

Emengini, Emeka Steve; Ujunwa, Augustine; Ujunwa, Angela Ifeanyi; Onah, Emmanuel Onyebuchi

**Article**

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## BLOCKHOLDING AND BANK PERFORMANCE IN NIGERIA

*Emeka Steve Emengini<sup>1</sup>; Augustine Ujunwa<sup>2</sup>; Angela Ifeanyi Ujunwa<sup>3</sup> and Emmanuel Onyebuchi Onah<sup>4</sup>*

### **Abstract**

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*We examine the nexus between blockholding and bank performance in Nigeria given the narrowing size blockholding and absence of institutional mechanisms for effective activism. We employ the system-Generalised Method of Moments (system-GMM) using annual bank-level data from 2007 to 2019 and find evidence of negative relationship between blockholding and the bank performance in Nigeria. The negative effect of blockholding on bank performance could be attributed to the low level of financial sector development, which serves as a disincentive for blockholders to pursue shareholders' value maximization. This finding brings to the fore, the importance of rethinking policies that would make the voice and exit channels effective, and to insulate blockholders from pursuing personal benefits. Specifically, strengthening external governance laws and enforcement and deepening the Nigerian financial market would eliminate the prohibitive cost of exercising the exit channel to reduce the self-serving behaviour of managers*

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**Keywords:** Blockholding, Corporate Governance, Firm Performance

**JEL Classification:** G30; G38

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<sup>1</sup> Department of Accountancy, University of Nigeria, Enugu Campus. Corresponding Author's Email Address: [emeka.emengini@unn.edu.ng](mailto:emeka.emengini@unn.edu.ng)

<sup>2</sup> Financial Integration Department, West African Monetary Institute, Accra Ghana. . Corresponding Author's Email Address: [austinesliver@yahoo.com](mailto:austinesliver@yahoo.com)

<sup>3</sup> Department of Banking and Finance, University of Nigeria, Enugu Campus. Corresponding Author's Email Address: [angela.njunwa@unn.edu.ng](mailto:angela.njunwa@unn.edu.ng)

<sup>4</sup> Department of Banking and Finance, University of Nigeria, Enugu Campus. . Corresponding Author's Email Address: [emma.onah@unn.edu.ng](mailto:emma.onah@unn.edu.ng)

## 1.0 INTRODUCTION

Blockholding is a predominant feature of corporate governance across the globe. Scholars tend to disagree on its relevance as a governance mechanism. Konijn et al. (2011) highlight the importance of blockholders in implementing profitable projects and correcting managerial inefficiency. Shleifer and Vishny (1986) argue that dispersed shareholders lack the incentives to incur huge monitoring cost required to reduce the self-serving behaviour of managers. The incentive to intervene by blockholders is to increase monitoring, reduce free-rider problem, agency costs, and managerial discretion (Ehikioya, 2009). Opponents of blockholding argue that corporate governance is designed to address the expropriation of minority shareholders and not necessarily the expropriation of all shareholders by managers (Shleifer & Vishny, 1997). Blockholders could sacrifice the general welfare of all shareholders by misusing their preferential power for private benefits (La Porta et al., 2002; and Konijn et al., 2011). Blockholding could also reduce firm performance through over-monitoring, and managerial entrenchment. Blockholders could discourage managers from making costly or risky firm-specific investments, which would adversely affect the profitable opportunities of firms (Edams, 2009).

The disagreement among scholars on the relevance of blockholding may have accounted for the plethora of theoretical and empirical studies on the effect of blockholding on firm performance. For instance, there have been consistent effort to establish ownership structure of firms across the world (Holderness, 2009 and 2017; and La Porta et al., 1999). Holderness (2009) surveys ownership concentration in the US, while Holderness (2017) assesses ownership concentration across the globe. La Porta et al. (1999) document a substantial disparity in ownership concentration around the globe. Studies on Nigeria indicate that blockholders cumulatively own on the average, 26.96% of total shares (Odehale & Kamardin, 2015), and 70.50% of Nigerian banks have large blockholders (Ozili and Uadiale, 2019). This contrasts with developed economies with widely dispersed ownership structure (Edams & Manso, 2011; Edams, 2009; and Edams et al., 2013).

Studies have investigated the nexus between blockholding and firm performance in Nigeria (Ozili and Uadiale, 2017; Odehale and Kamardin, 2015; Ehikioya, 2009). Odehale and Kamardin (2015) investigate the effect of blockholding on firm performance using a panel of 58 public companies, and established that large shareholding is positively related to financial performance. Ehikioya (2009) investigates the effect of concentrated ownership on firm performance with a dataset of public firms spanning from 1998 to 2002 and found positive relationship between firm performance and ownership concentration. These studies defined blockholders as individuals or institutional investors owning above 30% of a company paid-up capital. Given the narrowing nature of blockholding in the Nigerian banking sector, relying on the findings of previous studies might be misleading. For instance, United Bank for Africa (UBA) total shareholding of above 5% - narrowed to 16.3% in 2018 (UBA Annual Report, 2018 p. 48) from 23.2% in 2016 (UBA Annual Report, 2016, p. 51). Blockholders of Zenith Bank narrowed from 32.51% in 2016 (Zenith Bank Annual Report, 2016, p. 4) to 29.35% in 2018 (Zenith Bank Annual Report, 2018, p. 38). This is a common trend among publicly quoted banks in Nigeria. The narrowing trend of blockholding in Nigerian banking industry is consistent with the findings of Moshirian et al., (2022). Moshirian et al., (2022) found lower blockholding in countries with high quality governance. Specifically, they found that ethical values, civic capital and governance quality account for variations in blockholding across countries. This presupposes that the level of regulation of the banking sector may have accounted for the narrowing blockholding, since blockholder naturally prefer to hold large shares in loosely regulated industries.

Our study departs slightly from Ozili and Uadiale (2017) and Ehikioya (2009) by narrowing the definition of blockholding to reflect the current realities. This is consistent with the argument of Edmans and Holderness (2017) that given the ambiguity associated with the definition of substantial

interest in blockholding, researchers err on the side of expanding the fractional range of ownership in their investigations rather than narrowing it. Becker et al., (2013) further opine that a blockholder with sufficient voting power of 51% and above may not need to organise other shareholders to intervene in management decisions. However, as his/her voting powers narrows, the motivation for holding large undiversified shares may also change. We narrowed the definition of blockholding to any individual or institution with a substantial interest in the shareholding of 5% and above. Since firms are mandated to disclose shareholding of above 5%, this translates to the use of a publicly verifiable dataset.

Our paper contributes to literature in the following ways. First, the narrowing size of blockholding could alter the motive or incentive of blockholders. In few cases, the individuals can be best described as insiders since they occupy strategic positions in the banks. For instance, Jim Ovia and Tony O. Elumelu are the current board Chairmen of Zenith bank and UBA, respectively. Chen et al. (2019) demonstrate that blockholders (insider vs outside, individual vs institutional) have different motivations, and that the motivation of insider blockholders with annowing size could be socioemotional wealth, because of the ineffectiveness of voice and exit channel. The socioemotional wealth includes to advance and preserve control, identify with the firm, extract financial and non-financial private benefits, and sustain the emotional attachment to the firms. Given the extent of insider blockholding in the Nigerian banking industry, an understanding of the influence of diffused blockholding, without any particular reference to the type, has on performance is extremely important.

Second, understanding the effectiveness of blockholding in promoting bank performance in a developing market like Nigeria is extremely important. For instance, the blockholders govern through voice and exit channels. The effectiveness of the voice channel depends on the size of blockholding, while developed market serves as the final correctional mechanism for punishing recalcitrant managers through the exit channel (Admati & Pfleiderer, 2009). If the market is efficient, shareholders' and other market players' assessment reflect the practices of management and adjustment in share prices (Edams, 2014). Such adjustment in share prices would compel managers to pursue value maximizing actions to promote market access and protect the share value of their firms. The effectiveness of the market in punishing recalcitrant management also depends on the ability of investors to access optimal information of the firm that are credible and reliable, and their ability to differentiate market sentiments from firm fundamentals. The Nigerian stock market might be ineffective for blockholders to communicate their dissatisfaction of managerial decision through the exit channel. Can a blockholder with narrowing voting power to change management decision pursue shareholders value maximization in such a market?

Our empirical finding reveals a negative relationship between blockholding and bank performance (ROA and EPS), but non-significant effect on Tobin's Q. A fraction of a firm's shares held by blockholders results in a lower value of ROA and EPS. This is consistent with the entrenchment hypothesis that blockholders pursue personal benefits when insulated from external disciplinary forces (Pukall & Calabro, 2014; Sluhan, 2016; and Chen et al., 2019).

The rest of the paper is structured as follows: Section 2 presents the review of related literature; section 3 discusses the methodology; section 4 presents the results; while section 5, concludes the paper.

## 2.0 REVIEW OF RELATED LITERATURE

The definition of a blockholder is crucial for any theoretical and empirical study. It is generally agreed that blockholders own large shares of a company. However, what constitutes 'large' is surprisingly vague as scholars attribute the phenomenon to large ownership of shares by a single shareholder or percentage of ownership (Edmans & Holderness, 2017). Shleifer and Vishny (1986) assign a higher weight to majority ownership (50.1%) because such blockholder unilaterally decides the outcome of major decisions including an election. Some studies assign 20%, 10% or 5% thresholds, without any theoretical or empirical basis for these thresholds (Holderness, 2009; Ehikioya, 2009; Odewale & Kamardin, 2015; and Ozili & Uadiale, 2017). We define blockholder as any individual or institutional shareholder with a substantial interest in shareholding of 5% and above. This is consistent with extant governance laws in Nigeria, that mandate public firms to disclose shareholding of 5% and above in the annual reports and statement of account. In the United States, the provision which mandates institutional investor with at least \$100 million to disclose such blocks via 13F filings, has made it possible for scholars to also examine blockholding of less than 5% (Edmans & Holderness, 2017).

Voice and exit are the traditional channels for examining the relationship between blockholding and firm performance. Under the voice channel, blockholders use voice to actively and passively boost investment, monitor management, and maximize shareholders' wealth. The voice channels include behind-the-scenes jawboning like advising the management on strategy, direct confrontation like launching of a proxy fight and public criticism of management, not taking private benefits, and mobilising other shareholders for proxy context launch (Chen & Yur-Austin, 2007). Blockholders use voice to vote against management decisions, aggressively question management on a conference call, engage management on corporate strategy, propose a specific action to management, and engage in discussions with the board outside of management. These actions are broadly classified into governing, monitoring and intervening through voice (Odewale & Kamardin, 2015). The exit channel is an alternative to the voice channel (Pfleiderer, 2009). A blockholder can also trigger the exit channel where the voice channel fails (Edams, 2009; and Edmans, 2014). A blockholder may also exploit the exit channel not necessarily due to the failure of voice channel (Edams & Horness, 2017). In circumstances where a blockholder could not govern through voice, they could govern through the exit channel, by selling their shares to drive down the share price of the company and punish recalcitrant managers. Where the top management is effective in maximizing shareholders' wealth, blockholders will exhibit loyalty by not selling their shareholding, which may signal good corporate governance to the market.

There are also circumstances that would constrain blockholders from exercising the exit channel even when he/she is not happy with the management, especially for fund managers (Dasgupta and Piacentino, 2015). For instance, blockholders may suffer loss of value in their portfolio when the share prices get depressed due to their exit threat. Since blockholders are usually fund managers who manage funds for other investors, their ability to attract investors depend on the blockholder's perceived skills in picking stock. Exit or threat of exit will signal poor skills in stock picking and could trigger a run on the blockholder/fund manager. A situation where blockholders/fund managers are competing for funds, the signals that the exit mechanism gives limits its use as a governance mechanism. Stepanov and Suvorov (2017) describe the role of blockholders as speculative monitors affecting a firm's governance through the trading of their shares (exit) rather than intervention (voice). Isakov and Weisskopf (2014) argue that inside shareholders (family members) have real incentive to reduce agency costs through voice, while outside blockholders are interested in private benefits through the exit channel.

Alvarez et al. (2018) examine the link between institutional blockholders and firm investment ratio, using a sample of 6300 publicly quoted companies in emerging markets from 2004 – 2016. They find

evidence that independent, long-term and local institutional investors improve book-to-investment ratios, and attribute their findings to monitoring and blockholder voice intervention hypothesis. Chen and Yur-Austin (2007) examine the effectiveness of voice theory in reducing underinvestment, poor asset management, and managerial extravagance, and find that blockholders (inside blockholders) are effective in asset utilisation efficiency, while outside management is effective in mitigating managerial extravagance. Dai et al. (2017) use a sample of 892 block acquisitions in 42 countries from 1990 to 2008, to investigate whether blockholders transfer their governance quality to investee firms, and find monitoring environment, monitoring cost and monitoring effectiveness as the economic mechanism for such transfer. Von-Lilienfeld-Toal and Schnitzer (2020) use data from US firms and found that outside blockholders such as hedge funds promote monitoring of relatively large firms and assist in setting their payout policies. Benamraoui et al. (2019) examine the effect of blockholding on performance and attribute superior performance to the presence of blockholders.

On the contrary, Basu et al. (2016) use firms in the United States to demonstrate that ownership and power will have a different effect on firm performance for insider and outsider blockholders. Their results reveal that insider power (ownership) impact negatively on firm value, while outsider power impact positively on firm value. Chen et al. (2019) examine the conflicts between blockholder in cross-border acquisition using data from the United States from 2003 - 2016, and find more monitoring motivation among family and mutual fund blockholders. They further find evidence of more careful selection of crossborder acquisition, and higher overall shareholder value from effective monitoring by blockholders. Edmans and Holderness (2017) observe that certain blockholders competitive advantage may lie in selecting stocks, rather than launching a proxy fight or providing strategic advice. They further argue that successful intervention might be difficult, even with expertise in circumstances where the board use firm resources to prevent proxy fight or fall in the company share price. Konijin et al. (2011) use data from the United States to investigate the effect of blockholders dispersion on firm value and find a negative correlation between blockholding and firm value. Stepanov and Suvorov (2017) examine the rationale for monitoring and find that sorting rather than direct monitoring is the driver of blockholding. Kang et al. (2019) could not establish any correlation between institutional blockholders and research and development in Korea, because, the objectives of the institutional blockholders are short-term. Kang et al. (2019) and Chen et al. (2019), argue against the effectiveness of the voice and exit channels in promoting firm performance.

The entrenchment hypothesis of blockholding is used to explain the negative relationship between blockholding and firm performance (Farinha, 2003). Jensen and Meckling (1976) argue that insiders may obtain personal benefits in deploying corporate assets, when shareholders are too dispersed, and managers hold little equity. Increased managerial ownership reduces agency cost since managers also bear the wealth consequence of their actions. Fama and Jensen (1983), however, argue that managerial holding of substantial equity of a firm gives them enough voting power to ensure that their position in the firm is secured, and insulate them from external disciplining forces. This insulation from external disciplining forces encourages the blockholders to pursue personal benefits that impact negatively on firm performance. Weston (1979) finds evidence that firms with insider ownership of more than 30% have never been acquired through a hostile takeover. Studies that examine the relationship between entrenched blockholders and firm performance find a negative relationship (Morck et al., 1988 and McConnel & Servaes, 1990). Farinha (2003) attribute the u-shaped relationship between dividend payout ratios and insider ownership in the United Kingdom to entrenchment hypothesis of blockholders when ownership reaches a threshold of around 30%.

From the above reviewed theoretical and empirical literature, the effectiveness of the voice channel depend on the size of shareholding. Voice channel is effective where the blockholders have above 50% of the shareholding (Bajo et al., 2020), because the blockholders could change management

without mobilising other shareholders. The narrowing size of shareholders in Nigeria could render the voice channel ineffective. The effectiveness of the exit channel largely depends on the efficiency of the market. Aiken et al. (2020) identify efficient stock market as a necessary condition for credible activism for blockholding governance. Exit channel is effective where blockholders can effectively communicate their activism to the market and market participants understand the link (Edmans & Manso, 2011). Efficient market creates incentive for blockholders to pursue shareholders' value maximisation objectives, because of reduced information cost and increased monitoring that assist in punishing blockholders that are seeking personal benefits (Bajo et al., 2020). The efficiency of the market also provides flexibility to blockholders in realigning their portfolio, which serves as a signal to the market (Ravid & Sekerci, 2020). The absence of efficient market could alter the motive of blockholders in favour of personal benefit or socioeconomic gains. This could be worsened poor external governance laws. Crisostomo et al. (2020) use data from Brazil to demonstrate how poor extelegal protection for investors create incentive for blockholders to pursue personal benefits. The exit channel in Nigeria might not be effective because of the presence of a weak and illiquid stock market. The Nigerian stock market is generally defined as weak-form efficient (Olowe, 1999; Okpara, 2010; Ezepeue et al., 2012; and Obrimah et al., 2015) due to poor understanding of the firms' fundamentals, absence of shareholder activism, investors' myopia, inadequate information flow and inefficient communication system. These factors make it difficult for analysts to predict future prices with past trend or prices. Blockholders may choose to pursue personal benefits in such a market, because of the absence of institutional mechanisms that promote effective activism.

### 3.0 METHODOLOGY AND DATA

#### 3.1 Data

We collated data from the annual reports and statement of accounts of all publicly listed deposit money banks (DMBs) in Nigeria covering the period of 2007 – 2019. We define blockholder as any individual or institutional shareholder with a substantial interest in shareholding of 5% and above, and use the ratio of blockholding (individual and institutional shareholder with a substantial interest in shareholding of 5% and above) to total shareholding of the banks. The Company and Allied Matters Act 2020 mandates public companies to disclose substantial shareholders of 5% and above in their annual reports. The measures of bank performance are earnings per share (EPS), return on assets (ROA) and Tobin's Q. To ensure that our findings are comparable to similar empirics, we introduce as control variables, bank-level determinants of performance (cost efficiency, capital adequacy, asset quality, bank age and bank size) that theoretically affect bank performance (Holderness, 2009; Odewale & Kamardin, 2015; Ehikioya, 2009; and Ozili & Uadiale, 2017). Table 1 presents the description of the variables. Fifteen (15) publicly listed banks were selected from the 26 DMBs in Nigeria as at end of December 2019 based on data availability. The selected banks are Access Bank, Diamond Bank (which was acquired by Access Bank on April 1, 2019), Ecobank, Fidelity Bank, First Bank of Nigeria, First City Monument Bank, Guaranty Trust Bank, Skye Bank, Stanbic IBTC Bank, Sterling Bank, Union Bank, United Bank for Africa, Unity Bank, WEMA Bank and Zenith Bank.

**Table 1: Definition of Variables**

Variable	Description	Notation	Data Source
Earnings per Share	Ratio of profit after tax to total number of shares	EPS	Annual Report
Return on Asset	Ratio of profit before interest and tax to total assets	ROA	Annual Report
Tobin's Q	Ratio of sum of equity market value plus liabilities book value to total asset book value	Tobin's Q	Annual Report
Blockholding	Ratio of substantial shareholding from 5% and above to total paid-up share capital of a bank.	BKH	Annual Report
Cost Efficiency	Ratio of total cost to gross income	CEC	Annual Report
Capital Adequacy	Ratio of Tier 1 capital to risk-weighted assets	CAR	Annual Report
Asset Quality	Ratio of non-performing loan to gross loan	AQT	Annual Report
Bank Size	Natural logarithm of total assets	LNBKZ	Annual Report
Bank Age	Natural logarithm of bank age from the date of incorporation	LNBAQ	Annual Report

### 3.2 Empirical Technique

Majority of the reviewed studies used the system-GMM analytical technique. For instance, Benamraoui et al. (2019), Konijin et al. (2011), Isakov and Weisskopf (2014) and Crisostomo et al. (2020), used system-GMM to examine the effect of blockholding on firm performance. We employ the Generalised Method of Moments (GMM) model in accordance with Arellano and Bond (1991) and Blundell and Bond (1998). The baseline model assumes that bank performance (BPM) is a function of blockholding (BKH), cost efficiency (CEF), capital adequacy (CAR), asset quality (AQT), bank size (BKZ), and bank age (BAG) as expressed in equation (Eq. (1)).

$$BPM_{it} = \alpha_o + \beta_1 BKH_{it} + \beta_2 CEF_{it} + \beta_3 CAR_{it} + \beta_4 AQT_{it} + \beta_5 \ln BKZ_{it} + \beta_6 \ln BAG_{it} + \mu_{it} \quad (1)$$

The disturbance term is specified as a two-way error component model  $u_{it} = \mu_i + \lambda_t + v_{it}$  which comprise bank-specific-effect ( $\mu_i$ ), year specific effect ( $\lambda_t$ ), and disturbance ( $v_{it}$ ). where  $\mathcal{E}$  is a white noise term,  $i$  indicates the banks ( $i = 1, \dots, 15$ ),  $\ln$  is the natural logarithm and  $t$  indicates the period ( $t = 2007 \dots 2019$ ). To capture the dynamic adjustments to bank performance, we use the dynamic-GMM estimator by taking the lag as expressed in Eq. (2).

$$BPM_{it} = \alpha_o + \beta_1 BPM_{it-1} + \beta_2 BKH_{it} + \beta_3 CEF_{it} + \beta_4 CAR_{it} + \beta_5 AQT_{it} + \beta_6 \ln BKZ_{it} + \beta_7 \ln BAG_{it} + \mu_{it} \quad (2)$$

We validate the instruments by adopting Roodman (2009a & 2009b) through the imposition of lags to reduce the proliferation of instruments.

The justification for the selected variables is two folds: First, Ozili and Uadiale (2017) adopted the variables as the determinants of bank performance. Second, capital adequacy, cost efficiency ratio, and



asset quality are important prudential ratios used to assess the health of a bank. Central banks are empowered by law to set thresholds on capital adequacy and asset quality to promote the stability of the banking sector.

#### 4.0 Discussion of Results

The descriptive statistics of the variables are presented in Table 2. The descriptive results reveal highly dispersed ownership structure in the Nigerian banking sector, as the blockholders cumulatively control 15.10% of total shares. A standard deviation of 10.5% reveals that the data points are close to the mean and could be explained by our operational definition of blockholding. The capital adequacy ratio which measures loss absorption capacity of the banking industry averaged 12.70% for the period under review, with a standard deviation of 1.8%. The average capital adequacy ratio is slightly above the regulatory threshold of 12%. Between 2007 and 2019, the average cost efficiency of the banking sector was 81.5% with a standard deviation of 9.1%, which indicate that the data points are close to the mean, and a reflection of the homogenous nature of bank products. The high cost-efficiency ratio could be explained by the operational definition, which is total cost to total income. The average value of return on assets (ROA) is 2.7%, while earnings per share (EPS) is approximately 19 Kobo on the average. The standard deviations of ROA and EPS are 1.2% and 8.5%, respectively. Tobin's Q value averaged 3.6%, while the standard deviation is 3.9%, indicating that the data points are spread out over a large range of values. Furthermore, the average total asset of the banking sector is Naira 1,542,777 million and the standard deviation is Naira 1,195,771 million, reflecting the high variations in the sizes of banks in Nigeria.

**Table 2: Descriptive Analysis**

	Capital Adequacy	Blockholders	Cost Efficiency	ROA	Asset Quality	EPS	Inflation Rate	Tobin's Q	Total Asset 'Million (Naira)
<b>Mean</b>	<b>0.127</b>	<b>0.151</b>	<b>0.815</b>	<b>0.027</b>	<b>0.117</b>	<b>0.191</b>	<b>11.99</b>	<b>0.036</b>	<b>1542777.00</b>
<b>Maximum</b>	<b>0.135</b>	<b>0.18.8</b>	<b>0.849</b>	<b>0.028</b>	<b>0.148</b>	<b>0.101</b>	<b>17.58</b>	<b>0.050</b>	<b>4955445.00</b>
<b>Minimum</b>	<b>0.084</b>	<b>0.051</b>	<b>0.805</b>	<b>0.023</b>	<b>0.061</b>	<b>0.090</b>	<b>8.00</b>	<b>0.016</b>	<b>129378.30</b>
<b>Std. Dev.</b>	<b>0.018</b>	<b>0.105</b>	<b>0.091</b>	<b>0.018</b>	<b>0.071</b>	<b>0.185</b>	<b>2.72</b>	<b>0.039</b>	<b>1195771.00</b>
<b>Observation</b>	<b>195</b>	<b>195</b>	<b>195</b>	<b>195</b>	<b>195</b>	<b>195</b>	<b>195</b>	<b>195</b>	<b>195</b>

To study this dynamic relationship, we employ the difference-GMM (Arellano & Bond, 1991; Blundell & Bond, 1998; and Baltagi, 2008). The results of the difference-GMM are presented in Table 4. We adopt models 4, 8 and 12 as the basis for analysis, since the presence of first-order autocorrelation is significant which rejects the null hypothesis of non-autocorrelation for the AR (1) test. The second justification is the absence of second-order autocorrelation, because of the non-significance of the p-values of the AR (2) test. The Hansen/Sargan test statistics also indicate that the instruments are valid, and the number of instruments is less than the total number of banks.

The results of the difference-GMM in table 3, models 4, 8 and 12 reveal strong evidence of a statistically significant negative relationship between blockholding and accounting-based measures bank performance (EPS and ROA), while the evidence between blockholding and Tobin's Q is statistically weak. The coefficients of the control variables – capital adequacy, cost efficiency, asset quality, and bank size are positive and statistically significant for accounting-based measures (ROA and EPS), but weak for Tobin's Q.

Table 3: Dynamic Panel Data Analyses-Difference GMM

Variable	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
	EPS	EPS	EPS	EPS	ROA	ROA	ROA	ROA	Tobin's Q	Tobin's Q	Tobin's Q	Tobin's Q
	DGMM1	DGMM1-CL-a	DGMM2	DGMM2-CL-a	DGMM1	DGMM1-CL-a	DGMM2	DGMM2-CL-a	DGMM1	DGMM1-CL-a	DGMM2	DGMM2-CL-a
LLBlockholders	0.615*** (0.437)	0.569*** (0.408)	0.543*** (0.457)	0.670*** (0.438)	0.481*** (0.329)	0.568*** (0.452)	0.601*** (0.481)	0.598*** (0.439)	0.673*** (0.615)	0.695*** (0.528)	0.702*** (0.529)	0.697*** (0.563)
Blockholders	-0.047** (0.055)	-0.065** (0.057)	-0.089** (0.072)	-0.071** (0.028)	-0.044** (0.037)	-0.082** (0.068)	-0.067** (0.059)	-0.095*** (0.083)	0.093 (0.032)	0.080 (0.042)	0.094 (0.055)	0.078 (0.063)
Capital Adequacy	0.072*** (0.065)	0.056*** (0.043)	0.082** (0.054)	0.066*** (0.023)	0.041*** (0.002)	0.097*** (0.087)	0.075*** (0.062)	0.061*** (0.055)	0.097** (0.054)	0.056* (0.020)	0.050* (0.035)	0.085* (0.056)
Cost Efficiency	0.078** (0.045)	0.074*** (0.009)	0.077*** (0.063)	0.093** (0.042)	0.090*** (0.016)	0.010*** (0.002)	0.061*** (0.040)	0.068** (0.044)	0.023* (0.021)	-0.027 (0.025)	-0.054 (0.057)	-0.092 (0.050)
LN (Total Assets)	0.053*** (0.033)	0.028*** (0.012)	0.041*** (0.030)	0.074*** (0.073)	0.090** (0.084)	0.098*** (0.034)	0.095*** (0.057)	0.038** (0.029)	0.078*** (0.064)	0.064*** (0.047)	0.055* (0.036)	0.069* (0.036)
Asset Quality	-0.037** (0.028)	-0.042*** (0.027)	-0.078*** (0.046)	-0.090** (0.062)	-0.034*** (0.015)	-0.050** (0.045)	-0.059*** (0.028)	-0.087*** (0.065)	-0.021* (0.006)	-0.074* (0.003)	-0.052 (0.043)	-0.065 (0.031)
Constant	0.037** (0.025)	0.099*** (0.087)	0.055*** (0.045)	0.068*** (0.049)	0.097*** (0.069)	0.027** (0.024)	0.096*** (0.083)	0.091*** (0.075)	0.086*** (0.075)	0.054*** (0.032)	-0.067*** (0.037)	-0.058*** (0.029)
No. of Observations	195	195	195	195	195	195	195	195	195	195	195	195
No. of Banks	15	15	15	15	15	15	15	15	15	15	15	15
firm effect	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
year effect	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO
Hansen Prob	0.83	0.207	0.194	0.214	0.222	0.143	0.219	0.244	0.201	0.175	0.251	0.156
Sargan Prob	0.123	0.591	0.280	0.541	0.764	0.442	0.715	0.441	0.871	0.630	0.721	0.547
AR(1) P-value	0.030	0.028	0.013	0.034	0.001	0.011	0.044	0.022	0.047	0.030	0.879	0.048
AR(2) P-value	0.320	0.300	0.320	0.331	0.207	0.223	0.216	0.248	0.427	0.757	0.132	0.846
No. of Instruments	75	13	65	13	75	12	65	12	75	12	65	13

Note: Robust standard errors in parentheses; \*\*\* p<0.01, \*\* p<0.05, \* p<0.1; DGMM1 & DGMM2 denote One-Step & Two-Step Diff-GMM, respectively. Regressions with suffix "CL" follow Roodman (2009b) and collapse the instrument matrix. a denotes lag (1-5); EPS is Earnings Per Share; ROA is returns on asset employed; and Tobin's Q is ratio of sum of equity market value plus liabilities book value to total asset book value.

Generally, lagged levels are considered poor instruments for the first difference if the variables are close to a random walk when using the difference-GMM. Before proceeding to system-GMM, we need to analyze the non-biasness of the estimated parameters, in making a choice between difference- and system-GMM. We use the Blundell and Bond (1998) approach which argued that if the coefficient of the lagged dependent variable is persistent and close to being a random walk ( $\theta \rightarrow 1$ ), the application of the difference-GMM estimator yields a biased estimate. The lagged parameters of pooled OLS, fixed-effect and difference-GMM estimators are close to unitary, which supports the use of system-GMM. We estimate the system-GMM. The system-GMM is generally considered a superior estimator to difference-GMM and static panel models. The system-GMM results are presented in Table 5. Consistent with Roodman (2009b) caution, we present the diagnostic test results. Hansen test p-values and Sargan test p-values for models 1-9 in table 5 are not significant in line with the threshold suggested by Roodman (2009b, p. 129). The AR (1) results reveal the presence of first-order correlation, while the AR(2) results reveal no evidence of second-order autocorrelation.

We adopt models 2, 4 and 6 since the number of selected banks is greater than the number of instruments in each of the models. The results of the system-GMM are consistent with the difference-GMM models. The effect of blockholding on bank performance is negative and statistically significant for accounting-based measures (ROA and EPS), but non-significant effect on Tobin's Q. The results also indicate that the coefficients of the control variables – cost efficiency, capital adequacy, asset quality, bank size, bank age - are consistent with the difference-GMM models' results. Models 2, 4 and 6 reveal that 1% increase in blockholding reduces earnings per share (EPS) by 4%, return on assets (ROA) by 9.5%, and Tobin's Q by 2.5%. While the p-values of ROA and EPS are statistically significant, that of Tobin's Q is not statistically significant. The results further reveal that 1% increase in capital adequacy increased EPS by 45.7%, ROA by 1.8%, and Tobin's Q by 5.7%; while a 1% increase in cost-efficiency ratio increased EPS, ROA, and Tobin's Q by 9.1%, 5.7% and 70%, respectively. The p-value for Tobin's Q is not statistically significant.

For the control variables, the coefficients capital adequacy and cost efficiency were positive and significant in predicting firm performance, the coefficient of asset quality was negative. The elasticity of total asset also reveals that 1% increase in total assets increased EPS by 6.2%, ROA by 8.6%, and Tobin's Q by 8.3%, while 1% increase in asset quality decreased EPS by 7.7%, ROA by 8.6% and Tobin's Q by 8.3%. Bank age is another important predictor of bank performance in Nigeria as 1% increase in age increased EPS, ROA, and Tobin's Q by 9.5%, 18.7%, and 7.2%, respectively.

This is consistent with the argument of Edmans and Holderness (2017 p.544) that “alienability and collocation are the driving forces behind the corporate governance efforts of blockholders in public corporations”. Our result is also consistent with the findings of Thomsen (2006) that examined the relationship between blockholder ownership and the performance of the largest companies in the United States and Europe and found no systematic relationship between firm value and blockholders in the United States and the United Kingdom, but a negative relationship in continental Europe. They attribute their findings to a higher percentage of blockholding, low level of investor protection, and the presence of conflict of interest between blockholders and minority shareholders. Our result contrasts sharply with the finding of Ozili and Uadiale (2017) but could be explained by the authors' decision to interact the different percentage of blockholding with profitability measures.

The findings of our study are in line with the entrenchment hypothesis of blockholders, which postulates that blockholders pursue personal benefits due to their insulation from external disciplinary forces, inability to use voice channel due to narrowing blockholding and development of the market. The reasons for insulation of blockholders from external forces in Nigeria may be explained by decline in their substantial shareholding and underdeveloped market. Insulation from external

disciplinary forces encourages blockholders to pursue personal benefits that impact negatively on firm performance (Fama & Jensen, 1983). Edams et al. (2013) opine that the prohibitive cost to signaling blockholders' dissatisfaction of management decision to the market and passive shareholders' activism create disincentive for blockholders to utilize the exit channel, as well as pursue shareholder value maximization.

**Table 4: Dynamic Panel Data Analyses-System GMM**

Variable	(1)	(2)	(3)	(4)	(5)	(6)
	EPS SGMM1	EPS SGMM1-CL-a	ROA SGMM1	ROA SGMM1-CL-a	Tobin's Q SGMM1	Tobin's Q SGMM1-CL-a
Blockholders	-0.040*** (0.057)	-0.043** (0.004)	-0.095*** (0.080)	-0.099*** (0.063)	-0.047 (0.046)	-0.025 (0.021)
Capital Adequacy	0.146** (0.136)	0.457*** (0.254)	0.787*** (0.940)	0.018** (0.020)	0.168*** (0.090)	0.057*** (0.051)
Cost Efficiency	0.014*** (0.008)	0.091** (0.037)	0.086** (0.071)	0.057*** (0.037)	42.05 (65.76)	0.70 (0.33)
LN (Total Assets)	0.044*** (0.014)	0.062*** (0.028)	0.072** (0.026)	0.086** (0.030)	0.075** (0.040)	0.083** (0.080)
Asset Quality	-0.064** (0.026)	-0.077** (0.019)	-0.067** (0.041)	0.042* (0.020)	0.018* (0.008)	0.411* (0.120)
Observations	195	195	195	195	195	195
Number of Banks	15	15	15	15	15	15
firm effect	YES	YES	YES	YES	YES	YES
year effect	NO	NO	NO	NO	NO	NO
Hansen Prob	0.154	0.138	0.170	0.180	0.141	0.115
Sargan Prob	0.466	0.232	0.567	0.342	0.123	0.921
AR(1)_P-value	0.000	0.007	0.048	0.023	0.038	0.029
AR(2)_P-value	0.319	0.311	0.260	0.273	0.376	0.213
No. of Instruments	76	12	76	11	76	13

*Note: Robust standard errors in parentheses; \*\*\*  $p < 0.01$ , \*\*  $p < 0.05$ , \*  $p < 0.1$ ; SGMM1 denotes One-Step System-GMM. Regressions with suffix "CL" follow Roodman (2009b) and collapse the instrument matrix. a denotes lag (1 5); EPS is Earnings Per Share; ROA is returns on asset employed; and Tobin's Q is ratio of sum of equity market value plus liabilities book value to total asset book value.*

## 5.0 CONCLUSION

Several studies on the relationship between blockholding and firm performance implicitly assume that large shareholding is an important governance mechanism for moderating the self-serving behaviour of top management in ownership dispersed firms. These studies suggest the negative effect of severe free riders' problem among shareholder of diffused firms, which increases agency costs (Ashraf et al., 2020; and Baulkaran & Bhattarai, 2020). Blockholders, therefore, serve as an alternative governance mechanism for punishing recalcitrant management and maximizing shareholders' wealth. The effectiveness of blockholders in maximizing shareholders' value is still contestable in empirical literature. We contribute to the empirical literature on corporate governance by examining the effect of blockholding on bank performance, using data from Nigeria.

Return on asset, earnings per share and Tobin's Q served as the dependent variables, while blockholders and other determinants of bank performance such as asset quality, capital adequacy, cost efficiency, bank size, bank age, exchange rate, inflation rate and real gross domestic product entered the models as independent and control variables. We employ the difference-GMM, and system-GMM to examine the relationship between blockholders and bank performance. We find a negative relationship between blockholding and bank performance in Nigeria.

Based on our findings, financial and non-financial private benefits, and control may be the motivations to hold substantial undiversified risky assets in such economy (Sluhan, 2016; Chen et al., 2019; and Pukall & Calabro, 2014). The financial and non-financial benefits that promote blockholding in Nigeria may include emotional attachments, control and influence, contracts, employment, social ties, managerial entrenchment, identification with the firms, and other forms of socioemotional wealth (Berrone et al., 2010). The pursuit of socioeconomic benefits by blockholders due to absence of external disciplinary forces like underdeveloped and illiquid stock market may also explain the negative effect of blockholding on bank performance in Nigeria. The finding of the study highlights the importance of an efficient market in moderating the self-serving behaviour of entrenched blockholders. It also raises an important corporate governance problem, on how corporate governance should be designed to protect the interest of the minority shareholders and resolve principal-principal conflicts, in economies with underdeveloped stock market, especially, in respect of the presence of blockholding in the markets.

This study did not make any distinction between insider versus outsider or individual versus institutional blockholders. Studies have shown that these classes of blockholders have different motivations (Chen et al., 2019). For instance, Chen et al., (2019) opined that the motivation of insider blockholders could be socioemotional wealth, while that of outsider is the market value of the firm. The classes of blockholder in the Nigerian banking industry could be classified into insider, outsider, individual and institutional blockholders. Given that these classes have different motives for holding block shares, future studies could focus on these classes to establish their objectives for holding block shares of the banks.

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