

## OWNERSHIP STRUCTURE AND FINANCIAL PERFORMANCE OF QUOTED BANKS IN NIGERIA

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### Abstract

This research examines the connection between ownership structure and financial performance of publicly listed banks in Nigeria. . It reviews theoretical, conceptual, and empirical literature on the subject, utilizing Institutional Ownership and Ownership Concentration as proxies for Ownership Structure, while financial performance is measured through Return on Assets (ROA) and Return on Equity (ROE). The research focuses on a population of fourteen quoted banks, from which twelve were selected using a judgmental sampling technique. Secondary data were sourced from the audited annual financial reports of these banks. Conversely, a concentrated ownership structure negatively affects return on assets, while institutional and managerial shareholding show a negative and significant relationship with return on equity. These findings are consistent with established theories such as agency theory and signaling theory, as well as prior empirical research in corporate governance and ownership structure. The study concludes that increasing managerial ownership can align the interests of managers with those of shareholders, resulting in enhanced firm performance. Additionally, attracting institutional investors who provide expertise, monitoring capabilities, and long-term investment perspectives can further improve bank financial performance. Moreover, effective management of ownership concentration can enhance monitoring and decision-making efficiency, align shareholder interests, and lower agency costs. However, the study does not find a significant effect of foreign ownership on bank financial performance within the Nigerian context. This indicates a need for further investigation to gain a deeper understanding of the specific dynamics and potential implications of foreign ownership in the Nigerian financial sector, taking into account factors such as regulatory constraints, cultural differences, and information asymmetry.

**Keywords:** Managerial ownership, Institutional ownership, Ownership concentration, Return on Asset, Return on Equity.

### Introduction

The degree to which businesses function within a specific environment or industry is deemed crucial for their survival and sustainability. This is dependent on the significance of the concepts of perpetuity and separate legal entity, which suggest that a business is expected to continue beyond the lifespan of its promoters or owners and operate as a legal entity (Micheler, 2021). Consequently, the ownership structure of organizations is as critical as their operational activities, particularly in light of the recent increase in empirical interest in this topic across various industries, especially within the banking sector (Micheler, 2021). This interest arises from the understanding that the financial sector, predominantly led by banks, serves as the backbone of a nation's economy. In this sector, banks play a pivotal role in financial intermediation, facilitating all functions across other economic sectors. Therefore, the banking sector is a fundamental component of the economy and occupies a vital position in its growth and development (Bagh et al, 2017).

The ownership structure within banks pertains to the allocation of equity concerning voting rights, capital, and the identities of equity holders (Himmelberg et al, 1999). This indicates that the ownership structure determines the extent to which individuals, management, institutions, or foreign investors legally hold varying percentages or shares of equity in these banks, each with different levels of interest and control (Himmelberg et al, 1999). When the largest shareholders possess equity holdings exceeding 5%, the ownership structure is classified as concentrated; conversely, if the largest shareholders hold less than 5% of the equity, it is considered dispersed (Okolie and Uwejeyan, 2022). Thus, the ownership structure of a bank, whether concentrated or dispersed, mirrors its strategic direction, decision-making capabilities, control, and profitability.

The ownership structure of banks may be institutional or foreign, reflecting the significant equity-holding presence of corporate entities, institutional investors like pension funds, mutual funds, and insurance companies, along with foreign portfolio investors (Davis, 2002). Additionally, there exists managerial ownership, characterized by the proportion of ownership possessed by the company's management team, which includes CEOs, directors, and other executives. These various ownership structures are observed in numerous banking institutions across different economies, including Nigeria (Dockery et al, 2012).

Equity holdings grant shareholders ownership of the firm; therefore, various ownership structures—whether concentrated, dispersed, institutional, managerial, or foreign will influence the organization's policy directions in multiple ways. This

encompasses the mission, vision, programs, tactics, accounting, auditing practices, and even the organization's goals (Fang et al, 2022). This suggests that ownership structure may relate to the performance of firms in one or several ways. In the context of banks in Nigeria, this performance can manifest as either non-financial or financial. Financial performance is influenced by numerous accounting ratios and margins, including Return on Assets (ROA), Return on Equity (ROE), Return on Capital Employed (ROCE), Return on Investments (ROI), Tobin Q, Net Interest Margin (NIM), Economic Value Added (EVA), and profit margins. Each of these ratios situates the bank within the framework of assessing the output generated from a specific amount of input, shaped by the management's decision-making aligned with the shareholders' directives. Consequently, performance becomes a critical factor when discussing ownership structure issues (Ben Slama and Boulila, 2014).

The present research examines the specific variables of ownership structure, namely managerial ownership, institutional ownership, ownership concentration, and foreign ownership, alongside the performance metric Tobin's Q. The selection of these variables is supported by prior literature that has utilized the same factors. The scope of the study is confined to financial firms and spans a decade from 2015 to 2025. This timeframe is deemed appropriate as it corresponds to a period during which the sector was striving to enhance its operations in response to the global financial crisis that adversely impacted their performance, resulting in the liquidation of several financial institutions in Nigeria.

The results of this study will provide management and shareholders with crucial insights into the necessity for financial firms to ascertain the proportion of ownership to achieve an ownership structure that maximizes the firm's value. This research is beneficial for both current and prospective investors in Nigeria, as it elucidates the ownership structure dynamics of financial companies, thereby aiding in their investment decisions. The empirical findings will contribute to the reinforcement of existing regulatory policies aimed at improving the composition of board membership for companies listed on the NSE. Furthermore, this study will undoubtedly serve as a valuable resource for students and researchers interested in conducting similar investigations in this field.

### **Statement of the Problem**

The ownership structure of banks holds significant importance as it influences corporate governance and affects bank profitability. The concentration of ownership within banks is crucial since it can limit or hinder the ability of bank

managers to utilize bank profits for personal financial benefits or as bonuses for the private control of dominant shareholders. This situation can diminish the overall value of the banks and may adversely impact non-controlling shareholders who lack a controlling interest in the bank. This concern was a primary factor in the 2010 review conducted by the Central Bank of Nigeria (CBN) regarding the Universal Banking model, which resulted in the failure of several banks with concentrated ownership, including Intercontinental Bank, Oceanic Bank, and Bank PHB, alongside Union Bank, which had a more dispersed ownership structure. During this time, shareholders and depositors emerged as the principal victims. Issues related to corporate governance have persisted in the Nigerian banking sector, although there have been advancements in recent years, particularly with the enhancement of the Corporate Governance guidelines for banks by the Central Bank of Nigeria in 2023 (CBN, 2023). Despite the initiatives taken by the Central Bank of Nigeria, there are ongoing concerns regarding the treatment of shareholders, the safeguarding of shareholder rights, ethical business practices, related-party transactions, insider loans, non-performing loans, conflicts between board members and management, and conflicts of interest. These issues were significant contributors to the establishment of the Asset Management Corporation of Nigeria (AMCON), which was tasked with managing toxic assets resulting from a substantial portfolio of non-performing loans (NPLs) that arose from the previous reforms and consolidations in the Nigerian banking sector (Idigbe, 2022). Given the ongoing challenges posed by non-performing loans in the banking industry, and considering that interest income remains the primary revenue source for banks, the ownership structure of these institutions becomes a critical factor of consideration (Masavu, 2015).

In the wake of the recent consolidation exercise within Nigeria's banking sector, shareholders of the banks that were absorbed, acquired, liquidated, or merged experienced significant losses. This situation has sparked considerable debate among prospective investors regarding which banks to invest in, particularly in terms of choosing between banks with concentrated or dispersed ownership structures to protect their investments and achieve optimal returns through increased dividends and capital appreciation, supported by the sustained financial performance of these institutions. This raises the question of which of these ownership structures has the most significant impact on the financial performance or profitability of Nigerian banks.

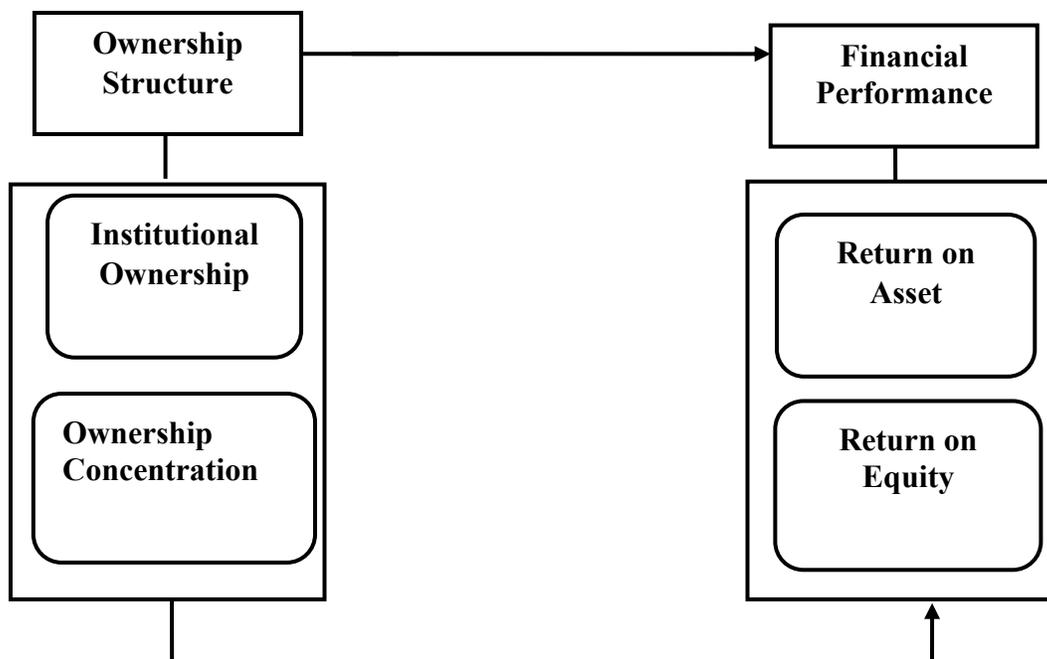
Consequently, the researchers are confronted with the task of investigating the influence of ownership structure on the financial performance of listed commercial banks in Nigeria during the period from 2015 to 2025.

### Objectives of the Study

The primary objectives of this research is to investigate how ownership structure influences the financial performance of quoted banks in Nigeria over the period from 2015 to 2025. Specifically, the objectives of the study are to:

- i Determine the impact of concentrated ownership structure on the Return on Assets (ROA) of quoted banks in Nigeria.
- ii Assess the impact of ownership concentration on the financial performance (ROA and ROE) of quoted banks in Nigeria.
- iii Evaluate the relationship between concentrated ownership, Institutional ownership, and the return on assets (ROA) of the quoted banks in Nigeria.
- iv Examine the effect of institutional ownership on the financial performance of quoted banks.

### Conceptual Framework



**Figure 1.1: Conceptual Framework of the Ownership Structure and Financial Performance of Quoted Banks in Nigeria.**

### Conceptual Review

## **Ownership Structure**

The ownership structure of a company delineates the nature of equity shareholding that exists concerning control and decision-making (Kapopoulos and Lazaretou, 2007). This structure is often analyzed from two viewpoints. The first viewpoint pertains to the level of ownership concentration, where firms are characterized by either a high or low degree of ownership dispersion (Kalluru and Bhat, 2009). The degree of concentration or dispersion is defined by the percentage or proportion of equity shares held by specific individuals or groups. The second viewpoint relates to the types of owners within the firm. This includes government or state ownership, foreign ownership, private ownership, and institutional ownership, depending on the majority stake held in the firm (Douma et al, 2006).

In the Nigerian banking sector, commercial banks have exhibited various ownership structures before and after numerous reforms and consolidation efforts. Initially, there were government-owned banks, with the government at both state and federal levels being the majority shareholders (Nworji et al, 2011). Over the years, the government has divested from these banks, leading to a situation where many are now owned by institutions and private investors. Additionally, there are banks with foreign ownership, private banks owned by shareholders, and institutional ownership represented by pension funds, mutual funds, and others (Celik and Isaksson, 2014). In the context of this study, ownership structure is examined from two dimensions, particularly focusing on ownership concentration. Therefore, in Nigerian commercial banks, ownership is classified as concentrated if there is evidence of shareholders controlling at least 5% of the bank's shares, or as dispersed if no such shareholding exists with equity holdings of 5% or more (Ozili and Uudiale, 2017).

As noted by Yildirim and Philippatos (2007), domestic private banks frequently outperform state-owned banks. Ramaswamy (2001) has put forth several explanations for the disparities in financial performance among various ownership structures in firms, including banks. These explanations encompass variations in compensation between privately-owned and publicly-owned enterprises, a lack of accountability, ownership dispersion and constraints, as well as insufficient monitoring. This highlights the significance of ownership structure within organizations, including commercial banks in Nigeria.

## **Ownership Concentration Structure and The Financial Performance Of Banks.**

Concentrated ownership structures are often termed dominant ownership structures due to the significant equity holdings that enable these shareholders to exert considerable influence over the management of banks. Consequently, concentrated ownership is linked to the equity stakes held by founders and controlling interests within the bank (Morck, 2007). This concentration allows them to sway votes at shareholders' meetings and affect critical decisions regarding the operations and policies of the banks. In such scenarios, it is likely that large individual shareholders, a common feature of concentrated ownership, will make decisions that favor their interests, potentially to the detriment of minority shareholders (Pargendler, 2012).

In Nigeria, concentrated ownership appears to have no significant effect on the Return on Equity (ROE) of banks (Uhomoibhi, 2007). This suggests that concentrated ownership structures do not influence the profitability or performance of banks in Nigeria. Conversely, Benjamin et al. (2014) argued that when managerial and institutional ownership is concentrated, it positively affects the financial performance of banks in Nigeria. This indicates the potential for ownership concentration to positively influence the financial performance of a business organization. Furthermore, ownership can also be concentrated among foreign shareholders, which is particularly common in conglomerates. In this scenario, a substantial portion of equity is held by foreign firms or managers, which may adversely affect the performance of the conglomerates (Afang and Bature, 2016).

### **Institutional Ownership Structure and the Financial Performance of Banks.**

This illustrates a collective of individuals, typically legal entities, overseeing a portion of the assets or equity of an organization. These individuals are generally specialized investors who act on behalf of other interests or individuals. Usually, institutional investors aim to secure considerable control and rights within their investing organizations due to the inherently risky nature of their investments – these investments are owned by other individuals or organizations, typically entrusted to them with legal support. Institutional investments encompass mutual funds, hedge funds, retirement or pension funds, insurance, and similar entities. Consequently, regarding its impact on performance, institutional investors are more likely to provide oversight and expertise to banks to enhance their profit margins (Ferreira & Matos, 2008; Saghi-Zedek, 2016).

### **Theoretical Framework**

Agency theory, also known as the principal-agent problem, refers to the conflict of interest that occurs when one party (the agent) operates on behalf of another party (the principal). This theory is essential in fields such as corporate governance, where shareholders (principals) assign decision-making authority to managers (agents).

## **Agency Theory**

Agency theory, also known as the principal-agent problem, refers to the conflict of interest that occurs when one party (the agent) operates on behalf of another party (the principal). This theory is essential in fields such as corporate governance, where shareholders (principals) assign decision-making responsibilities to managers (agents). It is the foundational theory for examining the relationship between ownership structure and business performance, which suggests a core conflict exists between shareholders and the management of the firm (Mishelle, 2021). In modern corporations, leaders and management tend to prioritize growth and stability rather than focusing solely on enhancing shareholder profits (Fakile & Adigbole, 2019).

The agency theory is attributed to Ross (1973) and Jensen and Meckling (1976) (Jensen and Meckling, 2019), offers a solid theoretical basis for this research. This is primarily due to the theory's assertion that the emergence of an agency problem within the principal-agent relationship can result in agency costs, particularly when agents, who are expected to act in the best interests of their principals (shareholders), choose instead to prioritize their own interests (Panda and Leepsa, 2017). This may manifest as a pursuit of greater equity shareholding in companies to gain increased control and exert more discretion over management decisions. Such agency problems can adversely impact firm performance (Tran et al, 2020). To mitigate or address these agency problems, it is essential for the interests of shareholders and managers to align with the firm's objectives (Jensen and Meckling, 2019).

Furthermore, agency problems can lead to a heightened desire among agents to acquire more ownership in the company, thereby raising corporate governance concerns. Research by Hartzell et al. (2014) indicates that ownership structure can reduce agency costs stemming from agency problems, provided there are regulations governing firm management; otherwise, managerial and ownership conflicts may emerge, potentially resulting in unstable performance levels for the firm. Given that ownership structure can be influenced by escalating agency problems, which in turn can affect the financial performance of firms, the agency

theory serves as a theoretical framework suggesting that instances of agency problems and rising agency costs are likely within both concentrated and dispersed ownership structures of banks, particularly when the interests of managers and shareholders diverge from the banks' objectives. This divergence can significantly impact financial performance if it occurs. This study centers on this issue, thereby underscoring the relevance of agency theory.

### **Signaling Theory**

Signaling Theory, initially proposed by Michael Spence in 1973, elucidates how individuals or organizations transmit signals to mitigate information asymmetry, especially within labor markets. In the corporate realm, this theory suggests that companies with superior management and robust financial prospects will convey favorable signals to the market. This communication aids in reducing uncertainty for investors and other stakeholders. In contrast, firms perceived as less transparent or of inferior quality may emit adverse signals, which can discourage investment or elevate their capital costs. In the context of Nigerian banks, the ownership structure can act as a vital signal concerning a bank's performance and future outlook. For example, when a bank possesses a substantial share of institutional or foreign ownership, it indicates to investors that the bank is well-governed, transparent, and likely to achieve strong financial results. Institutional investors are frequently regarded as more sophisticated, and their presence in a bank's ownership structure can reflect a greater level of confidence in its operations (Kothari, 2001). Likewise, foreign ownership can convey international credibility and compliance with global best practices, implying that the bank is well-managed and poised for growth (Gerin, 2017).

### **Empirical Review**

Numerous studies have explored the connection between ownership structure and financial performance. The results of these studies have been varied. Kirimi et al. (2022) analyzed data from the audited financial statements of 39 commercial banks in Kenya to investigate the relationship between ownership structure and financial performance over the period from 2009 to 2020. The regression results provided strong evidence that ownership structure accounts for the variations in the financial performance of commercial banks. The researchers found that ownership structure significantly impacts the net interest margin (NIM) more than the return on assets (ROA). Additionally, the findings revealed a negative correlation between state ownership, institutional ownership, and managerial ownership with both net interest margin (NIM) and return on assets, while foreign

ownership was negatively associated with earnings per share (EPS). The researchers concluded that there is an inverse relationship between ownership structure and financial performance among commercial banks in Kenya. Consequently, they recommended that commercial banks should diversify their ownership structures to enhance performance, and those with a significant level of state ownership should contemplate privatization to improve corporate governance practices.

In a separate study, Wanke et al. (2022) investigated the link between bank ownership and efficiency in firm performance both prior to and following the 2008/2009 global financial crisis. This research focused on a sample of 58 Indian commercial banks from 2005 to 2017. The researchers employed the dynamic data envelopment analysis (DEA) framework to analyze the data collected during the study. The results indicated that banks with foreign ownership structures exhibited superior and more efficient performance compared to state-owned commercial banks, both before and after the global financial crisis. They determined that the primary factors contributing to this improved performance were the size of the bank and its profitability, rather than its ownership structure. They advised that banks should concentrate on expanding their asset bases and profit margins to boost efficiency.

In Tunisia, Aymen (2014) examined the effect of ownership structure on the financial performance of banks. The researcher employed a static panel model to evaluate data gathered from a sample of 19 banks that were members of the professional association of banks in Tunisia from 2000 to 2010. Financial performance was assessed using Return on Assets (ROA), while the ownership structures considered included ownership concentration, public ownership, private ownership, and foreign ownership. The results of the study indicated that ownership structure did not influence the financial performance of banks in Tunisia. The researcher concluded that there is no evidence to suggest that ownership structure affects the performance of Tunisian banks. It was recommended that banks in Tunisia should aim to enhance their financial performance, irrespective of the prevailing ownership structure within the institution.

### **Data Analysis Method**

Both descriptive and inferential statistical methods were employed in the analysis of the data for this study.

The Least Square Dummy Variable (LSDV) method was utilized in the regression analysis, while the Hausman test was applied to assess the robustness of the regression outcomes in selecting either the fixed or random effects model.

Furthermore, several diagnostic tests were performed to examine unit root, normality, and auto-correlation within the models.

## Results and Discussion of Findings

### Descriptive Statistics

The descriptive statistic result for the variables is presented in Table 1

**Table 1: Descriptive Statistic Results of Variables in the Study**

Variable	Mean	SD	Maximum	Minimum	Jarque-Bera Prob
IOS	57.56	38.21	99.24	0.01	0.013
COS	42.44	38.21	99.99	0.76	0.0125
ROA	1.838	1.842	11.69	-3.65	0.0000
ROE	8.009	0.951	9.189	3.088	0.0000

**Source:** Researcher's Computation (2024)

Table 1 illustrates that the return on assets (ROA) for commercial banks was 1.838%. This suggests that the financial performance of these banks regarding ROA was suboptimal, considering that the standard deviation for the same timeframe was 1.842. This indicates that for some years, the performance of commercial banks was not at its best, as the ROA fluctuated between -3.65% and 11.69%. Additionally, the average values for concentrated ownership structure (COS) and institutional ownership structure (IOS) were 42.44% and 57.56%, respectively. This further suggests that institutional ownership structure is dominant in terms of equity shareholding within commercial banks in Nigeria, despite the fact that 8 out of the 13 sampled banks exhibited concentrated ownership in this study. This also implies that commercial banks in Nigeria are gradually moving towards ownership concentration, as evidenced by the widening gap between the minimum values of COS and IOS. The average return on equity (ROE) was recorded at 8.009, with a standard deviation of 0.951. This indicates minimal variation in the number of shareholders across commercial banks during the observed period. Lastly, all variables successfully passed the normality test, with their Jarque-Bera probabilities being below the 0.05 level of significance.

In Table 2, the mean of ROA for the banks under the concentrated and institutional ownership were compared.

**Table 2: Return on Assets (ROA) Ownership Concentration and Institutional Ownership of Banks**

Statistic	Concentrated	Institutional
Mean	1.172	2.902
Median	1.185	2.67
S.D	1.048	2.311
Minimum	-3.65	0.68
Maximum	3.29	11.69
Number of Banks	8	5

**Source:** Researcher's Compilation (2024)

Table 2 illustrates that the mean value of ROA for banks with institutional ownership structures exceeds that of banks with concentrated ownership structures. The findings indicate that 2.902% surpasses 1.172%, suggesting that, despite the overall subpar performance in terms of ROA among the sampled commercial banks, those with institutional ownership achieved superior financial performance from 2018 to 2022. This is additionally represented by the median ROA and the range of ROA values across the banks. This may suggest that an institutional ownership structure is more conducive to enhanced financial performance compared to concentrated ownership.

In Table 3, the mean of ROE for the banks under the concentrated and institutional ownership were compared.

**Table 3: Return on Equity (ROE) Ownership Concentration and Institutional Ownership of Banks**

Statistics	Concentrated	Institutional
Mean	0.06826	0.05665
Median	0.18325	0.12710
S.D	38.538	22.639

Minimum	0.1105	- 0.2673
Maximum	0.4311	0.3895
Number of Banks	8	5

**Source:** Researcher's Compilation (2024)

Analysis of data concerning Nigerian banks as shown above indicates that ownership concentration has varying effects on Return on Equity (ROE). Some research suggests that dispersed ownership enhances ROE, whereas concentrated ownership tends to improve Return on Assets (ROA) and Net Interest Margin (NIM). Additionally, other studies have identified approximately 55% ownership concentration as a critical threshold for achieving positive ROE. Furthermore, institutional ownership frequently exhibits a negative and significant influence on ROE, implying potential management control challenges. In contrast, managerial ownership appears to have negligible effects. Recommendations emphasize the need for balanced investment strategies and enhanced oversight to foster improved performance.

## Conclusion

This research was carried out to investigate the impact of ownership structure on the financial performance of quoted banks in Nigeria, focusing on a sample of 13 commercial banks listed on the Nigerian Exchange Limited (NGX) from 2018 to 2022. The study's findings revealed a significant negative impact of concentrated ownership structure on the return on assets (ROA) of quoted banks.

The results indicated that an increase in bank size would result in a reduction of this negative effect. Additionally, both institutional and managerial shareholding exhibited a negative and significant correlation with return on equity (ROE). Moreover, a causal relationship was identified between concentrated ownership and institutional ownership concerning the return on assets (ROE) of quoted banks in Nigeria. The study anticipated that concentrated and institutional ownership structures would have a positive and negative effect on financial performance, respectively, and that a causal relationship might exist between these variables.

Conversely, concentrated ownership did not enhance the financial performance of the banks, and a causal effect of ownership structure on financial performance was not confirmed.

Consequently, it is concluded that institutional ownership structure positively influences the financial performance of quoted banks, in contrast to the concentrated ownership structure that many banks in the Nigerian banking sector

adopt. The primary reason for this is that institutional ownership alleviates worries regarding agency issues, facilitating the alignment of interests between managers and shareholders with the broader or collective interest of all by pursuing the banks' objectives, which aim to maximize profits and shareholder wealth. As banks in Nigeria continue to grow in size, and with anticipated consolidation, it is likely that larger banks will come into existence.

### **Recommendations**

- a Quoted banks ought to align with the structure of institutional ownership, as this is likely to decrease agency costs, eliminate controlling interests, promote corporate governance, and improve financial performance.
- b Quoted banks that have recently adhered to a structure of concentrated ownership should be cautious about the potential for declining financial performance. In this context, they should implement controls to mitigate the repercussions associated with increased individual control within the banks. This approach will ensure that the adverse effects of concentrated ownership are effectively managed through corporate governance mechanisms and the alignment of shareholders' and managers' interests with the banks' objectives.
- c The Central Bank of Nigeria (CBN) should enhance corporate governance principles and other regulations related to equity holdings and controlling interests in commercial banks.

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