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Corporate Ownership Construct and Firm Value: Evidence From An Emerging Market

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ABSTRACT:
This study focuses on the intricate relationships between various types of ownership structures and the performance of the organization using Tobin's Q. The secondary data was obtained from 49 firms in the Nigerian Exchange Group, which covers ten years (2013-2022). The results of the study show that First Large ownership has an insignificant positive relationship, Block Family ownership has an insignificant negative relationship, CEO ownership has an insignificant negative relationship and Management ownership has an insignificant negative relationship with Tobin's Q, respectively, suggesting that other factors may have a greater influence on determining the value of a firm. These possible influences involve conflicts of interest and corporate governance concerns in situations where ownership is concentrated, and the intricate nature of the relationship between ownership and the agents of the business. The study recommended reinforcing legislation on corporate governance, achieving equilibrium in ownership-agent activities, optimising systems for family governance, and cultivating a conducive institutional environment to augment business performance and market valuation. More so, findings further suggested the enhancement of corporate governance mechanisms in developing economies, which may provide operational knowledge for policymakers, investors, and business executives seeking to maximise investment profitability and corporate effectiveness and expand their portfolio base.

KEYWORDS: *Tobin's Q, First Large Ownership, Block Family Ownership, CEO Ownership, Management Ownership*

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INTRODUCTION

Corporate ownership arrangements, over the years, are believed to significantly influence firms' operational and strategic decision-making processes, corporate governance procedures, and general market value. Understanding the impact of initial substantial ownership on firms' market valuation is therefore crucial for investors, legislators, and corporate management seeking to optimise investment returns, corporate performance and shareholder value (Yasser *et al.*, 2017; Sinebe *et al.*, 2023). Over the years, it has been noticed that strong corporate governance can improve firms' performance by attracting more capital investment from investors, especially in developing nations with inadequate governance frameworks (Apochi *et al*., 2022; Akan *et al*., 2023; Bereprebofa *et al*., 2023). On the one hand, it allows for improved management monitoring and alignment of controlling shareholder interests with other shareholders. On the other hand, it may lead to a narrow view, where dominating shareholders prioritise their interests over those of other shareholders (Abubakar *et al.*, 2020; Sinebe & Okolo, 2022). In these markets, ownership concentration, family control, and managerial stakes often dominate corporate structures, which can have a profound effect on firm valuation. Understanding how different forms of ownership—whether by large shareholders, families, CEOs, or boards—impact firm value is essential for evaluating corporate governance practices and assessing market efficiency (Jabbouri *et al.*, 2020; Sinebe, 2020a; Martinez-Garcia *et al.*, 2022; Gödecke *et al.*, 2024).

Financial conditions are crucial for stakeholders, as firm value is a reflection of a firm's financial condition; a high firm value encourages stakeholders to trust the firm and invest their stock and debt money in the firm, while poor firm value may discourage capital contributions and investments, leading to a decline in share prices and firm value (Paniagua *et al.*, 2018; Bereprebofa *et al.*, 2022).This study aims to identify the impact of different ownership structures using market valuation metrics, such as Tobin's q and to add to the existing literature. By achieving this, the study provides valuable insights into how markets react to different ownership types and inform investment decisions and corporate governance practices. These include understanding how the first largest shareholder's ownership impact on market valuation. Furthermore, this study aims to explore the relationship between various ownership structures and the market valuation of firms in Nigeria, an emerging market with unique corporate governance characteristics. Anchored in the Signaling Theory, which posits that a company's actions convey value-relevant information to the market, and the Efficient Markets Hypothesis, which suggests that stock prices reflect all available information, the research seeks to provide insights into how ownership patterns influence firm value. Through this analysis, the study contributes to understanding the nuances of ownership structures in emerging markets and their implications for corporate valuation.

First Large Ownership and Market Valuation

The concept of "first large ownership" refers to the presence of a dominating shareholder with a significant portion of a company's shares belonging to an individual or one set or group of persons, which is very often seen, especially in emerging markets like Nigeria and who can significantly influence a company's governance and strategic orientation (Apochi *et al.*, 2022). Ownership concentration is a defining feature of corporate governance in emerging markets, where large shareholders typically exert significant control over firms. The literature suggests mixed outcomes regarding the impact of large shareholders on firm value. On the one hand, significant ownership stakes by large shareholders may align their interests with those of the firm, reducing agency problems and potentially enhancing firm value. For instance, Nashier *et al*. (2023) and Guluma (2021) argue that concentrated ownership leads to better monitoring of management, which can positively influence firm performance. This shareholder can influence important business decisions, potentially lowering agency costs associated with distributed ownership (Asad *et al.*, 2013). However, it is crucial to consider the potential negative impact of large shareholders' pursuit of personal gain on the firm's valuation. High ownership concentration may also lead to entrenchment, where dominant shareholders prioritise their interests at the expense of minority shareholders, potentially leading to a reduction in firm value (Rao *et al.*, 2020; Sinebe *et al.*, 2023). In the Nigerian context, the role of large shareholders in driving corporate value is particularly pertinent given the market's tendency towards concentrated ownership (Adegbite et al., 2020). This study, therefore, aims to contribute to the literature by analysing the effect of the largest shareholder's ownership on firm valuation in Nigerian firms. Concentrated ownership allows important shareholders to influence and control management successfully, but the authority of large shareholders, who may attempt to expropriate the company's assets, can be problematic (Chen *et al.,* 2021). Significant shareholders also have greater motivations to monitor and influence manager's behaviour due to their substantial financial stakes (Bataineh, 2021). ***Ho**₁: There is no significant relationship between the first largest shareholder ownership concentration and firms' value of non-financial Nigerian firms*.

Block Family Ownership and Market Valuation

Block family ownership is a prevalent form of ownership in emerging markets, where families control a significant portion of firms. Research on family ownership presents a dual perspective. Some studies suggest that family-controlled firms may exhibit stronger long-term performance due to their vested interest in maintaining the firm's value across generations (Sinebe, 2023a; Aguilera *et al.*, 2024). Family owners often take a long-term view, leading to better strategic decision-making and corporate governance, which can positively influence firm value.

Family ownership is described as the management and significant influence of a family over a business' operations and strategic choices. Family ownership can affect a company's worth in both positive and negative ways (Isaac *et al.*, 2024). The presence of block family shareholders is likely to improve the company's performance and increase its market valuation (Oteh, 2017). However, these advantages of family ownership depend on the larger institutional and legal framework, which can either increase or decrease these benefits. Block holders, who own 5% or more of the shares in a company, are individuals or groups with the capacity to effectively oversee the company and influence decisions due to their significant ownership position (Fichtner, et al., 2020; Federo et al., 2020). Adversely, family owners can also result in conflicts of interest and problems with governance, such as nepotism, resource expropriation, and opposition to hiring outside managers, which affects the corporation negatively (Samuel *et al.*, 2022). Other studies highlight the potential downsides of family ownership, such as nepotism and a lack of transparency, which could undermine firm value (Forés *et al.,* 2022; Rahmania *et al.*, 2024).

In emerging markets like Nigeria, where family businesses play a dominant role, the impact of block family ownership on firm valuation is crucial for understanding corporate governance dynamics. This study seeks to assess whether block family ownership contributes to or detracts from firm value within the Nigerian market. The business environment in Nigerian, largely perceived as an emerging economy, offers a unique context for researching how block family ownership affects firms' valuation and understanding these dynamics is crucial for investors, legislators, and business managers looking to optimise their investments and improve the economy of the emerging nations (Doan, 2020). ***Ho₂:*** *There is no significant relationship between block family ownership and firms' value of non-financial Nigerian firms*.

CEO Ownership and Market Valuation

CEO ownership has been widely studied in corporate governance literature, with conflicting findings regarding its effect on firm value. Kong et al. (2020) and DesJardineZhang *et al.* (2023) posited that managerial ownership aligns the interests of managers with those of shareholders, potentially reducing agency conflicts and enhancing firm value. The ownership stake gives CEOs a personal financial interest in the company's success, which can incentivise them to act in the best interests of the shareholders (Stoelhorst *et al.*, 2024).

CEO ownership, which involves the CEO owning a significant portion of a company's shares, can significantly impact a company's behaviour, governance, and market value. This alignment is particularly important in emerging economies like Nigeria, where ownership patterns that significantly impact firm performance and corporate governance structures are still developing (Khlif *et al.*, 2021). The agency theory suggests that CEOs' interests align more with shareholders, leading to better company performance and higher market valuation. However, excessive CEO ownership can result in entrenchment, where the CEO has too much authority and is shielded from external oversight monitors (Adams et al., 2024). This entrenchment could result in decisions that benefit the CEO but are detrimental to overall firm value. In emerging markets like Nigeria, where governance mechanisms may be weaker, understanding the balance between CEO ownership and firm value is critical. This study aims to analyse the influence of CEO ownership on the market valuation of Nigerian firms.

This highlights the need for a strategic approach to CEO ownership that maintains governance oversight while ensuring appropriate interest alignment. New research on Nigerian companies reveals that companies with significant CEO ownership tend to have higher market valuations due to better alignment of managerial and shareholder interests. Strong governance frameworks are also more likely to result in value-enhancing activities, while lower valuation may arise from weak governance frameworks (Krause, 2017). Understanding these dynamics is also important for Nigerian companies, given the unique opportunities and challenges presented by the nation's corporate climate. ***Ho₃:*** *There is no significant relationship between CEO ownership and firms' value of non-financial Nigerian firms*.

Management Ownership and Market Valuation

Management ownership is described as where the management team holds significant shares of a company designed to improve corporate governance and performance. The relationship between board and management ownership and firm value has been extensively studied, with researchers offering varied perspectives. Board members and managers with ownership stakes in the company are generally expected to act in ways that maximise shareholder wealth, as their financial interests are directly tied to the firm's performance (DesJardine *et al.,* 2023; Sinebe *et al.*, 2023). This alignment of interests can mitigate agency problems and enhance firm value.These are believed to promote corporate culture and accountability within the company while bringing managers' interests in line with shareholders (Moses *et al.*, 2024). However, the effectiveness of management ownership in increasing business valuation depends on the presence of complementary monitoring systems and the overall corporate governance environment (Ugo *et al.*, 2022; Sinebe, 2022). Apochi *et al.* (2022) and DesJardine *et al.* (2023), on the other hand, noted that high levels of ownership by board members or management can lead to self-serving behaviour, where they may pursue strategies that entrench their position, even if it harms the firm value

Ogabo *et al.* (2021) opined that Management ownership can directly incentivise managers to monitor activities and align ownership and control through significant directors' stock ownership. Management concentrated ownership has been found to reduce agency issues and successfully direct management. However, Jensen and Meckling (1976) contend that when managers of firms own a portion of a company's shares, there tend to be fewer issues of conflict of interest. In the context of Nigerian firms, where governance structures are still developing, board and management ownership may play a significant role in shaping firm performance. This study aims to assess the effect of board and management ownership on the market valuation of Nigerian firms, contributing to the ongoing debate in the literature.

Ho₄: *There is no significant relationship between management ownership and firms' value of non-financial Nigerian firms*.

Tobin's Q

Tobin's Q ratio is one of the metrics used in calculating market valuation and a firm's value. Its factors offer a way to gauge how the market perceives the company's future prospects and how much market participants value the company. Some researchers examining the relationship between corporate governance and firm value have used Tobin's Q as a dependent variable due to its applicability in ascertaining firms' value (Singh *et al.*, 2018; Sinebe, 2020b; Sinebe *et al.*, 2023). The formula is expressed as;

$$\text{Tobin's Q} = \frac{\text{Total Asset Value of Firm}}{\text{Total Market Value of Firm}}$$

Firm Size as a Control Variable

Industry, firm size, and other factors can influence market valuation, making it easier to separate the impact of corporate ownership from the other factors. Firm size is an important control variable in research on how ownership structures affect firm valuation (Ugo *et al.*, 2022). Larger enterprises can positively impact market valuation through broader business operations, improved access to financial markets, and economies of scale (Ahmed *et al.*, 2024). However, size can also bring about principal-agent issues and bureaucratic inefficiencies, potentially harming a company's performance as it is essential to account for firm size. The term "optimal firm size" describes the appropriate rate and degree of expansion for a small business, influenced by internal and external factors (Sinebe, 2021). Expansion is necessary for businesses operating in rapidly evolving industries to survive; however, astute growth strategies can be challenging to implement in these environments (Sinebe, 2023b; Jeroh *et al.*, 2022).

2.7 Conceptual Model

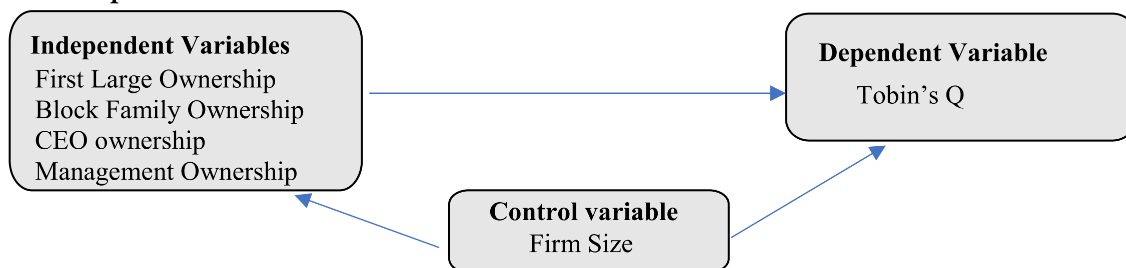

Figure 2.1: Relationship between the variables, 2024.

RESEARCH METHODOLOGY

This study adopted the *ex-post facto* research design to test hypotheses with secondary data from a study population of forty-nine (49) non-financial Nigerian firms covering ten (10) years between 2013 and 2022. Descriptive statistics was used to describe the data, while correlation analysis was used to ascertain the level of relationship among the variables. The coefficients were estimated using Ordinary Least Squares (OLS) with a fixed regression model. At the same time, diagnostic tests were also conducted to ensure the validity of the model, which included tests for multicollinearity, heteroscedasticity, and autocorrelation using STATA 14 statistical software.

Model Specification

The study model in econometric terms is:

FV = F(**TOBINSQ, FLOWN, BFOWN, CEOO, MGTOW, FSIZE**). . (I)

$$TOBINSQ_i = \beta_0 + \beta_1 FLOWN_i + \beta_2 BFOWN_i + \beta_3 CEOO_i + \beta_4 MGTOW_i + \beta_5 FSIZE_i + \epsilon_i \quad \text{(ii)}$$

Where;

TOBIN Q: measured as market capitalisation plus total liabilities minus cash divided by total asset

FLOWN = FIRST LARGE OWNERSHIP (measured as the share's ownership concentration of the first highest block shareholder (%))

BFOWN = BLOCK FAMILY OWNERSHIP (measured as the share's ownership concentration of all single individuals with block shareholding of 5% and above))

CEOO = CEO OWNERSHIP (measured as CEO direct and indirect shares divided by numbers of shares (%))

MGTOW = MANAGEMENT OWNERSHIP (measured as directors' direct and indirect shares divided by the number of shares (%))
FSIZE = Firm size (measured as the natural log of the total asset).
$\beta$is the intercept term.
$\beta1$, $\beta2$, $\beta3$, $\beta4$ and $\beta5$are the coefficients for the respective variables.
$\epsilon i$is the error term.

RESULTS AND DISCUSSIONS
Descriptive statistics
Table 1: Summary of Descriptive statistics

STATS	TOBINSQ	FLOWN	BFOWN	CEOO	MGTOW	FSIZE
MEAN	1.378673	40.60816	5.587755	3.452523	18.83857	7.038886
P50	.95	46	0	.0019	5.5362	6.93915
MIN	-31	0	0	0	0	5.2394
MAX	9.29	84	73	50.8012	128.1741	9.2409
SD	1.250962	22.25768	12.98314	9.454847	24.82314	.8073367
N	490	490	490	490	490	490

Source: Author's Computation
Table 1 provides explanations for the descriptive statistics of 490 observations. It shows that TOBIN'S Q has 1.379, 0.95, -0.31, 9.29 and 1.292 for its Mean, Median, Min, Max and Standard Deviation, respectively. That of FLOWN has 40.608, 46, 0, 84 and 22.258 for its Mean, Median, Min, Max and Standard Deviation. It shows that BFOWN has 5.588, 0, 0, 73 and 12.983 for its Mean, Median, Min, Max and Standard Deviation, respectively, which indicates that BFOWN varies widely, with many firms having no Block family ownership (median of 0), but some having up to 73%. The high standard deviation reflects this variability. This supports the work of (Bataineh, 2021), which found no evidence for family ownership with firm values. It shows that CEOO has 3.453, 0.0019, 0, 50.8012 and 9.455 for its Mean, Median, Min, Max and Standard Deviation, respectively, which indicates that CEO ownership also varies considerably, with a low median indicating many firms have CEOs with minimal ownership.
However, some firms have CEOs with significant ownership stakes, as indicated by the maximum value. This finding collaborates with the study (Krause, 2017), which found a significant positive position with firm values. Also, MGTOW has 18.839,5.536,0,0.1741and 24.823which indicates that Management ownership has a broad range from 0 to 128.17%, with a relatively high standard deviation, indicating wide dispersion and significant differences in management ownership levels across firms, while FSIZE has,7.039,6.939,5.239,9.241 and 0.807. This suggests that while there are differences in firm size, they are not as pronounced as other variables like ownership. These statistics provide a comprehensive overview of the distribution and central tendencies of key firm characteristics in the sample. This relatively disagrees with the findings of (Yasser, 2017), which documented a significant and positive relationship between ownership and market values.

Correlation Analysis
Table 2: Summary of Correlation analysis

	TOBINSQ	FLOWN	BFOWN	CEOO	MGTOW	FSIZE
TOBINSQ	1.0000					
FLOWN	0.1734	1.0000				
BFOWN	-0.0834	-0.2437	1.0000			
CEOO	-0.0508	-0.1226	0.6672	1.0000		
MGTOW	-0.0914	-0.0915	0.3328	0.4267	1.0000	
FSIZE	0.0049	0.0521	0.0441	0.0474	0.1755	1.0000

Source: Author's Computation
Table 2 shows the summary statistics of the correlation analysis between the variables, with the Correlation coefficients ranging from -1 to 1. Where 1 represents a 'Perfect positive correlation', -1 represents a 'Perfect negative correlation', and 0 represents a 'No correlation'. Its data shows that TOBIN'S Q has a weak positive correlation with FLOWN with 0.1734, and TOBIN's Q has a weak negative correlation with BFOWN with -0.0834. It also shows that TOBIN'S Q has a weak negative correlation with CEOO having -0.0508, and TOBIN'S Q has a weak negative correlation with MGTOW having -0.0914. Furthermore, our analysis shows that Tobin's Q (Firm Value) has weak correlations with all ownership variables and firm size, indicating that variations in corporate ownership structures and firm size do not strongly influence firm value as measured by Tobin's Q in this sample.

Result of Multicollinearity Test

Table 3: VIF Result Test

VARIABLE	FLOWN	BFOWN	CEOO	MGTOW	FSIZE	MEAN VIF
VIF	1.98	1.90	1.27	1.07	1.04	1.45
1/VIF	0.505317	0.525878	0.788638	0.932395	0.963580	

Source: Author's Computation

The Variance Inflation Factor (VIF) for the independent variables in the regression model indicates that multicollinearity is not a significant issue, allowing for reliable and reliable coefficients. The mean VIF of 1.45 indicates no significant multicollinearity issues, indicating stable estimates and no distortion of the model's predictions. This supports previous findings on the relationship between institutional ownership and firm value, as confirmed by Tobin's Q.

Breusch and Pagan Lagrangian Multiplier test

Table 4: Other Diagnostic Tests

Breusch and Pagan Lagrangian Multiplier test	
Decision rule	If p-value is statistically significant, then reject Ho and accept HA
Result	chibar2(01) = 0.00, Prob > chibar2 = 1.0000
Hausman Test	
Decision rule	If p-value is statistically significant, then reject Ho and accept HA
Result	(chi2): 189.60, Prob>chi2 = 0.0000

Source: Author's Computation

Table 4's output is derived from a Hausman test, which evaluates the suitability of a fixed effects (FE) or random effects (RE) model for a specific panel data set with chi2(5) = 189.60 and p-value (Prob>chi2) = 0.0000. Since the p-value is 0.0000, which is less than the significance level, we reject the null hypothesis.

Hypotheses Testing

Table 5: Summary of Regression Results

FIRM VALUE TOBINSQ	COEF.	STD.ERR.	t	P>|t|
FLOWN	.0092936	.002683	3.46	0.001
BFOWN	-.0035945	.0061246	-0.59	0.558
CEOO	.0034862	.0085795	0.41	0.685
MGTOW	-.0040349	.0026158	-1.54	0.124
FSIZE	.0168876	.0727613	0.23	0.817
_CONS	.9664676	.5148459	1.88	0.061
OBS				490
F(5,486)				3.68
PROB > F				0.0028

Source: Author's Computation

In Table 5, the regression analysis reveals that Tobin's Q is the dependent variable, with FLOWN, BFOWN, CEOO, MGTOW, and FSIZE as the independent variables. The F-statistic is 3.68, and the R-squared is 0.0366, indicating that the independent variables explain 3.66% of the variance in TOBIN'S Q. First Large Institutional Ownership (FLOWN) has the most significant positive effect on TOBINS'Q, suggesting that higher institutional ownership is associated with higher firm value.

Discussion

From Table 2, the generally weak correlations suggest that other factors are driving firm value and ownership structures which may be more complex and potentially non-linear. This theoretically disapproves the findings (Ahmed et al., 2024; Moses et al., 2024) which has a positive effect on firm value. The mean value of VIF of 1.45 in Table 3 indicates no multicollinearity in the dataset. Also, the observed p-value in Table 4 is 0.0000, which is less than the significance level of 0.5%; the study, therefore, rejects the null hypothesis. By this, the FE model is more suitable for this dataset due to the systematic difference between FE and RE estimates, as suggested by the Hausman test, indicating that individual effects are correlated with regressors. In Table 5, the R-squared value of 0.0366 suggests that the model explains only a small fraction of the variability in Tobin's Q, suggesting other factors may be important in determining firm value. This supports the evidence found by (Yasser *et al.,* 2017), who maintained that ownership structure has a positive effect on firm value.

The study reveals that block/large ownership can align interests and improve monitoring, but its impact on firm value is not significant enough to make definitive conclusions. Factors like conflicts of interest, governance issues, nepotism, and resource expropriation may offset the benefits of long-term orientation in

family-owned firms. Excessive CEO ownership can lead to entrenchment and reduced oversight, negatively impacting firm value. The relationship between management ownership and firm value is negative and statistically insignificant. This suggests that management ownership can align managerial interests with shareholder interests but may not significantly enhance value without effective monitoring systems. These findings highlight the complexity of ownership structures and the need for a nuanced understanding of how different ownership configurations influence corporate governance and market perceptions.

Policy Implications

Based on the study's findings, we recommend that policymakers should enhance corporate governance regulations to mitigate expropriation and entrenchment risks and ensure effective oversight and accountability, particularly in firms with concentrated ownership structures.

i. Corporate managers should aim for a balanced ownership structure that balances the benefits of concentrated and dispersed ownership, involving diversifying shareholder bases for better monitoring and interest alignment.
ii. Optimising CEO and management ownership is essential to establishing clear succession plans, merit-based management practices, and independent board oversight.
iii. Policymakers should foster investor confidence by enhancing legal protections for minority shareholders and ensuring efficient and fair resolution of corporate disputes.

By addressing these recommendations, stakeholders can optimise corporate ownership arrangements to enhance firm performance and market valuation, ultimately contributing to the broader economic development of emerging markets like Nigeria.

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