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Effect of Foreign Ownership on the Value of Listed Financial Firms in Nigeria

Anna Nanchin Christopher Fakah[1], Henrietta Fakah[2]
Innocent Felix Dahel[3]
1 Corresponding Author: annafakah@plasu.edu.ng
[1, 3,] Department of Accounting, Plateau State University, Bokkos.
[2] Department of Management Studies, Plateau State University, Bokkos

Abstract
This study examines the effect of foreign ownership on the value of listed financial firms in Nigeria. The study employs ex post facto research design. The study utilizes secondary data from the annual reports and financial statements of 42 purposively selected listed financial firms in Nigeria from 2012 to 2022. The data was analyzed using descriptive statistics, correlation analysis, and multiple regression techniques. The findings reveal that foreign ownership has a positive and significant effect on firm value of listed financial firms in Nigeria. The study concludes that foreign ownership has over the years increased the firm value listed financial firms in Nigeria. The study recommends that Nigerian financial regulators, particularly the Securities and Exchange Commission (SEC) and the Central Bank of Nigeria (CBN), should develop policies that encourage foreign investment while ensuring adequate local participation in financial firms. Additionally, firms should strategically leverage foreign ownership to improve corporate governance, attract capital inflows, and enhance financial performance. Further research is suggested to explore the moderating role of corporate governance mechanisms in the relationship between foreign ownership and firm value.

Keywords:
Foreign Ownership, Firm Value, and Market Capitalization.

1.0 INTRODUCTION

Firm value is a fundamental measure of corporate performance, influencing investor confidence, financial sustainability, and market competitiveness. Globally, firm value is shaped by factors such as capital structure, corporate governance, and ownership composition. Foreign ownership, in particular, has been a major determinant of firm value, as it provides firms with access to external capital, international expertise, and improved managerial efficiency (Mavruk, 2025). However, the effect of foreign ownership on firm value varies across economies. In developed markets, foreign investment has generally been associated with increased shareholder wealth and enhanced corporate governance, while in developing markets, its effects remain a topic of debate. Some argue that foreign ownership brings long-term stability, while others caution that it may lead to excessive profit repatriation and reduced local influence over financial institutions.

In Africa, foreign investment has been instrumental in enhancing the financial sector, particularly in economies where domestic capital is limited. Many African nations have embraced foreign ownership as a strategy to strengthen financial institutions, enhance market liquidity, and integrate local firms into global financial networks (Sodikin & Heikal, 2025). However, the relationship between foreign ownership and firm value in Africa remains complex. On one hand, foreign investors introduce better corporate governance structures and improve operational efficiency. On the other hand, concerns about capital flight, reduced local decision-making, and foreign dominance in critical financial institutions persist (Octavio & Setiawan, 2025). These contrasting perspectives highlight the need for deeper investigation into how foreign ownership affects firm value across different African economies.

Nigeria, as one of Africa's largest economies and financial hubs, has experienced a significant increase in foreign investment within its financial sector. Over the years, government policies have encouraged foreign participation in listed financial firms to enhance economic stability, improve governance practices, and facilitate access to international markets. While some studies suggest that foreign ownership has contributed positively to firm value by introducing capital and managerial expertise, others highlight potential drawbacks, such as profit repatriation and reduced control over domestic financial institutions (Muhia, 2025).

Despite the increasing role of foreign investors in Nigeria's financial sector, there remains limited empirical research on the effect on firm value. While some studies have analyzed return on assets (ROA) and return on equity (ROE) as proxies for performance (Makoka et al., 2023; Onuora et al., 2022; Kazeem et al., 2022), others have considered dividend policy (Gimba et al., 2022) and earnings management (Shittu et al., 2022). However, firm value extends beyond profitability and dividend payouts, incorporating market-based measures such as stock price appreciation and market capitalization, which were not directly analyzed in these studies. Additionally, studies like Ismaila and Tanko (2023) introduced board diversity as a moderating factor, yet there is limited exploration of other moderating variables that could influence the relationship between foreign ownership and firm value, particularly within financial firms.

Furthermore, existing empirical studies on foreign ownership and firm value is evident in the fact that most prior research has been conducted on non-financial firms, such as manufacturing firms (Ismaila & Tanko, 2023; Kazeem et al., 2022), consumer goods firms (Onuora et al., 2022), oil and gas firms (Gimba et al., 2022), and airlines (Makoka et al., 2023). Even studies that focused on Nigerian firms primarily examined non-financial institutions, with limited attention given to financial firms. Furthermore, Shittu et al. (2022) studied earnings management in non-financial firms, further highlighting the scarcity of research on the financial sector. This creates a significant population gap, as financial firms operate under different regulatory frameworks, risk structures, and investment strategies compared to non-financial firms. Addressing this gap is essential to understanding whether foreign ownership influences firm value uniquely in the financial sector, given its distinct operational dynamics and reliance on regulatory compliance.

Recent studies shows that foreign ownership positively influences the performance of listed financial firms in Nigeria. looking at a study which examining commercial banks from 2013 to 2022 revealed that a 1% increase in foreign ownership led to a significant 4% improvement in return on assets (ROA), suggesting the valuable influence of foreign investment on functioning proficiency and profitability. This brings into line with wider drifts observed in 2024, where foreign investors' contribution in the Nigerian stock market flowed by 107.5% to N852.03 billion, motivated by Central Bank of Nigeria reforms and a more good-looking yield atmosphere. Nevertheless, contradicting the findings from a 2024 study of 48 listed financial firms shows no significant impact of foreign ownership on firm performance, signifying that the effects may differ across different ownership structures and institutional frameworks. These mixed results highlight the complication of foreign ownership's role in determining the value of Nigerian financial firms (Salihu et al.,2024).

By investigating the effect of foreign ownership on firm value in Nigeria, this study will provide valuable insights for policymakers, investors, and corporate managers. The findings will inform regulatory decisions aimed at maximizing the benefits of foreign investment while mitigating its potential risks. Additionally, the research will contribute to the broader discourse on corporate governance and financial stability in emerging economies. Given the growing globalization of financial markets, understanding how foreign ownership affects firm value in Nigeria is not only relevant for local stakeholders but also for international investors and financial analysts seeking to navigate investment opportunities in emerging markets. Also, given Nigeria's strategic economic position, it is crucial to examine whether foreign ownership truly enhances firm value or creates economic vulnerabilities. Therefore, the objective of this study is to examine the effect of foreign ownership on the value of listed financial firms in Nigeria

2.0 LTERATURE REVIEW

Conceptual Review

The study reviewed concepts relevant for evaluating the effect of foreign ownership on the value of listed financial firms in Nigeria. Firm value as the dependent variable and foreign ownership as the independent variable were reviewed under this section.

Firm value

Firm value represents the overall worth of a company as perceived by investors and stakeholders, encompassing both its financial performance and market valuation. It reflects the company's ability to generate returns, sustain growth, and attract investment. According to Damodaran (2012), firm value is the sum of all financial claims on a company, including equity, debt, and other liabilities, which collectively determine its market worth. Penman (2016) defines firm value as the intrinsic worth of a company based on its future cash flows, profitability, and risk profile, which influence investor decisions. Similarly, Berk and DeMarzo (2020) described firm value as the present value of expected future cash flows, adjusted for the cost of capital, which serves as a critical indicator of a company's long-term sustainability. The current study adopts market capitalization, calculated as the total market value of outstanding shares, as a measure of firm value. Market capitalization is a widely accepted metric that reflects investor sentiment and overall market assessment of a firm's worth, making it a reliable indicator for analyzing the impact of foreign ownership on firm value.

Foreign Ownership

Foreign ownership refers to all different kinds of private investments made from outside the country that give the investor authority and ownership over a collection of assets located in another nation (Bos et.al., 2013). Gimba, et al., (2022) foreign ownership represents a percentage of total shares held by non-domestic shareholders. Tsegba and Achua (2011) defined it as all foreign shareholders' equity holdings. According to Estrin, Konings, and Agelucci (2001), it is commonly believed that foreign companies have ownership and internalization advantages that are superior to those enjoyed by their domestic competitors.

Empirical Review

Makoka, et al., (2023) examines the impact of foreign ownership on the financial performance of listed airlines in Africa. The research utilized quantitative techniques to collect secondary data from listed airlines over ten years (2010-2019). Descriptive statistics and multiple regression were used for analysis. The results revealed that airlines with the majority of private domestic and private foreign ownership showed a significant positive effect on financial performance (ROA and ROE). In contrast, state ownership had an insignificant impact on airlines' financial performance.

Ismaila and Tanko, (2023) investigated the impact of board diversity on the relationship between ownership structure and financial performance of listed manufacturing firms in Nigeria from 2013 to 2022 financial years. The ownership structure variables used in this study are foreign ownership and concentrated ownership while the financial performance used is represented by return on assets (ROA), and the moderating variable is board diversity. The sample of the study is all the fifty (50) listed manufacturing firms in Nigeria that make up the population of the study. This research used secondary data and multiple regressions for the purpose of this study. The findings of the study reveal that foreign ownership has a positive and insignificant effect on financial performance. However, concentrated ownership has a positive and significant effect on performance. Board diversity has a positive effect on the relationship between foreign ownership, concentrated ownership and financial performance.

Onuora, et al., (2022) determine the relationship between foreign ownership and financial performance of Quoted Non-Financial Firms in Nigeria. Four hypotheses were formulated to guide the investigation and the statistical test of parameter estimates was conducted using OLS regression model operated with STATA V.15. Ex Post Facto design was adopted and data for the study were obtained from the published annual financial reports of the entire consumer goods firms quoted on Nigerian Exchange Group (NGX) with data spanning from 2012-2021. The findings of the study generally indicate that foreign ownership had a significant and positive influence on firms' performance measured by return on equity (ROE) at 1-5% significant level respectively.

Gimba, et al., (2022) analyzed the effect of foreign ownership on the dividend policy of listed oil and gas corporations in Nigeria from 2011 to 2020. The independent variable, ownership structure, was proxied by managerial ownership, institutional ownership, ownership concentration and foreign ownership. while dividend policy was estimated as dividend pay-out ratio. Secondary data was collected from the annual financial reports of the sampled eight (8) oil and gas firms. Using the panel least square regression, it was found that foreign ownership had insignificant effect on dividend pay-out of listed oil and gas firms in Nigeria.

Shittu, et al., (2022) examines the effect of foreign ownership on Earnings Management (EM) among non-financial listed firms in Nigeria for the period of eleven years (2010–2020) using secondary data obtained from the annual reports of the sample firms. The population consists of one hundred and thirteen non-financial listed firms on the Nigerian Stock Exchange as at December 31, 2020, and the sample firms are made up of seventy-two non-financial listed firms that have the data needed for the study. The Discretional Accruals (DA) measured by the Dechow, Richardson, and Tuna (2003) model was used to proxy EM. The data collected was analyzed using panel data regression analysis. The findings show that foreign ownership has a negative and significant influence on EM.

Kazeem, et al., (2022) evaluate is on the relationship between foreign and firm performance (Return on Equity and Return on Asset). Data were collected for this study through secondary source for the period 2011 – 2020. 60 manufacturing firms listed on the Nigerian Stock Exchange were purposively sampled. Data were collected on variables such as institutional owners' equity, managerial ownership equity, foreign ownership equity, Total Assets, shareholders' fund and earnings after interest and tax was collected from the Annual Reports of the companies. Data collected was analyzed using tables, descriptive statistics, correlation and regression analysis. Also, the data collected were subjected to pooled General Least Square, Random and Fixed Effects regression model in testing the hypotheses of the study. It was discovered that all the variables i.e. (ROTA, ROE, MON, LEV, LASSET, ION, FON and AGE) had correlation coefficients that were very low and they were less than 0.9 having either positive or negative values.

Theoretical Review

Agency Theory

The study is anchored on agency theory. Agency Theory was developed by Jensen and Meckling (1976). The theory provides a fundamental framework for understanding the effect of foreign ownership on firm value. The theory posits that a conflict of interest, known as the principal-agent problem, arises when the owners (principals) of a firm delegate decision-making authority to managers (agents). This conflict occurs because managers may pursue personal interests rather than maximizing shareholder wealth, leading to inefficiencies and reduced firm value. Foreign ownership can mitigate this agency problem by introducing external monitoring mechanisms, as foreign investors are often more inclined to enforce strict governance practices, enhance transparency, and demand higher managerial accountability. Moreover, foreign investors bring expertise, advanced management practices, and access to global capital markets, all of which can contribute to improved firm performance and increased market capitalization. However, excessive foreign ownership may also introduce risks, such as misalignment with local market conditions and potential conflicts with domestic stakeholders. Thus, Agency Theory provides a robust explanation for how foreign ownership influences firm value, making it a relevant theoretical underpinning for this study.

3.0 METHODOLOGY

The study employed quantitative research design with an ex post facto research approach. Epistemologically, the study adopts a positivist stance that posits knowledge acquisition through the systematic analysis of empirical data. The population for this study comprises all the 42 listed financial firms in Nigeria. The sampling technique employed for this study is purposive sampling. Purposive sampling allows for the deliberate selection of financial firms that meet specific criteria relevant to the research objectives (Nweze & Nwadialor, 2020). This approach ensures that 42 listed financial firms in Nigeria were sampled as a representative of the target population. The data used for this analysis were sourced from the annual reports and financial statements of the selected firms, covering the study period from 2012 to 2022. Descriptive statistics, Correlation analysis and Multiple regression analysis were employed as the techniques for data analysis.

The model specification for the study is presented thus;

$$FVALUE_{it} = \beta_0 + \beta_1(FRO)_{it} + \varepsilon_{it}$$

Where:

FVALUE = Firm Value (dependent variable)

FRO = Foreign Ownership (independent variable)

ε = Error term

β_0 = constant/intercept

β_1 = Coefficients of the independent variable

Table 3.1 Variable Measurement

VARIABLE	PROXIES	CODE	MEASUREMENT
Dependent	Firm value	FVALUE	Ln (market capitalization)
Independent	Foreign Ownership	FRO	Foreign parent ownership

Source: Author's Compilation, 2025

4.0 DATA PRESENTATION AND ANALYSIS

Table 4.1: Descriptive Analysis

Variable	OBS	Mean	Std. Dev.	Min	Max
FVALUE	462	16.34	1.83	7.42	20.86
FRO	462	0.02	0.15	0.00	0.75

SOURCE: STATA 14.0 Output, (2025)

The descriptive statistics in Table 4.1 offer a detailed summary of the key variables used in this study, providing insights into their distributions and variability among the listed financial firms in Nigeria.

For Firm Value (FVALUE), the mean value of 16.34 in natural logarithmic form translates to approximately ₦92.97 billion, indicating that, on average, the listed financial firms in Nigeria have substantial market value. The standard deviation of 1.83 suggests moderate variation, with firm values deviating by about ₦6.24 billion from the average. The minimum value of 7.42, approximately ₦1.66 billion, represents the lowest market value in the sample, while the maximum value of 20.86, or approximately ₦1.06 trillion, reflects the highest. This wide range in firm value indicates significant disparity in the market valuation of financial firms, with some commanding much higher value than others.

In terms of Foreign Ownership (FRO), the mean value of 0.02 reflects that, on average, foreign investors hold about 2% of these firms' equity. Although the mean level of foreign ownership is low, the standard deviation of 0.15 suggests variability in foreign involvement across the firms. The minimum value of 0% indicates that some firms have no foreign ownership, while the maximum value of 0.75, this shows that some firms are 75% owned by foreign investors. This indicates a stark difference in the extent of foreign investor participation in these firms.

Table 4.2: Correlation Matrix

	FVALUE	FRO
FVALUE	1.0000	
FRO	0.2409	1.00000

SOURCE: STATA 14.0 Output, (2025)

Foreign Ownership (FRO), the correlation with Firm Value (FVALUE) is 0.2409, indicating a weak to moderate positive relationship. This suggests that Nigerian financial firms with higher levels of foreign ownership tend to have slightly higher market values. Foreign investors likely bring international best practices, advanced technology, and capital inflows, which may contribute to the growth and competitive edge of these firms.

The results of the Breusch-Pagan / Cook-Weisberg test for heteroskedasticity provide important insights into the behavior of the residuals in the context of the model analyzing firm value among listed financial firms in Nigeria. The chi-squared statistic is 14.43, with a corresponding p-value of 0.0001. The very low p-value indicates strong evidence against the null hypothesis of constant variance. As a result, the study rejects the null hypothesis, concluding that heteroskedasticity is present in the model. Robust standard errors are employed to mitigate the effect of heteroskedasticity, ensuring that the estimated coefficients and their associated significance levels are reliable.

Also, the overall mean VIF of 1.07 suggests that the independent variable exhibit a moderate level of multicollinearity. However, since the VIF value is below the critical threshold of 10, it can be concluded that multicollinearity is not a significant issue in this regression model.

Table 4.3: Robust Pooled Regression

		F (1, 379)	=	103.68
		Prob > F	=	0.0000
		R-squared	=	0.2678
FVALUE	**Coef.**	**Std. Err**	**T**	**P>|t|**
FRO	3.24615	0.25474	12.74	0.000
_cons	17.72386	0.19625	90.31	0.000

SOURCE: STATA 14.0 Output, (2025)

The results presented in Table 4.4: Pooled Regression analysis includes a total of 384 observations, yielding a statistically significant overall model fit with an F-statistic of 103.68 and a corresponding p-value of 0.0000. This indicates that at least one of the independent variables significantly contributes to explaining variations in firm value. The R-squared value of 0.2678 suggests that approximately 26.78% of the variability in firm value can be explained by the independent variables included in the model.

Foreign Ownership (FRO) exhibits a coefficient of 3.24615 and a standard error of 0.25474, yielding a t-value of 12.74 and a p-value of 0.000. The null hypothesis is rejected. The finding reveals the foreign ownership has a positive and significant effect on value of listed financial firms in Nigeria.

4.1 Discussion of Finding

The finding that a highly significant positive relationship exists between foreign ownership and firm value in listed financial firms in Nigeria sheds light on the dynamics of ownership structures and their implications for corporate performance. Several studies align with the current finding, reinforcing the notion that foreign ownership positively affects firm value. For instance, Makoka et al. (2023) examined the effect of foreign ownership on the financial performance of listed airlines in Africa, revealing a significant positive effect on both return on assets (ROA) and return on equity (ROE). This finding suggests that foreign ownership can bring in valuable resources and expertise that enhance operational efficiency. Similarly, Onuora et al. (2022) determined that foreign ownership had a significant positive influence on financial performance, specifically measured by return on equity (ROE), in quoted non-financial firms in Nigeria. These findings collectively support the idea that foreign ownership can enhance firm value by providing additional capital, improving governance, and fostering better management practices.

In contrast, some studies present findings that disagree with the current conclusion. For example, Ismaila and Tanko (2023) found that while foreign ownership has a positive effect on financial performance, the effect was insignificant when controlling for board diversity and concentrated ownership in manufacturing firms. The contradiction may arise from the fact that in environments with high board diversity and concentrated ownership, the effects of foreign ownership may be diluted or overshadowed by these other factors, suggesting that foreign ownership might not be as influential in certain contexts. Additionally, Gimba et al. (2022) analyzed the effect of foreign ownership on dividend policy in the oil and gas sector and found an insignificant effect on dividend payouts. This indicates that while foreign ownership may provide benefits, these advantages may not necessarily translate into enhanced financial policies across all sectors. Furthermore, Shittu et al. (2022) reported a negative and significant influence of foreign ownership on earnings management among non-financial firms, suggesting that foreign ownership can complicate financial reporting practices rather than enhance value. This contradiction could stem from differing motivations and practices of foreign investors that may not align with local expectations or standards.

5.0 Conclusion and Recommendation

The study concludes that foreign ownership has over the years increased the firm value listed financial firms in Nigeria. This could be attributed to foreign investors bringing in additional capital, expertise, and international best practices that enhance the firm's operational efficiency and competitiveness in the market. These investors bring not only capital but also expertise and technological innovations that can enhance operational efficiency.

The study recommends that Nigerian financial regulators, particularly the Securities and Exchange Commission (SEC) and the Central Bank of Nigeria (CBN), should develop policies that encourage foreign investment while ensuring adequate local participation in financial firms. To further harness the benefits of foreign investment in Nigeria’s financial sector, the study suggests implementing policies that:

i. Encourage Foreign Direct Investment (FDI): Reducing bureaucratic bottlenecks and ensuring a more investor-friendly regulatory environment.

ii. Strengthen Corporate Governance: Establishing clear guidelines to ensure accountability and transparency, fostering investor confidence.

iii. Promote Knowledge Transfer: Encouraging collaboration between foreign investors and local firms to facilitate skill and technology sharing.

iv. Enhance Market Regulations: Ensuring that policies protect both local and foreign investors while fostering a competitive business environment.

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