EMPC	INOW	MGO	FRO
EMPC	1.000000	0.372904	0.202571	0.099834
INOW	0.372904	1.000000	-0.056153	0.066091
MGO	0.202571	-0.056153	1.000000	-0.422649
FRO	0.099834	0.066091	-0.422649	1.000000

Source: EViews 9.0 Output (2024)

Regression Results

The regression results in Table 4 above showed that R^2 value of 0.224072 revealed that about 22% variations in the dependent variable that was jointly explained by independent variables. The F-statistic value of 22.71 with a p-value of 0.000000, meaning there is a significant linear relationship between the variables. The Durbin-Watson statistic value of 0.466483 revealed the presence of serial correlation in our regression results but it was ignored in this study based on the nature of data employed. Critically, institutional ownership (INOW) had a positive coefficient value of 27964.6 and p-value value of 0.0000. This implies that INOW had a significant positive relationship with employee compensation (EMPC) at 1% level of significance.

Managerial ownership (MGO) had a positive coefficient value of 169537.9 and p-value value of 0.0000. This implies that MGO had a significant positive relationship with employee compensation (EMPC) at 1% level of significance, and foreign ownership (FRO) had a positive coefficient value of 97487.11 and p-value value of 0.0013. This implies that FRO had a significant positive relationship with employee compensation (EMPC) at 1% level of significance. The regression result was presented in Table 4 below.

Table 4
Ordinary Least Square Regression Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-14444467	2860042.	-5.050438	0.0000
INOW	279647.6	42677.79	6.552532	0.0000
MGO	169537.9	34513.29	4.912251	0.0000
FRO	97487.11	29922.33	3.258006	0.0013
R-squared	0.224072	Mean dependent var		7324589.
Adjusted R-squared	0.214208	S.D. dependent var		14605045
S.E. of regression	12946627	Akaike info criterion		35.60710
Sum squared resid	3.96E+16	Schwarz criterion		35.66511
Log likelihood	-4268.851	Hannan-Quinn criter.		35.63047
F-statistic	22.71726	Durbin-Watson stat		0.466483
Prob(F-statistic)	0.000000			

Source: E Views 9.0 Output (2024)



Discussion of Results

The regression result showed that institutional ownership had a significant positive relationship with employee compensation at 1% level of significance. The result was in agreement with the findings of Liu and Yin (2023) and Ali, et al. (2022) that institutional ownership has significant relationship with compensation. Based on the result, the null hypothesis was rejected that institutional ownership does not significantly relate to employee compensation.

Managerial ownership had a significant positive relationship with employee compensation at 1% level of significance. The result was in diadem with the findings of Ali, et al. (2022), Rehman, et al. (2021) and Potharla (2020) that managerial ownership has significant effect on employee compensation. This therefore implies that the null hypothesis was rejected that managerial ownership does not significantly relate to employee compensation.

Foreign ownership had a significant positive relationship with employee compensation at 1% level of significance. The result was in diadem with the findings of Rely and Arsiah (2018) that foreign ownership structure had a significant influence on firm value based on compensation structure. This therefore implies that the null hypothesis was rejected that foreign ownership does not significantly relate to employee compensation.

5. Conclusion and Recommendations

This study was based on ownership structure and employee compensation in Nigeria listed manufacturing companies for the period of 2016 to 2022. The study contributed to employee compensation literature by exploring the relationship between ownership changes from the equity theory perspective. It was concluded from the regression results that institutional ownership had a significant positive relationship with employee compensation at 1% level of significance, managerial ownership had a significant positive relationship with employee compensation at 1% level of significance and foreign ownership had a significant positive relationship with employee compensation at 1% level of significance.

Recommendations

The study recommended that manufacturing companies should place more effort in rewarding compensation in relation to ownership change, and creating enabling positive feedback in our business environment. The study also suggested ownership change (institutional, managerial and foreign) of compensation practice has improved pay gap between executives and average employees.

Contributions to Knowledge

The following contributions were made to knowledge:

- (i) This study contributed to the academic debate on the relationship between ownership structure and employee compensation by expanding the frontier of knowledge in terms of literature review and empirical evidence using the Nigerian context.
- (ii) This study contributed to the body of knowledge by discovering that ownership structure variables of institutional, managerial and foreign positively significantly related with employee compensation in Nigeria listed manufacturing firm. These new findings showed that ownership structure strongly enhance employee compensation in Nigeria.



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