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Institutional Shareholder Engagement, Corporate Governance and Firms' Financial Performance in Nigeria: Does any relationship exist?

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Abstract

Academics and business practitioners have extensively debated the dramatic increase in institutional ownership and the sudden interest of institutional shareholders in corporate governance. This paper examined the relationship that exists between institutional shareholder engagement and financial performance of selected listed firms in Nigeria. This study used primary data to describe the independent variables: namely institutional ownership, exercise of voting rights and private negotiation. It also used panel data for twenty (20) selected listed firms for the period 2011-2013. Firm's performance was measured using Return on Asset (ROA), Return on Equity (ROE) and Tobin's Q. Findings indicate that there is no significant relationship between institutional shareholder engagement and firms' financial performance in Nigeria. However, the results were mixed when the performance indicators in term of ROA, ROE and Tobin's Q. This research study suggests that institutional shareholders in Nigeria should become efficient monitors of corporate management just like what obtains in developed countries. This will ensure effective and good corporate governance practices and avoid insider abuse for the enhancement of financial performance.

Keywords: Institutional Shareholders; Corporate Governance; Financial Performance; Nigeria

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INTRODUCTION

It has been generally argued that institutional shareholders are vital corporate governance mechanisms that enhance the performance of the firm because of their ability to monitor and influence corporate decisions. In recent times, a high percentage of worldwide assets are under the operative control of institutional shareholders [1]. Institutional shareholders are growing increasingly active because they believe that better corporate governance will bring them higher rewards [2].

Throughout the twentieth century, the structure of ownership continued to change and in various countries presently, individual share ownership has deteriorated and institutional share ownership has increased [3]. In the United Kingdom, institutional ownership was about 60 percent to 70 percent of companies listed in the United Kingdom Stock Exchange between 1990 and 1995 [4]. Gompers [5] established that, in the United States, institutional ownership increased from approximately 50 percent to 80 percent between the year 1996 and 2000 [4]. In 1980s and 1990s, the proportion of equities held by institutional shareholders was on the increase (Yong, 2013). According to OECD [1], institutional shareholders held financial assets in excess of \$53 trillion with some \$22 trillion in equities.

The available statistics for Nigeria indicate that there has been increased institutional ownership especially foreign investment. The total foreign portfolio investment in 2010 was USD 2.7 billion representing an increase of 48 percent total turnover value over 2009 [6]. The increase in institutional shareholdings has made many predict the end of the separation of ownership and control [7]. With increased investment by institutional shareholders, then the issue of institutional shareholder engagement and the impact on financial performance cannot be overlooked.

Yakasai [8] argued that institutional shareholders play a very vital role in calling management to account in Nigeria. Uche [6] that institutional shareholders in Nigeria can enhance good corporate governance and better information dissemination between management and shareholders supported this. However, in Nigeria, shareholder activism is seeing as tool for populist rabble-rousing and an interruption to the organization of annual general meetings [9]. According to Okike [10] shareholders' associations in Nigeria in contrast with institutional shareholders can be seen as the major group of players that are involved in governance activism [6]. Adeyemi [9] claims that there is need for institutional shareholders to become more engaged in company's general meetings.

The recent surge in the demand for institutional shareholding is necessitate going by the recent corporate scandals all over the world and especially in Nigeria where shareholders and other stakeholders' interests have been eroded [11]. According to Del Guercio & Hawkins, corporate scandals and abuse of power by executives can be seeing as major hindrances to the maximization of wealth of institutional shareholders. As a result, efforts are made by institutional shareholders to influence company practices and even more the use of a firm approach to effect changes [6].

As a result, the corporate governance debate has produced a range of suggestions as to how institutional shareholders might become more active in term of monitoring and engaging the managers of funds especially in Nigeria. However, the effectiveness or the impact this debate has on return on investment (for stakeholders in Nigeria) remains unclear.

Institutional shareholders as monitors of management have gain significant attentions recently [2]. There have been various studies for example in the United States to determine whether institutional shareholders have a significant influence on corporate performance. The results are mix [7]. In Nigeria, there is lack of prior studies that examine the relationship between institutional shareholder engagement and firms' financial performance. While literatures have examined the potential link between shareholder activism in Nigeria, which usually takes place during the Annual General Meeting (hereinafter referred to as AGM) and the political culture of the country [12]. None to the best of our knowledge has considered the actual engagements/involvement of shareholders' in term of private negotiations with managements who makes decisions daily that could affect the shareholders' wealth either positively or negatively.

In addition, this study also considers the voting right of the shareholders' and how it could be used to influence management decision making. Therefore, this study examines the effect of institutional shareholder engagement on firms' financial performance among the listed firms in Nigeria to determine the level of engagement that can be recognize as significant to the enhancement of firms' financial performance to avoid any form of conflicts of interest that may arise between the agent (directors) and the principal (shareholders).

REVIEW OF RELATED LITERATURE AND HYPOTHESIS DEVELOPMENT

INTRODUCTION

Institutional shareholders have been proclaim as the saviours of shareholder rights due to their size combination, focused share ownership, pleasing reputation and their right to a wide range of financial resources, which enables them to conquer the lack of interest shown by shareholders [4]. According to Wong, while bankers and brokers prevail as the main culprits for causing major financial crisis, a less expected suspect is gradually coming under examination. Politicians and regulators as also causing the crisis due to their passive engagement in corporate governance and a concentration on short-term returns have accused the institutional shareholders, who have been recognized as the suspects. It can therefore be seeing that the prominent increase of corporate governance failures has only added to the rising expectation for institutional shareholders to become more functioning in the corporate governance of firms in which they invest [4]. However, the influence of institutional shareholders in corporate governance of firms is debatable; some are of the opinion that their influence in corporate governance advances the firm.

However, in Nigeria, institutional shareholders consider engagement and monitoring as time absorbing. In fact monitoring is view by institutional shareholders in Nigeria as an act of uncontrolled and disobedient behaviour [6,12]. Therefore, an in-depth study into connecting governance to performance is needed, as this will encourage institutional shareholders to rise up in their involvement in corporate governance [4].

Corporate Governance and the rising of Shareholders' Engagement in Nigeria

Schloetzer posited that, there is a clear and rising shareholder engagement in Nigeria. However, not up until the economic improvement agenda undertaken by the Nigerian government in 2004, which resulted in the resurrection of the Nigerian Stock Exchange (NSE), Nigerian companies ordinarily never saw the stock exchange as a medium for raising new capital. This continually hindered the ability of the Nigerian Stock Exchange to function as a market for directing companies [6]. As a result, in 2004 and 2006, when Nigerian banks were to recapitalize there was a surge in the capital market where banks

had gone to raise capital and declaring huge profits in billions to shareholders.

This development resulted in increase in foreign investment portfolios and the local investment in the Nigerian Capital Market. The capital market has experience tremendous growth in recently which necessitated stringent policies and control to ensure that shareholders funds are protected. This development resulted in shareholder's activism (i.e. where small shareholders with diverse percentage of shares in various firms in which a combination of members' shares leads to substantial percentage of votes at AGM. This however has not yielded enough results as this association with laden with corruptions and compromises. However, as the market continues to expand and accommodate foreign and institutional investors and the need to protect the market from shenanigans that almost collapse the market in Nigeria recently, there is a rising spate of shareholders' engagement, which is primarily to promote sound corporate governance, reduce cost of governance and promoting shareholders' wealth.

Shareholder Activism in Nigeria and the need for Institutional Shareholders

While shareholder activism in Nigeria is still in its premature developmental phase, there is an already rapidly growing institutional misapprehension and misapplication of the concept [12]. This is the reason why in Nigeria shareholder activism is seeing as tool for populist rabble-rousing and an interruption to the organization of AGM. It is considers an extortion scheme [13]. According to Okara, it has been observes that shareholder associations sometimes give a show of their power to thwart legal operations and the smooth running of the company. Adegbite [12] make it clear that their survey outcome truly demonstrate that activist shareholders are gradually seeing as pests or rascals to normality in corporate organization and management and that the ways in which shareholders' associations execute their activisms mirror level of oppression and corruption intrinsic in the Nigerian political culture. Iyaniwura [14] contend that conceivably the exploit of shareholders' association is produced out of frustration and a means of call for help, nevertheless to whom.

In Nigeria, it was observed that shareholders' association has taken the over the responsibility of institutional shareholders. However, the former is becoming quite ineffective in ensuring good corporate governance because of corruption and sell-outs. In fact, there is a scenario where onetime shareholders' association's president was made a director of a firm as its reward for compromise [12]. Therefore, there is an urgent need for institutional shareholders to take up their responsibility for ensuring good management of funds and sound corporate governance in a firm.

Institutional Shareholders' Views on Engagement in Nigeria

It has been made known that shareholders in Nigeria are majorly faced with the problem of lack of knowledge and even in situations where they do know their rights, there is a

passive nature of lack of experience as to the best method possible in the situations [14]. In a particular interview with institutional shareholders in Nigeria, Uche & Adegbite [6] were able to discover institutional shareholders' views on engagement and activism. It can be seen from the interview that institutional shareholders have a passive approach to engagement.

In Nigeria; when institutional investors perceive that a company was not doing great, they would immediately sell off their shares. According to them, selling off their shares is the best way to maximizing their wealth instead of being involved in activism to enhance good governance [6]. Customarily, institutional shareholders are not absolutely engaged in corporate governance, they simply maintain the exit policy. It is their belief that, their involvement in shareholders' activism is a way of showing rebellion to the management, which could result into threats to their business concerns. In fact, it could also result in low patronage of their products, which could also affect their image and brand. Many of the institutional shareholders in Nigeria considered monitoring as time and financial wastage, which could hinder the maximization of shareholders' wealth.

Instead of just exiting the firm when there is problem of mismanagement, they should rather see the benefits their engagement could bring to their shareholders' funds and the overall benefit to the other smaller unit's holders and the country at large. This would help in mitigating cost of liquidation, increase return on investment, increase firm value, ensuring fair representation of all stakeholders) which would eventually lead to effective control of resources.

UNDERLYING THEORY

The overarching underlying this study are the stewardship and principal-principal agency theory.

Agency Theory: Agency theory explains a situation where families especially in the emerging economies are the majority shareholders who are involved in the control of the firm. These family owners have rights to the information of the company and are self-accountable. Therefore, in this situation, the principal and agent role is bound in one body due to the shareholding and their function respectively. Institutional shareholders are not exempted from this type of role also as they have meet their fiduciary duties to their clients or ultimate shareholders and yet safeguard their investments. Institutional shareholders as principals have a fiduciary responsibility to oversee the agents. As agents are, expect to function in the best interest of their clients. According to Kostyuk, there is yet another layer of agency problem and another chance for supervision when dealing with institutional shareholders. The additional layer of agency problem raises the question of who monitors the monitor. Berle conveyed their concern about the growing distance that exists between the many individuals who are regarded as the ultimate owners of the shares, the investee firms and managers of firms. However, there is the assumption that those who manage institutional investing organizations may have better motives than management as they should be sternly

interested in beneficial investment yield, for this propels most of their wages and reputation.

Principal problem exists in the situation where the institutional shareholders wish for their institutions to be viewed as profitable and are less bothered about monitoring the agents (Hansen & Hill nd). Here, the principal is not interested about the concerns of the agent which is long term existence of the firm but strenuously chases after self-interest through sell-off therefore engaging in investor exploitation.

Stewardship theory: Stewardship is not about claiming control over the board of directors and management. Stewardship functions deal with monitoring and engaging with firms on subjects like corporate governance, strategy, risk, capital structure and performance [2]. According to Iyaniwura & Iyaniwura [14], there exists a stewardship relationship between the shareholders and the board of directors. This relationship is however based on directors' accountability on their performance, the behavior generally in the firm and the use of the assets and resources of the firm.

HYPOTHESES DEVELOPMENT

Institutional Ownership, Corporate Governance and Firms' Financial Performance: Institutional ownership can be seen as an investment from a body of external investors or investment from a particular institution [13]. Institutional ownership is measured through the proportion of shareholding held to the total number of shares [15]. A substantial body of research has concentrated on the part institutional shareholders have to play in corporate monitoring. The logic is that, because of the high cost associated with monitoring, only large shareholders like the institutional shareholders can achieve adequate benefits to have an inducement to monitor [16]. A large number of studies propose that institutional shareholders actually play a positive role in corporate governance [17]. McConnell [18] claim that positive relationship between institutional shareholding and firms' performance is an indicator that the institutional shareholders are actually assuming the role of efficient monitoring [19]. Mizuno [2] pointed out that more than eighty (80) per cent of registered institutional shareholders claim that they would pay more to obtain the shares of a properly governed firm than those that are weakly governed. It is therefore evident that there is a significant positive relationship between a properly governed firm and institutional shareholder attitude. In Mashayekhi [20], it was proposed that corporate checking by institutional shareholders can pressure manager behaviour. However, Mizuno [2] posited that there has been no robust evidence of correlation between share ownership of institutional shareholders and firms' financial performance.

Exercise of Voting Rights, Corporate Governance and Firms' Financial Performance: Park [1] maintained that, the importance and positive institutional shareholders have recognized effect of exercising voting rights (i.e. National Pension Fund (NPF) and this has greatly influenced their actions. The supporters of enforced voting rule claim that lack of voting is equal to lack of concern and lack of participation in

corporate governance. However, the empirical indication demonstrates that this is not the situation [21]. In fact, it is generally believed and has been proven that most matters are settled behind the scenes. According to [1], voting is one of the core engagement mechanisms open to shareholders; however, their report proposes that there are numerous reasons why it should not be regarded as the core measure of quality of dialogue between firms and shareholders: Firstly, as institutional share ownership has developed, direct engagement between large shareholders and boards has also improved. These private methods of engagement modify the types of proposals even presented at meetings and turn the voting results into a rather restricted sample. So, even after institutional shareholders engaged management in terms of voting rights and other forms of activism which is aimed at leading to higher stock price and higher dividend, the question is does the involvement actually result in the price increase.

Private Negotiation, Corporate Governance and Firms' Financial Performance: A major reason why extant research does not show the nature of the relationship between negotiations by institutional shareholders and firms is that the details of negotiations are normally not shared with outsiders [22]. Black [23] submitted that, virtually all research studies concentrate on visible activism. Invisible activism, also known as behind-the-scenes activism also happens in the United States (US); however, by definition, its effect is quite hard to study. The findings of Black & Coffee [23] reveal that it is completely probable that behind the scene activism is more operational than visible activism as United Kingdom (UK) firms have emphasized that their most effective interventions have happened far from the public limelight. Ramsay [7] also in their study of institutional investors' views on corporate governance in Australia find out that ten institutions out of twelve institutions that is examined do not agree with voting against management. They actually claim that quarrelsome matters are settled behind the scenes and not by voting against management as voting can be considered unnecessary due to any simple mistake. According to Financial Times as cited in Stapledon [21], the removal of Mirror Group Chief Executive Officer in the year 1999, actually involved behind-the-scenes petitioning and gatherings.

Based on the fore-going discussions, the following hypotheses are formulated for this study.

H1: There is no significant relationship between Institutional ownership and firms' financial performance in Nigeria.

H2: There is no significant relationship between the exercise of voting rights and firms' financial performance in Nigeria.

H3: There is no significant relationship between private negotiations and firms' financial performance in Nigeria.

RESEARCH METHODS

The major purpose of this project is to examine the effects of institutional shareholder engagement on firm's financial performance in Nigeria and the focus is the listed firms.

Therefore, the population of this study is 195 listed firms in Nigeria (The Nigerian Investor, 2014). The sectors include agriculture (7), airlines (3), automobiles (6), banking (21), breweries (6), building materials (9), chemical & paints (7), commercial service (10), conglomerates (9), construction (6), engineering technology (4), food, beverages and tobacco (15), footwear (1), healthcare (11), hotel & tourism (2), industrial & domestic products (10), insurance (23), leasing (1), machinery (3), managed funds (2), maritime (4), other financial institutions (2), packaging (10), petroleum(8), printing & publishing (4), real estate (1), real estate investment trust (3), telecommunication (1), textiles (6).

The sample size used for this research was 20 selected listed firms in Nigeria (Table 1). This was obtained by adopting John Curry rule of thumb, which is presented in the table below [24]:

Table 1: Adopting John Curry rule of thumb.

Population size	Sampling Per cent
0-100	100%
101-1,000	10%
1,001-5,000	5%
5,001-10,000	3%
10,000+	1%
Source Yount [24]	

The data was collected from the annual report of firms and the primary data was sourced by the administration of set of questionnaires.

Model specification

In order to examine the relationship between institutional shareholder engagement and financial performance of firms, a linear regression model equation was used. The two constructs involved include institutional shareholder engagement and financial performance.

The regression equation can be computed as:

$$Y = \beta_0 + \beta X_1 + \mu_{it} \dots \dots \dots (1)$$

The above can be deducted to;

$$ROE_{1-t} = IO_{1-t} + VR_{1-t} + PN_{1-t} \dots \dots \dots m (2)$$

$$ROA_{1-t} = IO_{1-t} + VR_{1-t} + PN_{1-t} \dots \dots \dots (3)$$

$$Q_{1-t} = IO_{1-t} + VR_{1-t} + PN_{1-t} \dots \dots \dots (4)$$

Therefore, the equation is:

$$ROE_{1-t} = \beta_0 + \beta_1 IO_{1-t} + \beta_2 VR_{1-t} + \beta_3 PN_{1-t} + \mu_{1-t} \dots \dots \dots$$

$$\begin{aligned}
 (5) \quad ROA_{1-t} &= \beta_0 + \beta_1 IO_{1-t} + \beta_2 VR_{1-t} + \beta_3 PN_{1-t} + \mu_{1-t} \\
 (6) \quad Q_{1-t} &= \beta_0 + \beta_1 IO_{1-t} + \beta_2 VR_{1-t} + \beta_3 PN_{1-t} + \mu_{1-t} \\
 (7)
 \end{aligned}$$

Where,

ROE = Return on equity (Annual net income/Average stockholders' equity)
 ROA = Return on asset (Annual net income/Average total assets)
 Q = Tobin's Q (Total market value/Total asset value)
 IO = Institutional ownership
 VR = Exercise of voting rights
 PN = Private negotiations
 β = Coefficient of parameters
 μ = Error term, which captures other explanatory variables not explicitly included in the model.
 1-t = time coefficient

ANALYSIS AND PRESENTATION OF RESULTS

This section focuses on the presentation, analysis of the secondary data and results obtained from the annual reports of selected listed firms in Nigeria (Table 2).

Table 2: Descriptive statistics of sampled firms.

	ROA	IO	VR	PN	ROE	Q
Mean	0.286624 8	0.5545833	0.5795	0. 4286667	0.1011812	0.2229635
Maximum	15.77285	0.9	0.9	0.9	9.054231	5.746339
Minimum	- 1.014167	0.145	0.145	0.145	-9.813666	0.0036627
Std. dev.	2.039394	0.2888424	0.2401601	0. 2588139	1.748713	0.7396349
Observations	60	60	60	60	60	60
Field Survey (2015)						

Table 2 shows a summary of the descriptive statistics of all the variables for the sample of all the sectors ranging from 2011-2013. It shows the mean, the standard deviation, minimum and maximum points. Based on the results above, average ROA for the sample stood at 0.2866248 with a standard deviation of 2.039394. It also reveals that the minimum ROA on average is -1.014167 and the maximum point is 15.77285.

The statistics on IO shows an average mean of 0.5545833 and standard deviation of 0.2888424. It also shows a minimum of 0.145 and a maximum of 0.9. This shows that the average mean of Institution Ownership is high. According to Adeyemi [13], the proportion of ownership from institution is usually greater than individual investor because it is presumed that institutional shareholders have greater impact than other individual shareholder. Although the proportion of 55.45% is not very high, it is however above average. This result shows that about 44.55% of ownership in the selected listed firms from 2011-2013 cannot be traced to institutional shareholders.

The statistics on VR shows an average mean of 0.5795 and standard deviation of 0.2888424. It also shows a minimum of 0.145 and a maximum of 0.9. This result shows that the proportion of the exercise of voting rights by institutional shareholders in all the firms used for this research study ranging from 2011-2013 is high. The high proportion is due to the fact that the process of voting is seen as the simplest form of engagement in corporate governance [7]. Also many institutional shareholders engage with their portfolio firms through proxy voting which makes it easier [25]. Although this proportion of 57.95% is also not very high, it is however above average. This result shows that about 42.05% of institutional shareholders do not exercise their voting rights, which to an extent is very close to average. According to Park [1], the main reason for the low rate of voting right by institutional shareholders is their behaviour in investment. They are short-term investors that really do not have so much interest in the improvement of corporate governance, as according to Uche [6], institutional shareholders in Nigeria consider engagement as time wasting.

The statistics on PN shows an average mean of 0.4286667 and standard deviation of 0.2588139. It also shows a minimum of 0.145 and a maximum of 0.9. This shows that the average mean of PN is not very high as it is below average; however, it shows that institutional shareholders to an extent are involved in behind-the-scenes engagement. Shareholders are probably not involved so much in private negotiation like voting rights because apart from the reason stated above for the high engagement in voting rights, according to Park [1] it is quite difficult to establish the outcome of engagement especially through private negotiations, thereby making it hard to measure its effectiveness. However, private negotiation seems to be on the increase as Stapledon [21] reveal that it is completely probable that behind the scene, activism is more operational than visible activism.

Multicollinearity Test (Correlation Matrix)

The test for multicollinearity is carried out when trying to establish if there is a perfect linear relationship among one or more explanatory variables in a regression analysis. The Variance Inflation Factor (VIF) test was carried out to test for the multicollinearity and the results are presented in the Table 3.

Table 3: Multicollinearity table.

Variable	VIF	1/VIF
IO	2.42	0.413460
VR	2.25	0.445109
PN	1.21	0.828594
MEAN VIF	1.96	
Field survey (2015)		

The rule of thumb for multicollinearity when making use of the VIF test is that when $VIF < 5$ or when the $1/VIF > 0.1$, there is no multicollinearity. Therefore, from the above table, there is no multicollinearity among the variables and the researcher can therefore continue with all the independent variables (Table 4).

Table 4: Panel data regression when ROA is the dependent variable.

Variables	Pooled effect		Fixed effect	
	Coefficient	p-value	Coefficient	p-value
IO	0.8843977	0.531	-0.2100319	0.954
VR	1.448282	0.377	0.3064677	0.929
PN	-1.990899	0.077	-0.3969036	0.928
CONSTANT	-0.1896947	0.793	0.3956463	0.854
R-squared	0.0861		0.0281	
Adjusted R-squared	0.0371			
F-statistic	1.76		0.01	
Sig. (F statistic)	0.1656		0.9994	
Source: Field survey				

From the results derived from Table 4, the coefficient of Institutional Ownership (IO) and Private Negotiations (PN) were negatively signed which indicated an insignificant negative relationship between IO, PN and ROA. This showed that a percentage increase in IO and PN would result in a decrease in ROA by 0.210% and 0.397

respectively. This means that institutional ownership and private negotiation with the management have a negative impact on return on assets in Nigeria. Because, ordinarily, return on assets deals with the proficiency of management in generating returns from its assets, the result therefore shows that the higher the involvement of institutional ownership and private negotiations, the lower the efficiency of management in generating returns from its assets and on the returns on shareholders' investment in term of their interest in the firm. This result is in line with Mashayekhi [20] and Kyereboah [26] who found no positive relationship between institutional ownership, ROA. It is therefore concludes that institutional ownership and private negotiation do not affect ROA in Nigeria. 0.3064677

However, in terms exercising of voting rights (VR), there was a positive relationship between VR and ROA. This shows that a percentage increase in VR would result to an increase in ROA by 0.306%, which is to say that institutional ownership had a positive impact on firm's Tobin's Q as an indicator for performance. Tobin's Q ratio is a ratio relating a firm's market value to its book value. It could therefore be seeing that institutional shareholding serves as a positive indicator to prospective investors, which therefore boosts market valuation of firms (Table 5). This position corroborates Kyereboah [26] who found a positive relationship between institutional ownership and Tobin's Q. In Nigeria, are seeing as mainly concern about the protection of their investment rather than the overall interest of the market.

Table 5: Panel data regression when ROE is the dependent variable.

Variables	Pooled effect		Fixed effect	
	Coefficient	p- value	Coefficient	p-value
IO	-1.194879	0.338	-1.194879	0.404
VR	1.969828	0.175	1.969828	0.068
PN	0.0390699	0.968	0.0390699	0.647
CONSTANT	-0.3944225	0.537	-0.3944225	0.615
R-squared	0.0327		0.0262	
Adjusted R-squared	0.0191			
F-statistic	0.63		1.18	
Sig. (F statistic)	0.5975		0.3315	
Source: Field survey (2015)				

From the results derived from Table 5 above, the coefficient of IO was negatively signed, which indicated a negative insignificant relationship between IO and ROE. This showed that a percentage increase in IO would result in a decrease in ROE by 1.195%, which is to say that institutional ownership had a negative effect on return on equity.

This result shows that the higher the institutional ownership, the lower the returns generated with the money invested by the common stock shareholders. This result is also in line with Mashayekhi [20] who found no positive relationship between institutional ownership and ROE.

In addition, in term of VR, the coefficient was positively signed, which indicated a positive relationship between VR and ROE. This showed that a percentage increase in VR would result to an increase in ROE by 1.970%, which is to say that the exercise of voting rights by institutional shareholders had a positive impact on return on assets. However, there was no significant relationship between VR and ROE judging from the $p > |t|$ value of 0.068 which is significant at less than 5%.

Thus, the following results can be interpreted as: the coefficient of PN was positively signed, which indicated a positive relationship between PN and ROE. This showed that a percentage increase in PN would result in an increase in ROE by 0.039%, which is to say that private negotiations by institutional shareholders had a positive impact on return on equity (Table 6). However, there was no significant relationship between PN and ROE judging from the $p > |t|$ value of 0.647 which is significant at less than 5%.

Table 6: Panel data regression when Q (Tobin’s Q) is the dependent variable.

Variables	Pooled effect		Fixed effect	
	Coefficient	Significant value	Coefficient	Significant value
IO	0.1637642	0.750	0.0336102	0.980
VR	0.5689906	0.342	- 0.0403487	0.974
PN	-0.7178569	0.081	0.1548304	0.922
CONSTANT	0.1101338	0.677	0.1613353	0.837
R-squared	0.0753		0.0292	
Adjusted R-squared	0.73005			
F-statistic	1.52		0.00	
Sig. (F statistic)	0.2194		0.9996	
Source: Field survey (2015)				

The results in Table 6 showed that the coefficient of IO was positively signed, which indicated a insignificant positive relationship between IO and Q. This means, a percentage increase in IO would result to an increase in Q by 0.034%, which is to say that institutional ownership had a positive impact on Tobin’s Q. Tobin’s Q ratio is a ratio

relating a firm's market value to its book value. It can therefore be seen that institutional shareholding serves as a positive indicator to prospective investors, which therefore boosts market valuation of firms. This result is in line with Kyereboah [26] who found a positive relationship between institutional ownership and Tobin's Q.

More so, the coefficient of VR was negatively signed, which indicated a negative insignificant relationship between VR and Q. This showed that a percentage increase in VR would result in a decrease in Q by 0.040%, which is to say that the exercise of voting rights by institutional shareholders had a negative impact on Tobin's q. According to Yong [27], when a firm's reputation develops, the market appreciates it. This can be the reason why there is a decrease in Tobin's Q as a result of poor corporate governance which exists in many developing countries in which Africa is not exclusion.

In term of Private Negotiation, the coefficient of was positively signed, which indicated a positive relationship between PN and Q. This showed that a percentage increase in PN would result to an increase in Q by 0.155%, which is to say that private negotiations by institutional shareholders had a positive impact on Tobin's q. However, there was no significant relationship between PN and Q judging from the $p > |t|$ value of 0.922 which is significant at less than 5%.

Implications and Interpretation of Findings

The result shows that the presence of institutional shareholders is not significant enough to change the performance of firms. According to McConnell [18], the significant relationship between institutional shareholding and firms' performance is an indicator that the institutional shareholders are actually assuming the role of efficient monitoring [19]. As such, the results indicates that institutional shareholders in Nigeria even as owners are not assuming the role of efficient monitoring. Iyaniwura [14] claim that majority shareholders in Nigeria have little knowledge on their rights and even in situations where they do know their rights, they are lacking in experience as to the best method possible in the situations. Indeed, according to Uche [6], institutional shareholders in Nigeria considered monitoring as time wastage. Hence, the postulation that there is a significant relationship between institutional ownership and firms' financial performance cannot hold and therefore set aside.

In term of voting rights, the results show that institutional shareholder engagement through the exercise of voting rights is not significant enough to affect the performance of firms. This might be traceable to the fact that institutional shareholders do not focus adequately on real or long-term performance, which in the end results in suboptimal return [28]. Although the institutional shareholders have great influence voting rights, their exercise of such rights do not significantly, affect firms' performance, as institutional shareholders are not necessarily the controlling shareholders. Tan & Keeper [4] posited that, though, institutional shareholders hold more shares than the individual shareholder, those shares is not large enough to grant them the controlling rights or interests. In some cases, institutional shareholders too have other business concerns to protect and find it difficult to give up their profit-making avenues for the cause of good governance [4]. In corroborating this assertion, Iyaniwura & Iyaniwura

[14] also submitted that some shareholders are either ignorant or self-satisfied in respect of their rights and responsibilities, hence could not make any significant impact in term of financial performance.

Therefore, the assertion that exercise of voting rights by institutional shareholders enhances firms' financial performance is rejected.

In term of private negotiations, institutional shareholders focus on short- term performance and might not pressure management toward efficiency in generating returns from assets; they will be more particular about maximizing their own wealth. This also explains the positive relationship that exists between private negotiations and return on equity as this signifies that management gives shareholders more for their money. In Nigeria, it has being made known that once it was perceived that the company was not doing great, institutional shareholders would immediately sell off their shares [6].

The positive relationship that exists between private negotiation by institutional shareholders and Tobin's Q might be to prevent them from losing too much in case the firm is not doing too well again. According to Brigham, shareholders can take advantage of the enhanced market value by selling their shares to the open market. Nix & Chen [29] claimed that the most common strategy for institutional shareholders to exercise their institutional power is personal discussion with the management. Even as Black & Coffee [23] maintained that behind-the-scenes, activism is more operation than visible activism.

To this end, the postulation that there is a significant relationship between private negotiations by institutional shareholders and firms' financial performance cannot be established.

FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

Several studies particularly in Anglo-Saxon country are still going on based on the subject of institutional shareholder engagement and corporate performance. This study examines the relationship that exists between three institutional shareholder engagement mechanisms (institutional ownership, exercise of voting rights by institutional shareholders, private negotiation by institutional shareholders) and firms' financial performance measures (ROA, ROE and Tobin's Q).

This paper therefore concludes that corporate governance in Africa especially in Nigeria is at the developmental phase and the 2008 financial crisis can be seeing as a major factor that affected corporations in Nigeria. Institutional shareholders in Nigeria is been accused as the cause of financial crisis due to their negligence and short-term focus. Shareholder associations whose behaviour now reflects that of the political culture are seeing as more active in corporate governance. Therefore, their effect on firm performance may continue to suffer setback except a pragmatic approach that redefines

the role of institutional shareholding is introduced.

This paper therefore maintains that irrespective of the influence institutional shareholders have on financial performance, it cannot be seen as significant. The results of Yong [27] reveal that institutional shareholder engagement and activism actually results in a higher firm value, however this is very possible by the implementation of transparent and accountable corporate governance. Corporate governance in Nigeria is weak due to the insider abuse and conflict of interest that exists. The research work shows that overall profitability and shareholders' value will be enhanced if institutional shareholders in Nigeria show interest in ensuring good corporate governance practices.

More so, institutional shareholders should invest with the goal of working with corporate management to improve financial performance. This can be achieved by active and genuine involvement in corporate governance practices. The stewardship theory explains the engagement as not claiming control over the board of directors and management but monitoring and engaging with firms on subjects like corporate governance, strategy, risk, capital structure and performance. Institutional shareholders should not only engage with a short-term view therefore ignoring the long-term performance of firms. In addition, the institutional shareholders in Nigeria should work with the independent directors to ensure that they monitor the actions of the executive directors and the managers to avoid conflicts of interest. The independent directors should ensure that venues for AGM are easily accessible to all stakeholders. Lastly, managers should also adequately review the decisions and recommendations made by the institutional shareholders especially discussions made through private engagement by engaging other committees especially the audit committee. This would ensure that institutional shareholders do not make recommendations that tend to harm the firm's financial performance in the long-run.

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