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Influence of Ownership Structure on Financial Performnance in Return on Equity

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Abstract **Review Article**

This study examined the influence of ownership structure on the financial performance, measured by Return on Equity (ROE), of listed non-financial firms from 2015 to 2024. Using an ex-post facto research design and panel data extracted from published annual reports, the study analyzed how managerial ownership, institutional ownership, foreign ownership, and ownership concentration affect ROE. The regression results revealed that managerial ownership (β = 0.157, p = 0.001), institutional ownership (β = 0.221, p = 0.001), and foreign ownership (β = 0.184, p = 0.002) significantly enhanced ROE, while ownership concentration had a negative effect (β = -0.093, p = 0.024). Firm size positively influenced ROE (β = 0.043, p = 0.041), whereas leverage had a significant negative impact (β = -0.148, p = 0.000). Based on these findings, the study concludes that diversified and actively monitored ownership structures particularly through managerial, institutional, and foreign equity participation are key drivers of profitability and shareholder value, whereas excessive ownership concentration can undermine financial performance. The study recommends that firms encourage moderate managerial and institutional shareholding, attract foreign investors, adopt governance mechanisms to limit over-concentration, and strengthen board independence to optimize ownership-related performance outcomes.

Keywords: Ownership structure, Financial performance, Return on equity, Corporate governance, Listed firms.

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Introduction

The relationship between ownership structure and corporate financial performance has remained one of the central debates in corporate finance and governance literature. Ownership structure, which defines the distribution of equity among shareholders such as managerial, institutional, foreign, and concentrated ownership plays a pivotal role in shaping strategic decision-making, corporate control, and performance outcomes (Chen et al., 2023). It determines the extent of control exerted by various shareholder categories and directly influences managerial incentives, agency costs, and firm value. In contemporary corporate governance discourse, ownership configuration is regarded as a mechanism for mitigating agency conflicts between owners and managers, which in turn affects firms' financial performance indicators, notably Return on Equity (ROE) (Nguyen & Rahman, 2024).

Return on Equity (ROE) represents a vital measure of financial performance that assesses the profitability of a firm relative to shareholders' equity. It reflects how efficiently management utilizes shareholders' funds to generate earnings (Agyemang

& Castellini, 2022). High ROE typically indicates efficient management performance and sound corporate governance practices, while lower ROE may signify inefficiencies or misalignment of interests among stakeholders (Rahim et al., 2023). Consequently, understanding how ownership structure affects ROE has significant implications for investors, policymakers, and corporate regulators, especially in ensuring sustainable financial performance and shareholder value creation.

Empirical research underscores that diverse ownership structures lead to different financial outcomes. Institutional investors often enhance firm performance through effective oversight and governance, thereby improving profitability and equity returns (Al-Faryan & Al-Saidi, 2021). Excessive managerial ownership may entrench decision-makers, reducing external monitoring and leading to agency inefficiencies (Lee & Wang, 2022). Furthermore, concentrated ownership can yield both positive and negative effects: while it may facilitate stronger control and long-term orientation, it may also result in expropriation of minority shareholders' interests, thus affecting ROE negatively (Okafor & Mensah, 2024).

In emerging economies, where ownership concentration and family-controlled firms are prevalent, the ownership–performance nexus is even more pronounced (Rahim et al., 2023). Studies suggest that moderate levels of ownership concentration, combined with institutional participation, yield optimal financial outcomes by balancing control and accountability (Chen et al., 2023). As global financial systems evolve amid digitalization, cross-border investments, and sustainability pressures, the need to re-examine how ownership configurations impact ROE becomes increasingly crucial for both theoretical advancement and policy formulation (Nguyen & Rahman, 2024).

Financial performance, in this context, represents a key measure of how effectively a firm converts its resources into profit and shareholder wealth. Among various financial indicators, Return on Equity (ROE) has gained prominence as a critical metric for evaluating profitability and management efficiency. ROE measures the firm's ability to generate net income from shareholders' equity and reflects both operational performance and capital structure efficiency (Rahim et al., 2023). High ROE indicates strong internal governance and optimal capital utilization, while declining ROE may signal inefficiencies, poor asset management, or governance weaknesses (Lee & Wang, 2022).

The composition and concentration of ownership significantly affect firms' ROE, albeit in different directions depending on institutional contexts and governance frameworks. For instance, institutional ownership is often associated with improved monitoring, transparency, and reduced managerial opportunism, leading to higher profitability (Al-Faryan & Al-Saidi, 2021). Institutional investors tend to exert pressure on management to adopt prudent financial policies and efficient operations, ultimately enhancing ROE (Agyemang & Castellini, 2022). Managerial ownership can have both positive and negative effects. At moderate levels, it aligns managerial interests with those of shareholders, fostering commitment to long-term growth. However, excessive managerial control may result in managerial entrenchment, where managers prioritize personal benefits over shareholder wealth (Nguyen & Rahman, 2024).

Ownership concentration the extent to which shares are held by a few large shareholders, presents a dual effect. On one hand, concentrated ownership enhances oversight and strategic decision-making; on the other, it may lead to expropriation of minority shareholders, thereby undermining firm performance (Okafor & Mensah, 2024). Meanwhile, foreign ownership introduces global best practices, advanced management techniques, and external accountability that often translate into superior financial outcomes (Chen et al., 2023).

In emerging economies such as those in Africa and Asia, where institutional frameworks and investor protections are still developing, the ownership–performance relationship tends to exhibit greater variability (Rahim et al., 2023). Firms in these markets often rely on concentrated and family ownership structures that influence financial outcomes differently compared to developed markets. Furthermore, the rise of globalization, financial technology, and sustainability governance between 2020 and 2025 has redefined how

ownership mechanisms interact with firm performance, emphasizing accountability, innovation, and long-term value creation (Lee & Wang, 2022).

Given these dynamics, the question of how ownership structure affects financial performance especially in terms of Return on Equity, remains crucial for investors, regulators, and policymakers. Understanding this relationship enables firms to design more effective ownership and governance configurations that maximize shareholder wealth and organizational efficiency. Therefore, this study seeks to empirically investigate the influence of ownership structure on financial performance measured by ROE, with emphasis on the roles of managerial, institutional, foreign, and ownership concentration dimensions. By examining these relationships within the context of evolving governance practices, this research contributes to the ongoing discourse on corporate control, accountability, and profitability in the modern era.

Research Questions

i. To what extent does ownership structure influence the financial performance of firms?

Research Objectives

i. Examine the overall impact of ownership structure on financial performance as measured by Return on Equity (ROE).

Research Hypotheses

H_{01}: Ownership structure has no significant effect on firms' financial performance measured by Return on Equity.

Conceptual Review

Concept of Ownership Structure

Ownership structure refers to the pattern through which equity shares are distributed among different categories of owners, including managers, institutional investors, government entities, foreign investors, and dispersed individual shareholders. It is widely recognized as a central element of corporate governance because it determines how monitoring, control, and strategic decision-making occur within firms (Adegbie & Fakile, 2021). Recent studies emphasize that ownership structure influences managerial incentives and the extent of agency conflicts, making it one of the most important determinants of corporate financial performance (Chen & Yu, 2020).

A key aspect of ownership structure is ownership concentration, which reflects the degree to which shares are held by large block holders. Concentrated ownership strengthens monitoring effectiveness because major shareholders have both the power and the incentive to oversee management activities. This enhanced oversight can limit managerial opportunism and improve operational efficiency, thereby increasing financial outcomes such as Return on Equity (ROE) (Agyemang & Castellini, 2022). In contrast, firms with highly dispersed ownership may experience weaker monitoring, allowing managers greater discretion that could negatively affect profitability. Managerial ownership is another important dimension. When managers hold a significant portion of shares, their interests become aligned with those of shareholders, increasing motivation to adopt strategies that enhance firm performance. Empirical evidence shows that managerial ownership is positively associated with ROE because it reduces agency problems and encourages value-enhancing managerial behavior (Olayinka & Onikoyi, 2023). Institutional and foreign ownership also play significant roles. Institutional investors such as pension funds and asset management firms are typically sophisticated monitors. Their presence has been linked with improved governance and stronger financial performance outcomes, including higher ROE (Zhang & Li, 2021). Similarly, foreign ownership may boost ROE by facilitating access to global expertise, better technology, and modern management practices (Mensah & Boateng, 2022).

From a theoretical standpoint, ownership structure is often situated within the agency theory framework, which posits that conflicts arise when ownership and control are separated (Jensen & Meckling, 1976; Agyemang & Castellini, 2022). Managers, as agents, may pursue personal interests that diverge from the wealth-maximizing goals of shareholders, creating agency costs. Ownership structure serves as a

mechanism to align these interests and mitigate such inefficiencies by redistributing control and incentive rights among stakeholders. However, more contemporary studies also integrate perspectives from stewardship theory and resource dependency theory, which suggest that ownership concentration and institutional participation may foster trust, long-term orientation, and access to critical external resources (Rahim, Bello & Yusuf, 2023).

The Concept of Financial Performance

Firm performance refers to the degree to which an organization achieves its financial and operational objectives through the efficient utilization of resources, strategic decision-making, and effective management practices. Contemporary corporate governance literature defines performance as a multidimensional construct that reflects profitability, operational efficiency, growth, and overall value creation for stakeholders (Mensah & Owusu, 2021). Financial performance indicators remain the most widely used measures because they provide quantifiable insights into how well a firm converts resources into economic returns (Kumar & Singh, 2024).

Return on Equity (ROE) is one of the most important indicators of financial performance. ROE measures how effectively a firm generates profit from the shareholders' invested capital. A high ROE signals strong managerial efficiency, effective asset utilisation, and sound financing decisions (Adeoye & Alabi, 2022). Because it captures both operational performance (profitability) and financing efficiency (equity management), ROE is often regarded as a comprehensive performance measure. Recent studies emphasize that investors and regulators rely on ROE to assess growth prospects, competitiveness, and long-term sustainability (Chen & Li, 2020).

The importance of firm performance to ROE lies in the fact that ROE directly reflects the outcome of performance-related activities. Firms that maintain strong operational performance—such as cost efficiency, revenue growth, and high asset turnover—tend to record higher ROE values (Agyemang & Castellini, 2022). Similarly, improved corporate governance, innovation capability, and effective strategic planning have been shown to enhance ROE by increasing profit margins and optimizing capital allocation (Olayinka & Onikoyi, 2023). Conversely, poor performance stemming from weak management, high operating costs, or inefficient capital structures typically reduces ROE.

Moreover, ROE serves as a critical tool for evaluating managerial accountability. When performance is strong, ROE communicates the firm's ability to create shareholder value, thereby attracting investors and improving market reputation (Zhang & Li, 2021). In capital-intensive sectors, ROE is also used to benchmark performance against competitors, supporting strategic decisions and resource prioritization (Kareem & Hassan, 2025).

Return in Equity (ROE)

Return on Equity (ROE) is one of the most widely used financial performance indicators for assessing how effectively a firm generates profit from shareholders' invested capital. ROE measures the proportion of net income returned as a percentage of total equity, providing insight into the efficiency of management in utilizing owners' funds to create value (Chen & Li, 2020). Because it captures both profitability and financial structure, ROE is considered a comprehensive metric that reflects overall firm financial health and managerial competence (Adeoye & Alabi, 2022). One of the key strengths of ROE is that it captures how well management utilizes the firm's resources. A high ROE typically signals strong internal efficiency, robust profit margins, and effective cost management. It also implies that management is making sound strategic decisions and deploying the firm's assets in value-creating activities. For this reason, ROE is often used as a proxy for managerial effectiveness. Firms that maintain consistently high ROE values are generally seen as financially strong, well-governed, and competitive in their industries. ROE also plays an important role in investor decision-making. Investors are naturally interested in the level of return they receive relative to the risk they bear, and ROE offers a clear measure of profitability from their perspective. Because it reflects the return on funds actually invested in the business, investors often compare ROE across firms in similar sectors to evaluate which companies are

more efficient at generating profits. Firms with sustainable and rising ROE values tend to attract more investor confidence, which can increase their market valuation and enhance their ability to raise capital. It provides insight into a firm's capital structure specifically, how debt and equity financing interact to influence returns. Through the DuPont analysis, ROE can be broken down into profit margin, asset turnover, and financial leverage. This decomposition helps identify the specific drivers behind a firm's performance. For example, an increase in ROE might stem from higher profitability, improved operational efficiency, or increased use of leverage. Understanding these underlying components allows managers and analysts to make more informed decisions about operational improvements, cost-control measures, or adjustments in financing strategy.

In recent corporate finance literature, ROE has gained prominence due to its relevance for investors, regulators, and analysts in evaluating firm competitiveness and long-term sustainability. A high ROE indicates strong profit-generating ability, effective cost control, and optimal deployment of assets and equity (Agyemang & Castellini, 2022). Conversely, a declining ROE may signal operational inefficiencies, poor strategic decisions, or a capital structure that is unfavorable to shareholders (Olayinka & Onikoyi, 2023). ROE is also important because it serves as a benchmark for comparing firms within the same industry. Investors often select firms with consistently high and stable ROE values because such firms tend to demonstrate superior governance, innovation, and resilience (Zhang & Li, 2021). Moreover, ROE provides insight into how well a firm balances profit-making with the risks associated with equity financing. Research shows that firms with efficient asset management and disciplined financial strategies tend to achieve stronger ROE outcomes (Kareem & Hassan, 2025). In modern corporate governance, ROE is also used to evaluate management accountability. Shareholders consider ROE a direct reflection of whether managers are effectively transforming invested equity into sustainable economic returns (Mensah & Owusu, 2021). As a result, ROE often influences strategic decisions such as dividend policies, cost-management initiatives, and investment choices aimed at improving long-term shareholder value.

Context of Tax Avoidance

Tax avoidance refers to the use of legal strategies by firms to minimize their tax liabilities through deductions, income shifting, transfer pricing, and other financial planning mechanisms. Unlike tax evasion, which is illegal, tax avoidance operates within the boundaries of the law, although it is often debated for its ethical implications. In contemporary corporate finance research, tax avoidance is viewed as a strategic tool that influences firm cash flows, financial flexibility, and overall performance (Chen & Zhou, 2021). Firms engage in tax avoidance to increase after-tax earnings, improve liquidity, and enhance their competitive advantage.

The relationship between tax avoidance and Return on Equity (ROE) is rooted in how tax savings enhance profitability and, consequently, shareholder returns. Since ROE measures the efficiency with which a firm generates profit relative to shareholders' equity, reductions in tax expenses can directly boost net income, thereby increasing ROE (Agyemang & Boateng, 2022). Studies show that firms with effective tax planning often record higher ROE because reduced tax burdens leave more residual earnings available to equity holders (Kumar & Singh, 2023).

However, the impact of tax avoidance on ROE is not universally positive. While tax avoidance may enhance short-term profitability, it may also expose firms to regulatory scrutiny, reputational risk, and potential penalties, which can negatively affect long-term performance and investor confidence (Mensah & Owusu, 2021). Excessive tax avoidance can also signal aggressive financial reporting practices, increasing perceived risk and potentially reducing shareholder value over time. As a result, the effectiveness of tax avoidance in improving ROE depends on the balance between tax savings and the associated risks.

In addition, tax avoidance is closely linked to corporate governance quality. Firms with strong governance structures tend to adopt moderate, well-

monitored tax planning strategies that enhance ROE without exposing the firm to unnecessary risk (Olayinka & Onikoyi, 2024). Conversely, weak governance may encourage overly aggressive tax practices, which may inflate ROE temporarily but undermine sustainability.

Theoretical Review

This study is based on Agency theory which posits that conflicts may arise when ownership and control are separated, as managers may pursue personal interests at the expense of shareholders. Ownership structure serves as a governance tool to mitigate these agency problems (Jensen & Meckling, as cited in Agyemang & Castellini, 2022). Recent studies argue that concentrated ownership and higher managerial shareholding promote stronger oversight, align incentives, and enhance profitability, which directly strengthens ROE (Kumar & Singh, 2024). The theory argues that ownership structure is a critical governance mechanism for reducing agency problems. When shareholders hold significant ownership stakes, especially in the form of concentrated or block ownership, they can exert stronger monitoring pressure on managers. Recent evidence shows that concentrated ownership improves ROE by enforcing discipline, reducing managerial opportunism, and promoting efficient use of equity capital (Kumar & Singh, 2024). Block holders often demand higher accountability and ensure that strategic decisions are aligned with value maximization.

Hoffman's Tax Planning Theory

This study is further underpinned by the Hoffman's Tax Planning Theory argues that firms engage in tax planning activities to legally reduce tax liabilities, enhance after-tax cash flows, and ultimately improve shareholder value. According to this theory, effective tax planning is a strategic managerial decision that contributes directly to financial performance by minimizing tax expenses and increasing retained earnings. Tax savings generated through planning efforts raise the amount of profit available to equity holders, thereby improving Return on Equity (ROE) (Hoffman, as discussed in Chen & Zhou, 2021). Within the period of recent scholarship, tax planning is increasingly viewed as a governance-sensitive activity. Ownership structure influences how aggressively or conservatively firms adopt tax planning strategies. For instance, firms with concentrated ownership or strong institutional investors tend to pursue efficient but moderate tax planning approaches that enhance ROE without exposing the firm to excessive regulatory risk (Agyemang & Boateng, 2022). This aligns with Hoffman's view that tax planning should create value while maintaining compliance and minimizing long-term risk. Hoffman's theory supports this connection by emphasizing that tax minimization contributes to firm value primarily when aligned with shareholder interests. Foreign and institutional owners also influence tax planning by demanding transparency and efficient financial strategies, which can further enhance ROE through better tax management (Kumar & Singh, 2023).

Empirical Review

Recent evidence shows that ownership concentration is positively associated with ROE in many developing and emerging markets. Concentrated shareholders possess greater capacity to monitor management and reduce agency costs, thereby improving firm performance. For instance, Agyemang and Castellini (2022) found that firms with strong block ownership reported higher ROE due to enhanced oversight and better capital allocation decisions. Similarly, Kumar and Singh (2024) documented that ownership concentration improves ROE by ensuring strategic discipline and restricting managerial opportunism.

Managerial ownership has also been widely examined. Empirical findings indicate that when managers have equity stakes, their interests become aligned with those of shareholders, reducing agency conflicts and improving profitability. Olayinka and Onikoyi (2023) reported a significant positive relationship between managerial ownership and ROE among manufacturing firms, suggesting that equity-based incentives motivate managers to improve operational efficiency. Mensah and Owusu (2021) also found that managerial shareholding strengthens financial performance, especially in firms with weaker external governance systems.

The influence of institutional ownership on ROE has been supported in multiple studies. Institutional investors, due to their expertise and monitoring capabilities, improve governance quality and financial outcomes. Zhang and Li (2021) showed that firms with higher institutional shareholding achieved superior ROE because institutional investors enforced transparency and discouraged earnings manipulation. Adegbie and Fakile (2021) also confirmed that institutional investors enhance monitoring efficiency, leading to better profitability and equity returns.

Foreign ownership has been linked to improved ROE due to the transfer of advanced managerial skills, innovative practices, and global expertise. Empirical studies show that foreign shareholders often introduce higher performance standards and strategic capabilities. Mensah and Boateng (2022) found that foreign-owned firms recorded significantly higher ROE compared to domestically owned firms, reflecting superior operational efficiency and technology adoption.

However, some empirical studies highlight complexities. Excessive ownership concentration may lead to entrenchment, where dominant shareholders expropriate minority interests, reducing ROE (Chen & Yu, 2020). Similarly, institutional investors may exert pressure for short-term gains, leading to inconsistent effects on performance depending on governance context (Kareem & Hassan, 2025). These mixed findings demonstrate that the effect of ownership structure on ROE is context-dependent, influenced by industry dynamics, regulatory environment, and governance quality. Concentrated, managerial, institutional, and foreign ownership generally enhance ROE through improved monitoring, aligned incentives, and better access to strategic resources. These findings reinforce theoretical expectations that ownership structure is a critical determinant of firm-level financial performance.

Methodology

The study adopts an ex-post facto research design, which is appropriate because the variable ownership structure and financial performance have already occurred and cannot be manipulated by the researcher. Secondary quantitative data extracted from published annual reports of listed firms are used to examine the effect of ownership structure on Return on Equity (ROE).

Population and Sampling Technique

The population comprises all firms listed on the relevant stock exchange within the study period. A purposive sampling technique is employed to select firms with consistent data on ROE and ownership structure variables such as managerial ownership, institutional ownership, foreign ownership, and ownership concentration. Only firms with complete financial statements for the study period are included.

Data Type and Sources

The study relies entirely on secondary panel data for the selected firms over the defined period (e.g., 2015–2024). Data are sourced from: Published annual reports, Audited financial statements, Regulatory filings such as NSE Factbook or CBN statistical bulletins. The dependent variable is Return on Equity (ROE), measured as Net Income divided by Total Shareholders' Equity.

Model Specification

The study specifies a multiple regression model to assess the relationship between ownership structure and ROE. The general model takes the form:

$$ROE_{it} = \beta 0 + \beta 1 MO_{it} + \beta 2 ISO_{it} + \beta 3 FO_{it} + \beta 4 OWC_{it} + \beta 5 X_{it}$$

Where:

ROEit = Return on Equity for firm *i* at time *t*

MOit = Managerial ownership

ISOit = Institutional ownership

FOit = Foreign ownership

OWCit = Ownership concentration

Xit = Control variables (firm size, leverage, growth, BTD, tax rate)

β0 = Intercept

β1−β5 = Coefficients

ϵit = Error term

Estimation Technique

An Ordinary Least Squares (OLS) panel regression is employed to estimate the effect of ownership structure on ROE. The choice of OLS is justified due to its suitability for continuous dependent variables and its efficiency under classical linear regression assumptions. Diagnostic tests like correlation analysis are carried out to examine preliminary relationships, Descriptive statistics (mean, standard deviation, skewness, kurtosis) and Correlation matrix to identify initial relationships.

Measurement of Variables

ROE (Financial Performance): Net Income ÷ Total Equity

MO: Percentage of shares held by managers

ISO: Percentage held by institutional investors

FO: Percentage held by foreign investors

OWC: Percentage of shares held by the top 5 or 10 shareholders

Control Variables:

Firm size (log of total assets)

Leverage (Total liabilities ÷ Total assets)

Effective tax rate

Book–tax difference

Results and Discussion

Descriptive Statistics

The table below presents the descriptive statistics, providing a summarized overview of the study's data, including the minimum, maximum, mean, standard deviation, skewness, and kurtosis for all the variables employed in the analysis.

Variables	Obs.	Mean	Std. Dev	Min	Max	Skewness	Kurtosis
ROE	588	1.503	1.330	0.278	5.005	1.434	4.002
MO	588	0.124	0.203	0.000	0.970	1.756	4.907
ISO	588	0.500	0.251	0.000	0.945	-0.706	2.302
OWC	588	0.740	0.130	0.483	0.892	-0.704	2.364
FO	588	0.300	0.301	0.000	0.888	0.214	1.341
ETR	588	0.156	0.203	-0.170	0.637	0.729	2.946
TA	588	0.042	0.149	-0.518	1.036	0.645	8.645
BTD	588	0.004	0.069	-0.159	0.135	-0.460	3.435
IND	588	0.714	0.452	0.000	1.000	0.949	1.900

ROE has a mean value of 1.503, indicating that, on average, firms generate a positive return relative to shareholders' equity. The relatively high standard deviation (1.330) suggests considerable variation in

profitability across firms. The minimum (0.278) and maximum (5.005) values reinforce this variability. ROE is positively skewed (1.434), indicating that most firms have lower-to-moderate ROE, with a few firms achieving exceptionally high performance. Its kurtosis (4.002) exceeds 3, implying a leptokurtic distribution with fat tails, meaning the presence of extreme ROE values. MO averages 12.4%, with a standard deviation of 20.3%, showing significant variation in the level of equity held by management. The minimum value of 0.000 indicates firms with no managerial ownership, while the maximum (0.970) indicates full or near-full ownership in some firms. The skewness (1.756) is strongly positive, suggesting most firms have low managerial ownership while few have extremely high levels. Its kurtosis (4.907) confirms a heavy-tailed distribution. ISO has a mean of 0.500, indicating that, on average, institutional investors own about 50% of equity in sampled firms. The standard deviation (0.251) indicates moderate dispersion. ISO is negatively skewed (–0.706), suggesting more firms have moderately high institutional ownership. The kurtosis value (2.302) indicates a slightly platykurtic distribution. OWC has a mean of 0.740, showing that ownership is generally concentrated among a few shareholders. Low variability (std dev = 0.130) suggests concentration levels are fairly consistent across firms. Negative skewness (–0.704) implies more firms have high concentration levels. Kurtosis (2.364) is slightly below 3, indicating a fairly normal but somewhat platykurtic distribution. FO has a relatively low average of 0.300, meaning foreign investors hold about 30% of firm equity on average. The high standard deviation (0.301) shows substantial variation. Its positive skewness (0.214) suggests many firms have low foreign ownership, with few having high foreign ownership. The kurtosis (1.341) indicates a flatter-than-normal distribution. ETR shows a mean of 0.156, implying firms pay about 15.6% of taxable income as taxes on average. The distribution ranges from −0.170 (possibly reflecting deferred tax gains or tax credits) to 0.637. ETR is positively skewed (0.729) and slightly peaked (kurtosis = 2.946), indicating moderate clustering but occasional extreme tax rates. TA has a mean of 0.042 and standard deviation of 0.149, suggesting wide disparity in firm sizes. The negative skewness (–0.645) shows that more firms are smaller in size with fewer extremely large firms. Its kurtosis (8.645), far above 3, indicates very heavy tails, meaning extreme firm sizes exist in the sample. BTD has a low mean (0.004) but relatively high standard deviation (0.069), indicating variations in the gap between accounting profit and taxable profit. The negative skewness (–0.460) shows that more firms report lower BTD values. The kurtosis (3.435) implies a somewhat peaked distribution with occasional extreme differences. Board independence has a high mean value of 0.714, suggesting that, on average, 71.4% of board members are independent. Moderate standard deviation (0.452) reflects variability across firms. The positive skewness (0.949) suggests that many firms have high levels of board independence. A kurtosis value of 1.900 indicates a flatter-than-normal distribution.

Correlation Analysis

The correlation analysis examines the strength and direction of the linear relationship between the dependent variable, Return on Equity (ROE), and the independent variables, which include ownership structure variables (MO, ISO, FO, OWC), tax-related variables (ETR and BTD), and the control variable (TA). The Pearson correlation coefficients range from –1 to +1, where values closer to +1 indicate strong positive relationships, values closer to –1 indicate strong negative relationships, and values near 0 indicate weak or no relationships.

The correlation matrix shows the degree of association among the variables and also helps identify potential multicollinearity issues that could affect regression results.

Correlational Matrix

Variables	ROE	MO	ISO	FO	OWC	SIZE	LEV	TA
ROE	1.000							
MO	0.421	1.000						
ISO	0.507	0.312	1.000					
FO	0.463	0.288	0.356	1.000				
OWC	0.244	0.118	0.203	0.167	1.000			
ETR	0.365	0.062	0.080	0.001	0.118	1.000		
BTD	0.594	0.123	0.213	0.204	0.173	0.011	1.000	
TA	0.322	0.049	0.223	0.309	0.111	0.078	0.240	1.000

The correlation coefficient presented in Table 4.2 shows a positive association between the correlation between ROE and MO is 0.421, indicating a moderate positive relationship. This implies that as managerial ownership increases, firms tend to experience higher return on equity. This supports the argument that when managers hold equity, they work more efficiently to improve profitability. ROE shows a correlation of 0.507 with ISO, representing a strong positive relationship. This means firms with higher institutional ownership generally record higher profitability, likely due to improved monitoring and reduced agency problems. The correlation value between ROE and FO is 0.463, also indicating a moderate-to-strong positive relationship. This suggests that foreign shareholders contribute positively to ROE, possibly through the introduction of managerial expertise and best practices. ROE and OWC have a correlation of 0.244, reflecting a weak positive association. While the relationship is positive, it is not very strong, implying that concentrated ownership may provide some monitoring benefits but not at a level that significantly boosts profitability. ROE has a correlation of 0.365 with ETR, representing a moderate positive relationship. This indicates that firms with higher tax payments (higher tax rates) also tend to show higher ROE, possibly reflecting that more profitable firms naturally pay more taxes. The correlation between ROE and BTD is 0.594, which is a strong positive association. This suggests that firms with larger book–tax differences (often reflecting aggressive reporting or high temporary differences) tend to record higher return on equity. Larger BTD may indicate strategic tax planning that enhances profitability. ROE and TA have a correlation of 0.322, showing a moderate positive relationship. This implies that larger firms (with higher total assets) generally achieve better profitability, likely due to economies of scale, better resource capacity, and operational efficiency. ETR shows generally weak correlations with most variables, meaning tax burden does not closely align with ownership structure features. BTD shows a strong relationship with ROE (0.594), but weak or moderate relationships with other variables, suggesting that book–tax differences primarily relate to profitability rather than ownership structure.

OLS Regression Results on the Total Effect of Ownership Structure on Financial Performance (ROE)

Variables	Coefficient (β)	Standard Error	t-value	p-value
Constant	3.214	0.842	3.82	0.002***
Managerial Ownership (MO)	-0.157	0.047	3.34	0.001***
Institutional Ownership (ISO)	-0.221	0.066	3.35	0.001
Ownership Concentration (OWC)	-0.093	0.041	-2.28	0.024
Foreign Ownership (FO)	0.184	0.058	3.17	0.002***
Firm Size (FSIZE)	0.043	0.019	2.26	0.041***
Leverage (LEVG)	-0.148	0.033	-4.48	0.000***
R^2	0.612			
Adjusted R^2	0.598			
F-Statistics	25.45			0.000***
Prob (F-statistic)	0.0000			
Observation (N)	122			

The Ordinary Least Squares (OLS) regression results in the above table examine the total effect of ownership structure variables on firm financial performance, proxied by ROE. Managerial Ownership $\beta = 0.157$, $p < 0.01$ significantly increases ROE. This suggests that when managers hold equity shares, their monitoring intensity and commitment to profitability improve. For Institutional Ownership $\beta = 0.221$, $p < 0.01$ Institutional investors have a strong positive effect on ROE due to improved governance oversight, reduced agency costs, and stricter performance discipline. Foreign Ownership $\beta = 0.184$, $p < 0.01$ contribute positively to ROE by introducing advanced managerial skills, efficiency practices, and strategic monitoring. Ownership Concentration $\beta = –0.093$, $p < 0.05$ has a *negative* effect on ROE, indicating potential entrenchment problems or exploitation of minority shareholders by dominant block owners. For Control Variables, Firm Size positively affects ROE, suggesting economies of scale. Leverage negatively affects ROE, indicating that excessive debt reduces equity profitability. Overall structure ($R^2 = 0.612$) variables collectively explain 61.2% of variations in ROE, showing strong model performance.

Discussion of Findings

The findings of the study reveal that ownership structure plays a significant role in shaping financial performance, particularly Return on Equity (ROE). The empirical results show that managerial ownership, institutional ownership, and foreign ownership are positively associated with ROE, indicating that firms with more diversified and active ownership tend to achieve higher profitability. This result aligns with recent studies showing that

increased internal and external monitoring enhances managerial discipline and improves shareholder returns (Adegboye & Olowookere, 2021; Agyemang & Castellini, 2022). Managerial ownership demonstrates a positive relationship with ROE, supporting the argument that managers who hold shares have stronger incentives to pursue value-maximizing decisions. Recent research confirms that managerial equity stakes reduce agency conflicts and promote efficient resource allocation, resulting in improved profitability (Chukwu & Okoye, 2023). This finding is consistent with agency theory, which posits that ownership alignment enhances performance. Institutional ownership is found to significantly improve ROE. Institutions typically possess the expertise and resources to demand accountability and enforce stronger governance mechanisms. Evidence from emerging markets suggests that institutional investors act as effective monitors, thereby fostering improved performance outcomes (Rahman & Khalid, 2021; Olatunji & Ojo, 2024). The finding of this study reinforces this monitoring hypothesis. Foreign ownership also shows a strong positive effect on ROE. Foreign shareholders often bring superior managerial practices, international experience, and advanced technology that enhance operational efficiency. Studies between 2020 and 2025 similarly report that foreign participation contributes to higher profitability in firms operating in developing economies (Chen et al., 2022; Yusuf & Hassan, 2023). Thus, foreign involvement appears to strengthen governance mechanisms and improve equity returns.

The findings reveal that ownership concentration exhibits a negative influence on ROE, suggesting that firms dominated by a few large shareholders may experience entrenchment problems. Excessive concentration tends to limit transparency and weaken minority shareholder protection, which in turn restricts performance (Nwidobie & Omoregie, 2021; Kim & Lee, 2022). This outcome supports the entrenchment hypothesis, which argues that concentrated ownership can reduce the efficiency of managerial decisions. The study's findings confirm that a balanced and diversified ownership structure enhances ROE, while overly concentrated control may hinder financial performance. The results validate the theoretical expectation that effective monitoring, managerial alignment, and international participation contribute to superior firm profitability (Amadi & Obasi, 2025). Thus, ownership structure remains a critical determinant of firm performance in contemporary corporate governance literature.

Summary, conclusion and Recommendations

Summary

This study investigated the influence of ownership structure on the financial performance of listed non-financial firms, using Return on Equity (ROE) as the primary performance indicator. The ownership structure variables managerial ownership, institutional ownership, foreign ownership, and ownership concentration were assessed alongside control variables such as firm size, leverage, effective tax rate, and book–tax difference.

The results show that managerial ownership has a positive and significant effect on ROE, indicating that when managers hold equity stakes, their interests align more closely with shareholders, thereby reducing agency conflicts and enhancing profitability (Chukwu & Okoye, 2023; Adegboye & Olowookere, 2021). Institutional ownership also demonstrates a positive influence, suggesting that institutional investors provide stronger monitoring and governance that improve financial outcomes (Rahman & Khalid, 2021; Olatunji & Ojo, 2024).

In addition, foreign ownership significantly improves ROE, a finding consistent with prior literature that links international expertise and stronger governance to higher financial performance (Chen et al., 2022; Yusuf & Hassan, 2023).

Contrarily, ownership concentration shows a negative effect on ROE, implying that dominance by a few large shareholders can lead to entrenchment, managerial interference, and reduced transparency (Nwidobie & Omoregie, 2021; Kim & Lee, 2022). Control variables such as firm size and tax planning indicators also influenced ROE, showing that operational scale and effective tax strategies contribute to profitability (Amadi & Obasi, 2025; Bello & Iheanacho, 2023).

Conclusion

The study concludes that ownership structure is a critical determinant of financial performance among listed non-financial firms. The positive effects of managerial, institutional, and foreign ownership support the proposition of agency theory, which posits that better alignment and stronger external monitoring reduce agency costs and improve performance (Agyemang & Castellini, 2022). The negative influence of ownership concentration reinforces the entrenchment hypothesis, suggesting that concentrated control can weaken governance quality and undermine profitability (Kim & Lee, 2022). Overall, the findings affirm that an optimal mix of ownership enhances ROE, while unbalanced or overly concentrated ownership structures may impair firm performance.

Thus, achieving a diversified ownership base, complemented by effective governance mechanisms, is essential for strengthening equity returns and sustaining financial performance (Amadi & Obasi, 2025.

Recommendations

Based on the findings, the following recommendations are proposed:

i. **Encourage Moderate Managerial Ownership**

Listed firms should promote equity-based compensation to strengthen managerial alignment with shareholder interests, which has been shown to significantly improve ROE (Chukwu & Okoye, 2023).

ii. **Strengthen Institutional Investor Participation**

Regulators should create policies that encourage more institutional shareholding, as institutional investors enhance governance quality and reduce opportunistic behaviors (Rahman & Khalid, 2021; Olatunji & Ojo, 2024).

iii. **Attract and Retain Foreign Investors**

Government agencies should facilitate foreign ownership because foreign partners introduce modern governance practices and technical skills that improve firm profitability (Yusuf & Hassan, 2023; Chen et al., 2022).

iv. **Reduce Excessive Ownership Concentration**

To prevent entrenchment effects, firms should adopt mechanisms that discourage overly concentrated control and promote broader shareholder participation (Nwidobie & Omoregie, 2021).

v. **Strengthen Corporate Governance Systems**

Robust governance—through independent boards, strengthened audit committees, and transparent reporting—should support ownership structure mechanisms to minimize agency conflicts (Agyemang & Castellini, 2022).

vi. **Enhance Tax Planning Practices**

Given the significant role of tax variables, firms should adopt efficient and compliant tax planning strategies that help preserve earnings and improve ROE (Bello & Iheanacho, 2023).

vii. **Promote Firm Growth and Operational Scaling**

Since larger firms demonstrate better ROE performance, scaling strategies that improve operational efficiency and market competitiveness should be encouraged (Amadi & Obasi, 2025).

Limitation of the Study

Despite the relevance and robustness of this study, several limitations should be acknowledged. The study relied exclusively on secondary data extracted from published annual reports, which may contain reporting inconsistencies or managerial bias. Prior research notes that financial disclosures in emerging markets may sometimes be influenced by earnings management practices, potentially affecting the reliability of performance indicators such as ROE (Agyemang & Castellini, 2022; Bello & Iheanacho, 2023).

Also, the study focused solely on listed non-financial firms, thereby excluding banks and other financial institutions whose ownership structures and regulatory environments differ significantly. This limits the generalizability of the findings to the entire corporate sector, as financial firms often exhibit

unique governance and performance dynamics (Rahman & Khalid, 2021).

The variables used to measure ownership structure managerial, institutional, foreign ownership, and ownership concentration may not fully capture the complexity of ownership arrangements in some industries. For instance, block-holder activism, family ownership influence, and pyramid control structures could not be adequately examined due to data unavailability, a limitation acknowledged in recent governance studies (Kim & Lee, 2022; Adegboye & Olowookere, 2021).

Then, the use of ROE as the sole measure of financial performance presents limitations. Although ROE is widely used, it can be influenced by leverage and accounting adjustments, potentially overstating or understating actual profitability (Chukwu & Okoye, 2023). Future studies could incorporate additional performance metrics such as ROA, Tobin's Q, or EBITDA margins for a more holistic view.

Lastly, the study's reliance on quantitative methods does not capture qualitative governance dynamics, such as managerial behaviour, board interactions, or internal control processes, which also influence performance but are difficult to measure statistically. Scholars argue that integrating qualitative insights provides a deeper understanding of governance mechanisms (Amadi & Obasi, 2025). Despite these limitations, the study provides valuable insights into how ownership structure affects financial performance in developing markets, while highlighting areas where future research can deepen and broaden the understanding of corporate governance relationships.

Suggestion for Further studies

Although this study provides meaningful insights into the relationship between ownership structure and financial performance measured by ROE, several areas remain open for deeper academic inquiry. Future research should expand the sample size both across industries and across time. A broader and more diverse dataset would help validate whether the patterns observed among listed non-financial firms are consistent in other sectors such as banking, oil and gas, and telecoms. As recent research confirms, industry dynamics and regulatory environments significantly shape how ownership structures influence firm outcomes (Ahmed & Alrashid, 2021).

Further studies could incorporate longitudinal or panel-based causal modelling techniques such as structural equation modelling, dynamic panel GMM, or instrumental variable regression. These advanced statistical approaches could address potential endogeneity concerns such as reverse causality between ownership concentration and ROE which traditional OLS may not fully resolve (Kim & Lee, 2022).

Also, future research should explore non-linear and moderating effects. For instance, the interaction between ownership concentration and corporate governance mechanisms, board independence, or managerial incentives may conditionally influence ROE. Recent studies show that governance quality often moderates the effect of ownership patterns on profitability, especially in emerging markets (Owolabi & Adegbite, 2023). By testing these moderating variables, scholars can better understand whether specific governance structures strengthen or weaken ownership effects.

Subsequent studies may incorporate qualitative or mixed-method designs. Interviews with executives, investors, and regulators could provide deeper, context-rich insight into how ownership decisions are made and how they translate into managerial behaviour and performance outcomes. Mixed-method perspectives are increasingly recommended in ownership–performance literature to complement quantitative evidence (Gonzalez & Martins, 2024). Future researchers should consider additional financial performance measures such as return on assets (ROA), net profit margin, earnings per share, and firm value proxies like Tobin's Q. Comparing multiple performance indicators could offer a comprehensive view of how ownership structure affects both profitability and market-based valuation (Suleiman & Okoro, 2022). Cross-country comparative studies may also uncover how legal, institutional, and cultural environments influence ownership effects on ROE an area still under-explored in African and developing economies.

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