



CORPORATE OWNERSHIP STRUCTURE AND FINANCIAL PERFORMANCE OF LISTED COMMERCIAL BANKS IN NIGERIA

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Abstract

The objective of this paper is to examine the effect of ownership structure on financial performance of listed commercial banks in Nigeria for the period 2009-2016. This study used a sample of 13 listed commercial banks in conducting the study. The study also employed Ordinary Least Square (OLS) and Generalized Least Square methods of panel data regression models in analyzing the data. Findings from the study revealed that ownership concentration (OWC) has insignificant negative effect on Return on Asset (ROA). However, when financial performance is proxied by the market-based performance measure, Tobin's Q (TBQ), the results indicated that OWC has a statistically positive significant effect on financial performance. The results of the analysis revealed that managerial ownership (MOW) has statistically insignificant positive effects on both ROA and TBQ. In the case of institutional ownership (INSOW), the findings revealed that it has a statistically insignificant negative effect on ROA but a statistically significant negative effect on TBQ. Therefore, the study recommends that financial regulatory bodies in Nigeria such as the Central Bank of Nigeria (CBN), Nigeria Deposit Insurance Corporation (NDIC), and Securities and Exchange Commission (SEC) should ensure that a reasonable degree of ownership concentration is maintained by all banks due to its potential benefit in improving market-based financial performance in Nigerian banks. In the case of institutional ownership, there is the need for the CBN to come up with regulations that promote participation of foreign institutional ownership in Nigerian banking industry.

Keywords: Agency, Corporate Governance, Financial Firms, Information Asymmetry, Ownership Structure.

JEL Classification: G01; G21; G32; G34; G39

Introduction

Financial performance of banks is crucial to the growth and development of any economy, and Nigeria is not an exception (Olokoyo, Joseph, & Akinjare, 2016). Hence, good bank's performance results into achieving strong competitiveness, high return on investment for shareholders, generating employment and increase in Gross Domestic Products (GDP) of an economy (Abdul Jamal, Abdul Karim, & Hamidi, 2012; Suffian, 2009). Conversely, poor corporate financial performance in the banking industry is capable of triggering a prolonged crisis that can adversely affect the industry's competitiveness, economic stability, as

well as the relevant stakeholder returns (Abdul Jamal, Abdul Karim, & Hamidi, 2012; Suffian, 2009).

Claessens and Horen (2015) observe that most debates surrounding the performance of banks in the post-global financial crisis period largely focused on large European and US banks. This is because most of the banks play significant role in global financial system integration and they were the most affected during the crisis. However, some scholars (Beck, Michael, Dorothe, & Makaio, 2014; BIS, 2014; Claessens & Van Horen, 2014a; Van Horen, 2011) contend that focusing solely on

European and American banks does not portray a complete picture of the global banking arena, as banks from emerging markets and developing countries are also important global players in the integration of the global financial system.

One of the major areas of post-global financial crisis reforms in corporate governance is ownership structure. Moreover, concerning the issue of ownership structure, it has been observed that bank owners' direct interventions in the internal management of banks have contributed to the financial distress in most Nigerian banks (Ebhodaghe, 2015; Nwachukwu, 2016; Nweze, 2017). This is because some shareholders borrow funds in excess of the capital they invested to start the banks, and this is usually done through companies that are directly linked to them. As a result of these practices, many banks record high cases of unsecured non-performing loans that are directly attributed to some banks' directors (Nweze, 2017). It is also a common practice for banks to borrow from the CBN to fund directors' loan (Saharareporters, 2016). In addition, loans and advances to owner government and their agencies was neither often repaid nor were the loans collateralised. Therefore, it is pertinent to note that the pervasive incidence of non-performing loans due to the prevailing ownership structure was one of the major causes of distress in the banking system over the years (Ebhodaghe, 2015). Consequently, the code of corporate governance released by the Central Bank of Nigeria limits the percentage of managerial shareholding by executive directors in order to contain their excesses. At the same time the code ensures reasonable ownership to institutional investors as well as ownership concentration in order to ensure effective monitoring and control to checkmate free-rider behaviour of managers (CBN, 2014). Notwithstanding the claims by some banks that they are still operating within the industry regulatory threshold, industry watchers are doubtful about the efficacy of the Nigerian 2011, as well as 2014, code of corporate governance in enhancing the performance of Commercial banks in Nigeria (Demaki, 2017). Recent cases of exponential increase in non-performing loans as well as other corporate mismanagement and insider abuses have left many questions unanswered concerning the effectiveness of the current ownership structure of Commercial banks (Nweze, 2017).

Early studies on the effects of ownership structure on financial performance in Nigeria have been well acknowledged in the literature (Aburime, 2008; Andow & David, 2016; Dada & Ghazali, 2016; Gugong, Arugu, & Dandago, 2014; Ozili & Uadiale, 2017). However, some of the methods

used by these studies failed to take into account the robust and dynamic nature of the macroeconomic environment in which the firms compete. Moreover, the econometric methodology was not adequately described and/or failed to account for some attributes of bank financial performance suggesting that the estimates obtained in such studies may have been inconsistent. This is in addition to omission of key features of ownership structure that characterised the banking industry. Other methodological inadequacies include the use of dummy variables where more robust data are available. These reasons, among others, justify the need to extend existing literature by incorporating all the key dimensions of ownership structure of banks in Nigeria with a view to uncovering new findings. Consequently, the objective of this study is to examine the effect of corporate ownership structure on the financial performance of listed commercial banks in Nigeria in the post-global financial crisis period.

Literature Review

Effects of ownership structure on firm performance were examined by previous studies (Gitundu, Kiprop, Kibet, & Kisaka, 2016; Mamatzakis, Zhang, & Wang, 2017; Ozili & Uadiale, 2017; Phung & Mishra, 2016). Ownership structure is manifested either in terms of ownership concentration which is the percentage of shares that is held by first five largest shareholders or ownership mix which is the percentage of shares that is held by different classes of shareholders (such as managerial ownership of shares owned by managers or institutional ownership of shares own by institutions such as pension companies, etc) in a firm (Jong, 2001). Extant literature continue to reveal conflicting and inconsistent findings on the impact of ownership structure with some studies reporting positive relationship between ownership concentration and firm performance (Mirza & Javed, 2013; Nguyen, Locke, & Reddy, 2014; Vafaei, Ahmed & Mather, 2015), some studies established the existence of negative relationship (Ersoy & Koy, 2015; Khamis, Hamdan, & Elali, 2015; Mamatzakis, Zhang, & Wang, 2017; Zouari & Taktak, 2014) while other studies established that ownership concentration has no effect on firm financial performance (Aymen, 2014; Demsetz & Villalonga, 2001; Holderness & Sheehan, 2000; Zhang & Kyaw, 2017).

However, ownership concentration, in most studies in developing economies, tends to have significant positive effect of on financial performance. One of the often justifications for supporting this argument is that it serve as mechanism for monitoring and control where there is weak corporate governance particularly in emerging economies (Ozili & Uadiale, 2017). Shareholders tend to employ

ownership concentration to mitigate agency problems arising from separation of ownership and control (Jensen & Meckling, 1976). This is based on the interest alignment hypothesis which assumes that large shareholders with concentrated ownership have strong incentive and power to discipline and monitor management at low cost (Shleifer & Vishny, 1986). As part of the post global financial crisis reforms instituted in the Nigerian banking industry by CBN, no shareholder is allowed to own more than 5% of ownership except and an institution (CBN, 2014). While there are plethora of literature on the relationship between ownership concentration and financial performance banks, empirical evidence from Nigerian banks seems to be inadequate (Ozili & Uadiale, 2017). Based on the foregoing, the study proposed the following hypothesis:

H1: Ownership concentration has a significant effect on financial performance of commercial banks in Nigeria

Similarly, literature on managerial ownership, on the one hand, shows that when managers are allowed to hold significant proportion of shares in a firm, the interest of managers and shareholders may be aligned thereby reducing agency problem and increasing firm performance (Ozili & Uadiale, 2017). However, available evidence shows that managerial ownership does not always impact firm performance positively (Popoola, Ratnawati, & Hamid, 2016). This is because at certain level, managers tend to entrench their power and pilot the affairs of the firms in a way that could maximize their own interest at the detriment of other stakeholders (Mirza & Javed, 2013; Quang & Xin, 2014; Wellalage & Locke, 2014). This has showed that one crucial factor determining the risk-taking and efficiency of banks is their managerial ownership which is the percentage of shareholding owned by executive directors of a firm (Anderson & Fraser, 2000). Thus:

H2: Managerial ownership has a significant effect on financial performance of commercial banks in Nigeria

On the other hand, literature on institutional ownership have been revealed to have significant positive relationship with firm financial performance due to the incentive and expertise institutional shareholders have in monitoring professional managers at low cost relative to dispersed shareholders (Gugong, Arugu & Dandago, 2014; Rajput & Bharti, 2015; Uwuigbe & Olusanmi, 2012; Zhang & Kyaw, 2017). However, there are scenarios or instances where institutional shareholders may decide to play a passive role by voting with management, abstaining from voting or selling-off their shares

when they perceive that the firm is not performing. In extreme cases, institutional shareholders may cooperate with management in order to expropriate the dispersed small shareholders. In spite of the prevalence of these scenarios in Nigeria (Uche & Adegbite, 2011), there is still limited empirical investigation that has been directed towards this direction. Therefore:

H3: Institutional ownership has a significant effect on financial performance of commercial banks in Nigeria

Furthermore, the Agency theory proposed possible conflicts of interest between related parties when firms make financial decisions: conflict between shareholders and managers, and conflicts between shareholders and debt holders (Jensen, 1986; Jensen & Meckling, 1976). The agency theory postulates that agency costs arising from the conflict of interest between corporate managers and shareholders, is due to the separation of ownership and control. Jensen and Meckling explored the ownership structure of firms, involving how equity ownership by managers aligns managers' interests with those of owners. As a result, they found that if the contract between the principal and agent is outcome based; the agent is more likely to behave in the interests of the principal.

In sum, while there is plethora of literature on the effect of ownership structure on the financial performance of firms, evidence from extant literature has shown that their reach on financial firms is still inadequate. The often justification for excluding financial firms in most studies is that the financial sector has its own unique set of regulations. However, results obtained from other studies using data across multiple sectors cannot be directly carried over to the financial sector with high degree of confidence. In addition, most studies that were conducted on the Nigerian banking industry have largely focused on examining pre and post consolidation performance ratios. Consequently, documenting further empirical evidence on the effect of ownership structure on the performance of banks in Nigeria is important.

Methodology

This study employed ex-post factor research design using panel data for 8-year (2009-2016) period under study. This type of research design is used where the phenomenon under study has already taken place. The choice of the study period is informed by the need to study performance of commercial banks in the post crisis period of the Nigerian banking industry. This allows for the collection of past and multi-dimensional data which provides basis for the full establishment of the relationship between ownership structure and

corporate financial performance of listed commercial banks in Nigeria. The data was obtained from the annual reports of the listed Commercial banks and website of Nigerian Stock Exchange (NSE). The population of the study includes all the 15 listed Commercial banks in Nigeria Stock Exchange (NSE) within the period of the study. However, due to different regulatory requirements, the data was further screened using the following criteria: (1) the bank is listed in Nigeria Stock Exchange before 2009; (2) the bank has 8 years of complete data from 2009 to 2016; (3) the bank is categorized as a commercial bank by the Central Bank of Nigeria; (4) the bank has not undergone merger and acquisition that led to change in name within the 2009-2016 period; (5) the bank has full information that are relevant to the variables of interest in the study. Consequently, 13 banks were arrived at which constitute the sample that is used in conducting the study.

Operationalization of Variables and Measurements

Dependent Variable

The dependent variable that was used in this study is firm financial performance. The study used two measurements of financial performance; i.e. accounting-based measures and market-based measures. The study used Return on Assets (ROA), a common accounting measure of performance. The use of accounting-based measure in this study is informed by use of similar measure in other previous related studies (Gugong, Arugu, & Dandago, 2014; Mwambuli, 2016; Twairesh, 2013; Vintilă, Nenu, & Gherghina, 2014). In addition, the capital market in Nigeria is relatively inefficient and inactive as such the use of accounting measures to measure past performance of firms is seen as more appropriate. Similarly, it would enable comparison with previous studies that use the same measures possible as they were mostly used in previous studies. The first measure is the return on assets (ROA) which is calculated by taking the ratio of net profit of the firm to the total assets of the firm. That is to say: *ROA*; the return on assets is calculated by dividing net income with total assets.

Tobin's Q is a popular measure of corporate performance in empirical studies in corporate finance. It is considered a forward-looking measure for firm performance as it can capture the market value of a firm's assets (Dezsö & Ross, 2012); thus, this study used Tobin's Q as the firm market-based performance measure. Tobin's Q is measured as the sum of market value of equity and book value of liabilities divided by the book value of total assets at the balance sheet date. This simple

version of Tobin's Q is applied widely in corporate finance literature (Vafaei, Ahmed & Mather, 2015).

Independent Variable

Ownership structure is used in this study as another independent variable. Zouari and Taktak (2014) argue that studying the relation between ownership structure and financial performance is useful to predict the probability (Claessens, Djankov, Fan, & Lang, 2002; Zeitun & Tian, 2007). The concept of ownership structure can be defined along two concepts: ownership concentration, which refers to the share of the largest owner, and ownership mix related to the major owner identity (Xu & Wang 1997; Imam & Mlik 2007; Zeitun 2009).

To determine the Ultimate owner's concentration, various measures of ownership concentration are constructed. However, ownership concentration in this study is measured by the fraction of shareholders who hold five per cent of share or more of the firm. In other words, ownership concentration is sum of shares owned by shareholders who hold more than 5% of a company's total shares at the reporting date (Dada & Ghazali, 2016; Vafaei Ahmed, & Mather 2015). Based on the information available in the annual reports of the Commercial banks, managerial and institutional ownerships are going to be used as proxies for ownership identity in this study. On the one hand, institutional ownership is measured as the percentage of shareholdings owned by the institutional shareholder (Zhang & Kyaw, 2017). On the other hand, managerial ownership is measured by the percentage of shareholdings owned by the executive directors (Khamis Hamdan, & Elali, 2015).

Control Variables

In addition to the above and based on the review of literature, control variables have been introduced based on the notion that firm performance may also be affected by other factors not captured in the explanatory variable. The control variables of the study include firm size, firm age, liquidity, and management efficiency. Firm size is measured by the natural logarithm of total assets of the firm (Skopljak & Luo, 2012); while firm age is measured by logarithm of the number of years from the time of its incorporation (Elvin & Hamid, 2016). Liquidity (LIQ) is measured by the ratio of current assets to current liabilities (Wahba, 2013); and finally, management efficiency (MEF) measured by dividing operational expenses on total assets (Al-Jafari & Alchami, 2014). All the variables discussed above are summarized in Table 1.

Table 1: Summary of Measurement and Operationalization of Variables

| VARIABLES | PROXIES | MEASUREMENT |
|--|--|--|
| Dependent Variable Firm Performance: | Return on Assets (ROA) Tobin's Q (TBQ) | Net Income after Taxation /Total Assets (Mwambuli, 2016; Vintilă, Nenu, & Gherghina, 2014) Market capitalization + total debt/total asset (Elvin & Abdul Hamid, 2016; Vafaei, Ahmed, & Mather, 2015) |
| Ownership Structure | Ownership Concentration (OWC) Managerial Ownership (MOW) Institutional Ownership (IOW) | The percentage of shareholders who hold five per cent of share or more of the firm (Dada & Ghazali, 2016; Vafaei, Ahmed, & Mather 2015). The percentage of shareholdings owned by the executive directors (Khamis, Hamdan, Elali, 2015). The percentage of shareholdings owned by the institutional shareholders (Zhang & Kyaw, 2017). |
| Control Variables | Firm Size (SIZE) Firm Age (AGE) Liquidity (LIQ) Management Efficiency (MEF) | Measured by the natural logarithm of total assets of the firm (Skopljak & Luo, 2012) Measured by logarithm of the number of years from the time of its incorporation (Elvin & Hamid, 2016). Measured by the ratio of current assets to current liabilities (Wahba, 2013) Measured by dividing operational expenses on total assets (Al-Jafari & Alchami, 2014). |

Source: Author's Data Analysis Output

The Model of the study is shown as follows:

$$ROA_{it} = \beta_0 + \beta_1 OWC_{it} + \beta_2 MOW_{it} + \beta_3 INS_{it} + \beta_4 SIZE_{it} + \beta_5 AGE_{it} + \beta_6 LIQ_{it} + \beta_7 MEF_{it} + \delta_{it} \dots \text{(Equation 1)}$$

$$TBQ_{it} = \mu_0 + \mu_1 OWC_{it} + \mu_2 MOW_{it} + \mu_3 INS_{it} + \mu_4 SIZE_{it} + \mu_5 AGE_{it} + \mu_6 LIQ_{it} + \mu_7 MEF_{it} + \delta_{it} \dots \text{(Equation 2)}$$

From the equations, the subscript *i* and *t* represent the firm and time respectively; β_i and μ_i , $i=1$ to 7 are coefficients of the respective independent and control variables; and δ_{it} is the error term.

Data Analysis and Discussion

Descriptive Statistics

Table 2 reports the descriptive statistics of the units of analysis (Nigerian listed commercial banks) in terms of the dependent and explanatory variables that were employed in the study for the period of

2009-2016. The results of the financial performance show that the levels of average firm performance measured by ROA and TBQ are 10.46% and 5454.87, while the highest financial performance achieved by the banks for the period under study were 14.07% and 39182, and the lowest was -31.06% and .7933 respectively. In addition, both ROA and TBQ have standard deviation of 38.56% and 8725.19 respectively.

Table 2: Descriptive Statistics

| Variables | Observations | Mean | Std. Dev. | Min | Max |
|-----------|--------------|----------|-----------|-----------|----------|
| ROA | 117 | .0104557 | .03856 | -.3106369 | .1407291 |
| TBQ | 117 | 5454.866 | 8725.19 | .7932475 | 39182 |
| OWC | 104 | .2124818 | .3455758 | 0 | .9998 |
| MOW | 104 | .0123109 | .0216301 | 1.00e-10 | .0955129 |
| INSOW | 104 | .3561474 | .2220574 | 0 | .8589 |
| FAGE | 120 | 15.7 | 13.78624 | 3 | 46 |
| FSIZE | 117 | 4.60e+08 | 6.79e+08 | 340490 | 3.09e+09 |
| LIQ | 117 | 671279 | .1715124 | .2629434 | 1.087602 |
| MEFF | 116 | -.060625 | .0270139 | -.1538031 | .0602855 |

Source: Author's Data Analysis Output

ROA = Return on Asset; TBQ = Tobin's Q; OWC = Ownership Concentration; MOW = Managerial Ownership; INSOW = Institutional Ownership; FAGE = Firm Age; FSIZE = Firm Size; LIQ = Liquidity; MEFF = Management Efficiency.

Corporate ownership structure is proxied by ownership concentration, managerial ownership and institutional ownership. Table 4.1 shows that percentage of shares held by shareholders who own at least 5%, which is the proxy for ownership concentration, of common shares across

commercial banks in Nigeria is around 21.25% of total shareholders. This suggests that the corporate ownership structure of Nigerian banks is highly concentrated relative to financial firms in the US or the UK (Nguyen, Locke, & Reddy, 2015). In this study, it should be noted that the proportion of ownership varies from 0% to 99.98% with a standard deviation of 34.56%, which reflects heterogeneity of ownership across the commercial banks. This may not be unconnected with the existence of weak corporate governance mechanisms and market for corporate control that

characterizes most developing markets such as Nigeria.

The summary of statistics for managerial ownership shows that it has a mean of 12.31% and a standard deviation of 2.16%, while the minimum and maximum percentage of managerial holding remains at 0.00% and 9.55% respectively. Managerial ownership is measured as the percentage of equity shares owned by directors' and their immediate families at the accounting year end. This measure includes directors' ownership via corporate vehicles, for example, where directors' are majority shareholders in other firms which have direct ownership stakes in the particular bank under consideration. This definition of managerial ownership is consistent with that of Morck *et al.* (1988) who define managerial ownership as ownership by members of the board of directors.

Institutional shareholders dimension of ownership structure is reported to have an average of 35.62%, standard deviation of 22.21%, minimum of 0% and a maximum value of 85.89% respectively. Institutional investors have abilities to effectively monitor the managers of companies. Specifically, when their shareholdings are large enough, they can impose supervision pressure. Therefore, institutional shareholders motivate executives of companies to increase firm performance. In

addition, institutional shareholding may reduce the conflicts of interest between large shareholders and small shareholders. In line with this argument, there has been increasing participation of institutional shareholders in Nigerian banks in the aftermath of the global financial crisis. However, the dominance of domestic institutional shareholding in Nigerian banks may have done little in ensuring effective monitoring of managers in the listed commercial banks.

Correlation Analysis and Test of Multicollinearity

Moreover, the correlation analysis between corporate ownership structure and financial performance depicted that ownership concentration (OWC) is positively statistically significant at 1% (43.72%) with TBQ and insignificant (15.42%) at all conventional levels of significance with ROA. Contrary to the above findings, the correlational analysis showed that managerial ownership is statistically insignificant but positive with ROA (12.08%) and negative with TBQ (-2.13%) at all conventional levels of significance. Similarly, institutional ownership (INSOW) is reported to have negative but insignificant correlation with ROA (3.40%) at all conventional levels of significance and statistically significant negative relationship with TBQ at 1% (35.67%) level of significance.

Table 3: Correlation Table

| Variable | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 |
|----------|---------|---------|---------|---------|---------|---------|--------|--------|--------|
| ROA | 1.0000 | | | | | | | | |
| TBQ | -0.1230 | 1.0000 | | | | | | | |
| OWC | 0.1542 | 0.4372 | 1.0000 | | | | | | |
| MOW | 0.1208 | -0.0213 | -0.0049 | 1.0000 | | | | | |
| INSOW | -0.0340 | -0.3567 | -0.6349 | -0.2646 | 1.0000 | | | | |
| FAGE | 0.1281 | 0.2351 | 0.0778 | -0.3872 | 0.1545 | 1.0000 | | | |
| FSIZE | 0.1239 | -0.7101 | -0.0914 | 0.0241 | 0.0799 | -0.0064 | 1.0000 | | |
| LIQ | 0.2013 | -0.2620 | 0.0651 | 0.2709 | -0.0418 | -0.0201 | 0.2449 | 1.0000 | |
| MEFF | 0.3266 | 0.0300 | 0.3654 | -0.0192 | -0.2318 | 0.3406 | 0.2897 | 0.1958 | 1.0000 |

Source: Author's Data Analysis Output

Overall, most of the independent variables are statistically significantly correlated with the dependent variables which are likely to lend at least some preliminary support for the proposition that these independent variables, to some reasonable

degree, interact with financial performance of banks. This evidence confirms that it is necessary to include these independent variables in the empirical models to mitigate potential bias caused by variable omission.

Table 4: VIFs Analysis

| Variables | VIF | 1/VIF |
|-----------|------|----------|
| INSOW | 2.28 | 0.438118 |
| OWC | 2.20 | 0.455474 |
| MEFF | 2.18 | 0.457760 |
| LIQ | 1.97 | 0.508454 |
| FAGE | 1.95 | 0.512907 |
| FSIZE | 1.61 | 0.621365 |
| MOW | 1.59 | 0.627689 |
| Mean VIF | 2.47 | |

Source: Author's Data Analysis Output

In order to further confirm the absence of multicollinearity, variance inflationary factor (VIF) was employed. As reported in Table 4, all the values of VIFs are within the range of 1.59 – 2.28 which is smaller than five, and is well below the cut-off value of five as recommended by Kennedy (1998) suggesting that multicollinearity is not a problem in this study. High degrees of multicollinearity among explanatory variables can result in both regression coefficients being inaccurately estimated, and the difficulties in separating the influence of the individual explanatory variables on the dependent variables (Hair, Anderson, Tatham, & Black, 1998). As such it is now fit for further analysis. Prior to conducting the analysis, test for heteroscedasticity and serial autocorrelation were conducted and the outcome of the analysis confirmed the existence the duo statistical problems in the data. In order to correct for both the problems of Heteroscedasticity and Serial Auto-correlation, Panel Corrected Standard Errors (PCSEs) was employed and the results for

the panel regressions are reported in the following sections.

Regression Analysis

After ensuring that the assumptions of regression models were met as discussed in preceding pages, this section presents the results of multiple regression analysis used to test the effect of corporate ownership structure on financial performance of listed Commercial banks in Nigeria measured by ROA and TBQ. All the six hypotheses of the study were tested by applying a pooled OLS approach on the aggregate data of all the 15 banks used in the study. Similarly, the study takes into account unobserved effects through the use of common estimation methods for panel data, such as fixed-effects (FE) and random-effects (RE). Hausman specification tests were conducted both in the case of ROA and TBQ in order to guide in the selection of either FE or RE approaches.

Table 5 summarized the results of the Hausman specification test for ROA and TBQ as follows:

Table 5: Houseman Specification Tests

| | ROA | TBQ |
|---|----------|----------|
| Chi ² | 99.09 | 169.52 |
| p-value | 0.0000 | 0.0000 |
| Ho: | Rejected | Rejected |
| Ho: Difference in coefficients not systematic | | |

Source: Author's Data Analysis Output

Consequently, the study found that the null hypothesis of the test cannot be accepted at any conventional level of significance [Chi-sq (7) = 99.09; p-value = 0.0000] for ROA and [Chi-sq (7) = 169.52; p-value = 0.0000]. Therefore, the study adopted the FE approach to control for time-invariant unobserved characteristics across the listed sampled Commercial banks. The results obtained from pooled OLS, FE, and RE estimations are reported in Table 2 and Table 3 for ROA and TBQ respectively.

This study is focused on the effect of ownership structure on financial performance (measured by ROA and TBQ) of listed Commercial banks in Nigeria for the time frame of 2009 to 2016. Consequently, hypotheses were developed, tested, and results are reported in Table 2 for ROA (panel A) and Table 3 for TBQ (panel B) respectively. From the results of the multiple regression analysis of ROA, the overall R² revealed that 37.38% of change in profitability of all Commercial banks in

Nigeria is explained by the explanatory variables that are used in this model. Similarly, the F statistics and Wald *chi*² are all significant at 1%, showing that the model fits the data well in the study. Concerning the explanatory variables, estimated results of all the banks shows that most of analysed parameters have statistically significant influence on the financial performance of Commercial banks in Nigeria measured by ROA.

From the results of the multiple regression analysis of TBQ, the overall R² revealed that 84.38% of change in profitability of all Commercial banks in Nigeria is explained by the explanatory variables that are used in this model. Similarly, the F statistics and Wald *chi*² are all significant at 1%, showing that the model fits the data well in the study. Concerning the explanatory variables, estimated results of all the banks show that most of analysed parameters have statistically significant influence on the financial performance of Commercial banks in Nigeria measured by TBQ.

Table 6: Panel A Multiple Regression Results

| Dependent variable: ROA | | | |
|----------------------------------|-------------------|-------------------|-------------------|
| Explanatory variables | Pooled OLS | Random effects | Fixed-effects |
| Constant | .008 (.115) | .008 (.115) | .008 (.123) |
| OWC | -.001 (.006) | -.001 (.006) | -.001 (.005) |
| MOW | .045 (.089) | .045 (.089) | .045 (.083) |
| INSOW | -.008 (.010) | -.008 (.010) | -.008 (.012) |
| FAGE | .003 (.006) | .003 (.006) | .003 (.004) |
| FSIZE | .000 (.001) | .000 (.001) | .000 (.001) |
| LIQ | -.013 (.012) | -.013 (.012) | -.013 (.011) |
| EFF | .317 (.110)*** | .317 (.110)*** | .317 (.084)*** |
| No. of observations | 104 | 104 | 104 |
| No. of groups | | 13 | 13 |
| R-Squared | 0.3738 | 0.3738 | 0.3738 |
| F-Statistics | 3.25*** | | |
| Wald Chi ² Statistics | | 51.93*** | 75.82*** |
| Root MSE | .01506 | | |

Source: Author's Data Analysis Output

Note: ***, **, * denotes 1%, 5%, and 10% level of significance

Table 7: Panel B Multiple Regression Results

| Dependent variable: TBQ | | | |
|----------------------------------|---------------------|---------------------|---------------------|
| Explanatory variables | Pooled OLS | Random effects | Fixed-effects |
| Constant | 2.608 (4.929) | 2.608 (4.929) | 2.609 (3.713) |
| OWC | .896 (.272)*** | .896 (.272)*** | .896 (.235)*** |
| MOW | 3.812 (3.802) | 3.812 (3.802) | 3.812 (3.860) |
| INSOW | -1.971 (.431)*** | -1.971 (.431)*** | -1.972 (.311)*** |
| FAGE | 1.337 (.263)*** | 1.337 (.263)*** | 1.337 (.177)*** |
| FSIZE | -.634 (.058)*** | -.634 (.058)*** | -.633 (.053)*** |
| LIQ | -2.451 (.501)*** | -2.451 (.501)*** | -2.451 (.388)*** |
| MEFF | -2.124 (4.689) | -2.124 (4.689) | -2.123 (3.423) |
| No. of observations | 104 | 104 | 104 |
| No. of groups | | 13 | 13 |
| R-Squared | 0.8438 | 0.8438 | 0.8438 |
| F-Statistics | 29.37*** | | |
| Wald Chi ² Statistics | | 469.93*** | 6754.09*** |
| Root MSE | .64342 | | |

Source: Author's Data Analysis Output

Note: ***, **, * denotes 1%, 5%, and 10% level of significance

The hypotheses were tested and the results of the regression analysis revealed that ownership concentration (OWC) has insignificant negative effect on ROA. This result implies that there is the tendency that larger shareholder may collude with managers and take decision that may favour them at the detriment of smaller shareholders. This means the hypothesis is not supported. On the contrary, when financial performance is proxied by the market-based performance measure, TBQ, the

results indicated that OWC has a statistically positive significant effect on financial performance measured by TBQ. This implies that due to weak corporate governance mechanisms in developing economies such as Nigeria, there is high tendency that ownership concentration serves as a mechanism for supervision and control. It is one of the mechanisms through which larger shareholders discipline managers and ensure that all key decisions of the firms are not taken at the detriment

of all the shareholders. Consequently, this may send a positive signal to the market thereby improving the market-based performance of the banks measured by TBQ.

Similarly, the hypotheses on managerial shareholding (MOW) were tested in order to establish their effects on financial performance proxied by both ROA and TBQ. The results of the analysis revealed that MOW has statistically insignificant positive effects ROA and TBQ. This implies that in the case of all the measures of performance, the managers of the banks may have acted in the best interest of the firms thereby improving the financial performance of the banks. However, the hypotheses on MOW were not supported in the case of both ROA and TBQ.

More so, the effect of institutional ownership (INSOW) on financial performance was analyzed. The results of the hypotheses, on one hand, revealed that INSOW has a statistically insignificant negative effect on ROA. On the other hand, the results showed that INSOW has a statistically significant negative effect on TBQ. Even though, evidence from the literature emphasized the role of institutional shareholders in monitoring of managers, the results in this study is in a sharp contrast with this assertion. This may likely happen due to prevailing passive role of institutional shareholders in Nigeria. In this situation, they only buy shares in accordance with their portfolio rebalancing need and sell them off to make profit when the market is booming. This makes them less concern about the future prospect of the firm as well as intervening in corporate governance issues. In the case of Nigeria, institutional shareholders consider engagement and monitoring of management as time consuming task. In fact monitoring is viewed by institutional shareholders as an act of uncontrolled and intruding behaviour. Therefore, when institutional shareholders perceive that a company is not performing, they would sell-off their shares. The institutional shareholders view this decision as the best way to maximize their wealth instead of being involved in monitoring and activism to enhance governance (Uche & Adebite, 2011).

In another scenario, some institutional investors cooperate with the management in order to expropriate the diffused small shareholders. It is not uncommon to find investment companies supporting managers at the expense of shareholders in order to receive further business. However, it should be noted that the two scenarios are not mutually exclusive, though one may dominate the others as the main predictor of institutional investor behaviour. Consequently, the hypothesis which states that there is a significant relationship

between institutional ownership (INSOW) and financial performance (TBQ) of listed Commercial banks in Nigeria is supported.

Finally, in order to account for the peculiarities among the unit of analysis, certain control variables were adopted in the study. The control variables include firm age (FAGE), firm size (FSIZE), liquidity (LIQ) and management efficiency (MEFF). With regard to the controllable variables in Table 2 and 3 respectively, the results of the analysis indicated that there is a statistically insignificant positive relationship between firm age (FAGE) and financial performance measured by ROA. On the other hand, the results show that FAGE has a statistically significant positive effect on financial performance measured by TBQ.

On the analysis of the effect of firm size (FSIZE) on financial performance, the results show that there is an insignificant positive relationship between FSIZE and ROA while on the other hand the results indicate that FSIZE has a significant negative effect on financial performance measured by TBQ. This results implies that there no evidence that larger banks tend to have higher financial performance due to their economies of scale. Thus, management of Commercial banks in Nigeria should be aware of the fact that higher level of total assets does not guarantee higher financial performance.

With regards to the effect of liquidity (LIQ) on financial performance, the results of the analysis shows that while LIQ has insignificant negative effect on ROA, it has a statistically significant negative effect on TBQ. The negative sign implies that increase in loans to deposit ratio may leads to increase in liquidity risk exposure of the Commercial banks in Nigeria. Thus, higher liquidity risk exposure has negative influence on the financial performance of banks. Finally the effect of management efficiency (MEFF) on financial performance was analyzed and the results show that it has a statistically significant positive effect on ROA. However, on the market-based performance measure, the results of the analysis show that there is a statistically significant negative relationship between MEFF and TBQ.

Discussion of Findings

One of the specific objectives of this study is to examine the effect of ownership structure on financial performance (ROA & TBQ) of listed Commercial banks in Nigeria. In this study, three dimensions of ownership structure have been identified to influence performance of listed Commercial banks; namely, ownership concentration (OWC), managerial ownership (MOW), and institutional ownership (INSOW).

Data were collected and analyzed and the results of the analysis are discussed in the following subsections. Based on the regression results, the findings have indicated that ownership concentration has a statistically insignificant effect on financial performance of the Commercial banks measured by ROA. This result is consistent with the study of (Aymen, 2014; Demsetz, 1983; Demsetz and Lehn, 1985). This finding support the neutrality hypothesis of ownership structure whose major point of contention is that concentrated ownership is not associated with better operating performance or higher firm valuation. Due to the separation between ownership and decision, there is no reason to think that large shareholding firm is more efficient than firms with dispersed shareholding (Demsetz, 1983; Demsetz & Lehn, 1985; Demsetz & Villalonga, 2001; Holderness & Sheehan, 2000).

Contrary to the above findings, the results also revealed that there is a statistically significant positive relationship between OWC and banks' financial performance measured by TBQ. This result is in line with the convergence of interest hypothesis which proposed that concentrated ownership tends to improve firm performance by decreasing monitoring costs and providing better ways of controlling management decisions. This result is in line with the findings of Soufeljil, Sghaier, Kheireddine, and Mighri, (2016). This implies that large shareholders have the incentives and power to monitor managers effectively (Shleifer & Vishny, 1986). Therefore, concentrated ownership tends to minimize the principal-agent agency problem that arises from the separation between ownership and control and therefore impact on firm performance positively. Various studies have confirm this proposition (Mirza & Javed, 2013; Nguyen, Locke, & Reddy, 2014; Vafaei, Ahmed, & Mather, 2015). This findings is also consistent with the study of (Nguyen et al., 2015). The positive effect of concentrated ownership on market-based performance of firms operating in the underdeveloped economies such as Nigeria tends to be stronger than that in the advanced economies. This finding is consistent with the argument that ownership concentration is an efficient corporate governance mechanism which can substitute for weak corporate governance quality that is prevalent in most developing economies.

There are few studies that reported contrasting findings with respect to the effect of ownership concentration on financial performance using both ROA and TBQ altogether. For instance, Zeitun (2009) noted that there is a negative correlation between ownership concentration and financial performance (ROA & TBQ). However, Zeitun

(2009) noted that the results in their studies was largely inconsistent with most previous studies. Therefore, the study suggested that a certain degree of ownership concentration is needed to increase the firm's financial performance and to decrease the firm's chance of default.

The second variable of interest under ownership structure is the effect of managerial ownership (MOW) on financial performance of Commercial banks in Nigeria using ROA and TBQ. The results of the hypothesis testing showed that there is insignificant relationship between MOW and Commercial banks financial performance (ROA and TBQ) in Nigeria. These findings are consistent with the study of Quang and Xin (2014) in which impact of managerial ownership on financial performance (ROA) with statistical significance have not been found. Similarly, Khamis, Hamdan and Elali (2015) noted in their study that managerial ownership does not have significant effect on financial performance in the case of both ROA and TBQ.

When managers hold significant proportion of shares in a firm it results into alignment of their interest to that of shareholders which may likely decrease agency problem and increase financial performance of firms (Jensen & Meckling, 1976). However, it should be noted that managerial ownership does not always affect financial performance favourably. This is because at certain level of managerial shareholding, managers may tend to entrench their power and run the affairs of the firm in a way that could maximize their own interest at the expense of other stakeholders (Morck, Shleifer, & Vishny, 1988; McConnell & Servaes, 1990). It is in line with this argument that the CBN (2014) revised code of corporate governance mandated that no any individual manager is allowed to own more than 5% shareholding in Commercial banks in Nigeria. That is why it is evident from the descriptive statistics of the Commercial banks that the average managerial ownership is 1.23%. Based on the regression analysis results, it is evident that the level of managerial ownership of Commercial banks in Nigeria is adequate enough to reduce agency problem and improve financial performance, even though not significantly. Finally, Perrini, Rossi and Rovetta (2008) also observed that managerial ownership is beneficial only in non-concentrated firms, suggesting that the controlling owner may use his/her position in the firm to extract private benefits at the expense of other shareholders by appointing managers that represent its own interest. Thus, it is possible that managerial ownership in this study indicated that the insignificant positive effect may be due to high level of ownership concentration that is unveiled in this study.

However, subsequent studies on the possible moderating effect of ownership concentration on the relationship between managerial ownership and financial performance may possibly open a window for further academic discourse on this issue.

The outcome of the analysis on the effect of institutional ownership (INSOW) and financial performance of Commercial banks in Nigeria indicated the existence of negative relationship in both the case of ROA and TBQ. The finding is in conformity with the study of Zeitun, (2009) where institutional ownership is reported to have negative effect on both ROA and TBQ. However, while INSOW has effect on ROA that is statistically insignificant which is in line with the findings of (Soufeljil et al., 2016). TBQ is reported as having significant negative relationship with INSOW. This result supports the proposition of the *Entrenchment hypothesis* where institutional investors connive with the management in order to expropriate dispersed small shareholders. Evidence abound where investment companies support managers at the expense of shareholders in order to receive further business. This result is consistent with the findings of Zouari and Taktak (2014) who also reported a negative relationship between institutional ownership and bank performance in the case of ROA.

The above findings contradict some studies where institutional shareholding is reported to have significant effect on both ROA and TBQ respectively (Khamis et al., 2015). Borochin and Yang (2016) reported the same findings in their study but noted that while active institutional investors decrease firm agency problem and increase its value, transient institutional investors, in contrast, have the opposite effect.

Despite the above contrary position, this finding is in line with the argument that is proposed by Khanna and Palepu (1999) that foreign institutional shareholders are good in monitoring firms' managers in a developing market but domestic institutional shareholding is not. Therefore, where there is dominance of domestic institutional ownership, it tends to have a negative effect particularly on market-based financial performance. Despite the fact that 35.62% of the shareholding in most of the Commercial banks is owned by institutional shareholders, substantial part of it is attributed to domestic institutional shareholders. Another explanation for the negative relationship is that most Nigerian domestic institutional shareholders consider engagement and monitoring of managers as time consuming task. In most cases, therefore, when they perceive that a company is not performing, they would sell-off their shares and move to another firm and invest.

According to them, this is the best way to maximize their wealth instead of being actively involved in monitoring and activism to enhance governance (Uche & Adegbite, 2011). Thus, the negative effect of INSOW on financial performance on both ROA and TBQ with varying degree is reported in this study.

Conclusion and Recommendations

Furthermore, ownership structure variables showed that it is only ownership concentration and institutional shareholding that affect financial performance of Commercial banks. While the former revealed positive effect, the later indicated negative effect on financial performance. It is concluded that prevalence weak corporate governance mechanisms in developing economies such as Nigeria may be the reason why concentrated shareholding exist so as to offset the shortcomings of the corporate governance measures. It is also observed that managerial ownership tends to have no any significant effect where there is presence of ownership concentration. Similarly, presence of majority domestic institutional shareholding has not help the Nigerian banking industry. This is because findings from the study indicate the possibility of connivance between managers and institutional investors to pursue their selfish interest at the detriment of other minority shareholders of the banks.

The findings in this study support the assertion that ownership concentration is an efficient corporate governance mechanism which can substitute for weak corporate governance quality that is prevalence in most developing economies. Therefore, the study recommends that financial regulatory bodies in Nigeria such as Central Bank of Nigeria (CBN), Nigeria Deposit Insurance Corporation (NDIC), and Securities and Exchange Commission (SEC) should ensure that a reasonable degree of ownership concentration is maintained by all banks due to its potential benefit in improving market-based financial performance in Nigerian banks.

Secondly, it is revealed in the study that managerial ownership had no effect on bank financial performance in Nigeria. This study empirically established that the level of managerial ownership in Nigerian banks does not lead to managerial entrenchment where managers pursue their interest at the expense of other stakeholders of the banks. Thus, the current level of managerial ownership should be maintained by the banks based on the regulations of the CBN, NDIC, and SEC.

Moreover, the findings in this study indicate the existence of significant negative effect of

institutional ownership on financial performance of banks. The results revealed the possibility that institutional investors connive with the management in order to expropriate dispersed small shareholders. Evidence abound where investment companies support managers at the expense of minority shareholders in order to receive further business. It should be noted that foreign institutional shareholders are good in monitoring firms' managers in a developing market but domestic institutional shareholding is not. Therefore, where there is dominance of domestic institutional ownership, it tends to have a negative effect on market-based financial performance as reported in this study. Despite the fact that 35.62% of the shareholding in most of the listed

commercial banks in Nigeria is owned by institutional shareholders, substantial part of it is attributed to domestic institutional shareholders. Therefore, there is the need for the CBN to come up with regulations that promote participation of foreign institutional ownership in Nigerian banking industry. Another issue that should be addressed by the CBN is the prevalence of temporary institutional shareholding where they buy shares and sell them off when they perceive that the banks are not performing. Finally, stiff penalty and sanctions should be enforced on any listed commercial bank that is involved in connivance with institutional shareholders at the detriment of other minority shareholders of the banks.

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