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The Impacts of Foreign Ownership on the Going-Concern of Nigerian Listed Banks

[1]Sunusi Garba* and [2]Mudzamir Bin Mohamed
[1]Centre for Entrepreneurship Development, Federal University Dutse, Jigawa, Nigeria.
khalifa.sunusi@fud.edu.ng
+234(0)8034165529, +60169570654
[2]School of Accounting, College of Business, Universiti Utara Malaysia Sintok, Kedah, Malaysia
mudzamir@uum.edu.my
+60105333930

Abstract: This paper evaluates the effects of foreign ownership on the going-concern of Nigerian quoted banks. The paper is produced based on the ex-post facto research design. Data were generated from the annual reports and financial statement of listed firms from 2011 to 2015. The population of the study consists of all fifteen (15) banks quoted on the Nigerian Stock Exchange. Descriptive statistics, Pearson correlation, along with fixed-effect and random-effect generalised least square (GLS) regression techniques. Hausman Specification Test had been used as the decision rule of the analysis. The results establish that there is a significant positive relationship between the foreign ownership and going concern of listed Banks in Nigeria. It suggested that banks should encourage foreign investment as is likely to increase ease of contact to resources, therefore safeguarding the supply of resources precarious to its going concern.

Keywords: Going-concern, Foreign Ownership, Banks, Nigeria

Introduction

According to Jensen and Meckling (1976), the external possession of a business is anticipated to eliminate the agency problem that exists between a corporate manager and owners. Under resource dependency theory foreign ownership normally contributes to managerial and organisational experiences by supplying organisational resources and expertise along with financial capital. Therefore, Chibber and Majumdar (1999) claim that foreign ownership may possibly enforce more resources to knowledge transmission, foreign ownership also is likely to carry out good corporate governance practices in businesses they participated. However, in Nigerian environment, an individual foreign shareholder is not permitted to obtain above 10% of financial institutions which had a high number Nigerian shareholding (Securities and Exchange Commission [SEC], 2011; Central Bank of Nigeria [CBN], 2014).

The Nigerian banking sector had witnessed weak governance practices and agency problems which led to the failure of some banks like Afri-bank Plc, Assurance Bank, Bank PHB, Gulf Bank of Nigeria, Hallmark Bank, Intercontinental Bank Plc., Oceanic Bank International Plc., Union Bank of Nigeria Plc (Mohammad, 2012). Consequently, the continuous existence of the banks can be associated with good corporate governance in which ownership structure is a very vital part. As well in 2016 CBN has dismissed key executives of Skye Bank on failure to meet up the capital adequacy (Nweze, 2016). This is also a marked corporate governance and going-concern problem.

Empirically, several studies have uses earnings management (Alves, 2012; Alzoubi, 2016; Ramadan, 2016) or profitability (Davidson, Jiraporn, Kim, & Nemec, 2004; Ogega, 2014) with very few on Bankruptcy (Iskandar et al, 2011; Parker, Peters, & Turetsky, 2005; Zureigat et al., 2014) as going concern measurement. This paper analyses the effect of foreign ownership on the overall combination of all three measurements of going-concern (bankruptcy, earnings management, and profitability). Concerning the relationship between foreign ownership and firm going-concern variables researchers such as Aydin, Sayim and Yalama (2007); Mohandi and Odeh (2010); Ogega (2014); Paik and Koh (2014); and Guo and Ma (2015) claim a positive relation between Foreign Ownership and going-concern variables. However, Alzoubi (2016); Guo, Huang, Zhang, and Zhou (2015); Kim (2015); Klai and Omri (2011); and Zureigat, Fadzil, and Ismail (2014a) argue a negative relationship between going-concern variables and the Foreign ownership.

Hence, this study intends to justify the above position. Thus there is a need to address this gap created by the above studies. In the light of the preceding problems, the current study aims to answer whether Foreign Ownership has any impact on the going-concern in the listed Nigerian financial institutions?

Literature Review Managerial Ownership and Going-Concern

Past empirical evidence on the effects of foreign ownership on the Going-concern variables (Bankruptcy, Earnings Management, and Profitability) have revealed different outcomes. As it had been argued by Choi (2004) that there is a significant positive link between foreign shareholders and earnings and also suggests that earnings quality measured as discretionary accruals in their investment. The role of foreign investors as outside observers of business activities may even be higher because foreign owners are likely to be less in controlling shareholders.

In an Asian economy of Korea, Paik and Koh (2014) explore whether ownership structure transforms corporate managers' behaviours to meet market expectation through earnings management employing a sample of 1,255 firms from 2000 to 2010. The result founds that there is a significant positive association between foreign ownership and earnings management through corporate managers' behaviours to meet market expectation. Therefore, corporate managers are less likely to dodge positive earnings surprises as foreign ownership increase.

Similarly, Guo and Ma (2015) analyse the link between ownership characteristics and earnings management sampling 1,176 companies in China, the study used panel data between 2004 and 2010, the data for the study is analyse using multiple regression. The outcome of the study shows that there is a positive connection between foreign ownership and earnings management. Therefore, foreign ownership implicates in the practice of earnings management. As a result, they engage in earnings management so that the financial reports comply with domestic and international accounting standards. Correspondingly, Zureigat (2015) using 2009 to 2011 data improved the sample to be 339 non-financial sectors firms ignoring financial sector despite its importance in any economy, to restate the relationship between foreign ownership and going concern evaluation (Altman's Z ratio of 1968) and found that there is a positive and significant association between foreign ownership with going concern evaluation.

However, contrary to above studies Aydin, Sayim and Yalama (2007) establish a positive correlation between foreign ownership and a firm's performance. The study argued that foreign ownership increases a company's profitability better than domestically owned. In the same way, Ali, Salleh, and Hassan (2008) found a negative relationship between foreign ownership and discretionary accruals in Malaysia, which will as well reduce the likelihood of going concern problem. Similarly, Mohandi and Odeh (2010) confirmed that companies with a higher percentage of foreign ownership associate positively with the quality of annual financial reports in Jordan.

Klai and Omri (2011) found a negative correlation between foreign ownership and quality of financial reporting. Thus, following the agency theory and the result of previous studies that mentioned above found that foreign ownership enhances the quality of financial statements and firm performance which will as well decrease the possibility of going concern problem. Likewise, Ogega (2014) using multiple regression analysis revealed that there is a strong positive relationship between ownership structure and profitability of commercial banks in Kenya. The study further showed that a unit increase in foreign ownership would result in the greater financial performance of Kenyan commercial banks. The study establishes that domestic ownership of the bank significantly affects the financial performance of banks in Kenya. Therefore, this indicates the higher the foreign investors in the company, the higher the possibility of business survival.

So also, Zureigat, Fadzil & Ismail (2014) uses the sample 113 non-financial sectors firms of Jordan for the year 2011 to establish the relationship between foreign ownership and going concern evaluation. Using Altman's Z ratio of 1968 found that there is a negative and not significant association between foreign ownership and going concern problem. In the same way, Guo, Huang, Zhang, and Zhou (2015) observe the relationship between foreign ownership and real earnings management in Japan for the period of 2004 to 2008. The result indicates that there is a significant negative association between foreign ownership and earnings management, therefore, a firm with higher foreign ownership pressure real earnings management activities, hence reduction in the chance of going concern problem. In the same way, Kim (2015) observes the relationship between foreign ownership and earnings management practice, therefore, higher the foreign ownership the higher it restraints earnings management, hence lessening in the chance of going concern problem.

Equally in Jordan, Alzoubi (2016) assess the effect of foreign ownership on earnings management practice using the sample of 69 listed firms. A multivariate regression is utilised as a technique of data analysis, and the result certifies that there is a negative association between foreign ownership and earnings management. Thus, foreign ownership is more likely to illuminate the devious behaviour of corporate managers of manipulating earnings, therefore reducing the chance of going concern problem.

Moreover, Based on the agency and resource dependency theories and related studies as discuss, it is expected that there is a relationship between foreign ownership and going concern. Therefore, to study this relationship, this study makes the following propositions:

H1: There is a relationship between foreign ownership and going-concern in the listed Nigerian financial institutions.

Methodology

This paper uses the annual reports of the quoted banks operating in Nigerian Stock Exchange (NSE) as at 2015/2016 covering the period of 2011 to 2015. This period had been chosen for the reason that the Nigerian banking sector has experienced various changes during this period. It is during this period that the NSE Commission issued the Corporate Governance Code in 2011 and the revised Corporate Governance Code in 2014 enforced the all firms to conform to the requirements of the governance code. As well, during this time the CBN reviewed the Code of Corporate Governance for Banks and Discount Houses in 2014 in an attempt to tackle the vague area of the previous code comprising that of ownership structure. Table 1 presents the population of the study:

Table 1: Study population

S/N	BANK	Year of Incorporation	Year of Listing
1	Access Bank Plc.	1989	1998
2	Diamond Bank Plc.	1990	2005
3	Eco Bank Plc.	1985	2003
4	Fidelity Bank Plc.	1988	2005
5	First Bank of Nigeria Plc.	1894	1971
6	First City Monument Bank Plc.	1982	2004
7	GT Bank Plc.	1990	1996
8	Skye Bank Plc.	1989	2006
9	Stanbic IBTC Plc.	2005	2007
10	Sterling Bank Plc.	1960	2006
11	Union Bank Plc.	1917	1971
12	United Bank of Africa Plc.	1948	1971
13	Unity Bank Plc.	2006	2006
14	WEMA Bank Plc.	1945	1990
15	Zenith Bank	1990	2004

Source: NSE Factbook 2015/2016

Accordingly, the paper covers all the banks operating in Nigerian Stock Exchange as at 2015/2016 as presented in Table 1 above.

Variables of the Study

The variables of the study encompass the dependent variables and explanatory variables. The going-concern (GC) is the dependent variable, while the explanatory variables include Foreign Ownership (FO) as the independent variable and the company size (SZ); and tangibility (TANG) as control variables.

Going-Concern (GC): Corresponding to Cohen and Zarowin (2010), and Zang (2012) a combined matrix is applied to chain all the three gauges of going-concern into a single model. The study first multiplies Discretionary accruals by negative one (so that the higher amount, the better the going-concern) and add it to Z-Score and ROA (which all have a direct relationship with better going-concern). The higher the amount of this aggregate measure, the more likely, the healthier the going-concern of the firms. Thus:

GC = Z-Score + ROA – DLLP ***Model 1***

Where: GC denotes Going-concern; Z-Score denotes Altman 2016 bankruptcy Model; DLLPs denotes the absolute value of accruals loan loss provisions to total liabilities, and ROA denotes Return on Net Assets.

Foreign Ownership (FO): This refers to the Proportion of total shares held by foreign investors at the end of the financial year. This is consistent with the studies of Greenaway, Guariglia, and Yu (2014); Iskandar, Bukit, and Sanusi, (2012); Jeon, Lee, and Moffett, (2011).

Correspondingly, firm size is used as a control variable through the natural logarithm of the firm's total assets (Ben-Nasr, Boubakri & Cosset, 2012). This control is essential for the reason that bigger companies have lesser chances of having Going-concern problems. Furthermore, in line with Goh, Krishnan & Li, (2013) tangibility is used as another control variable, and it is measured as the ratio of a fixed asset to total assets.

Model Specification

The functional relationships among these variables are therefore be defined as:

$$GC_{it} = f\,(FO, SZ, Tang)_{it} + \epsilon_{it}$$

From this general form of the regression equation, the following model is designed to test the hypotheses of the study.

$$GC_{it} = \alpha_0 + \alpha_1 FO_{it} + \alpha_2 SZ_{it} + \alpha_3 Tang_{it} + \epsilon_{it}$$

Where: GC denotes Going-concern; FO denotes Foreign Ownership; SZ denotes Size, and Tang denotes Tangibility

Data Analysis and Discussion of Results

STATA 12.0 statistical software package is used to evaluate the effect of the foreign ownership on the going concern of Nigerian listed banks using Pearson Correlation Coefficients and Regression analytical tools. It as well provides the descriptive statistics results in Table 2:

Table 2: Descriptive Statistics of the Variables

Varia-bles	OBS	MEAN	STD DEV	MIN	MAX
GC	75	3.8449	3.9372	13.1355	9.7777
FO	75	20.7023	23.0360	0.0000	85.8884
SZ	75	20.9502	0.7768	19.1081	22.2639
Tang	75	3.5108	1.1680	1.2941	6.7808

Source: Generated from the annual reports and accounts of the banks using STATA 12

Table 2 reveals that the overall banks have an average GC of 3.8449 which is reasonable. Similarly, the Minimum GC of -13.1355, as well as the maximum GC of 9.7777. On the side of foreign ownership has an average of 20.70% with a variation 23.04% among them with a minimum level of 0.00% and maximum level of 85.89% of ownership.

Correlation analysis is run in order to establish the extent of the association between the dependent and the explanatory variables and also to ascertain absent of multicollinearity as a result of the correlation among variables. Table 3 delivers some insights into which of the explanatory variables are connected to the dependent variable.

Table 3: Correlation Coefficients of the Variables

Variables	GC	FO	SZ	Tang
GC	1.0000			
FO	0.1026	1.0000		
SZ	0.4303	0.0046	1.0000	
Tang	-0.4421	0.1027	-0.4505	1.0000

Source: Generated from the annual reports and accounts of the banks using STATA 12.

From the Table 3, the values on the diagonal are all 1.000, signifying that each variable is perfectly interrelated with itself. The correlations among the explanatory variables ascertain nonexistence of multicollinearity as the maximum correlation coefficient is that of the size and the tangibility with a negative value of -0.4505. The association between going concern and foreign ownership account for 0.1026; this means an increase of foreign shareholding by 10.26% will lead to increase to going concern in the same proportion. This relationship is indicating that the higher the foreign ownership the higher the going concern.

With the aim of determine the model fit of regression equation, that is $\mathbf{GC_{it} = \alpha_0 + \alpha_1 FO_{it} + \alpha_2 SZ_{it} + \alpha_3 Tang_{it} + \epsilon_{it}}$, the model is run via Fixed Effect regression and Random-effects GLS regression in which a Hausman specification test is also run to checks a more efficient model against a less effective but consistent model to make sure that the most efficient model also gives reliable results, with the dependent variable GC and the explanatory variables and control variables. The regression results are presented in Table 4:

Table 4: Regression Results of the Impacts of Foreign Ownership on Going-Concern

GC	FIXED-EFFECT				RANDOM-EFFECT			
Variables	**Coef.**	**Std. Err.**	**T**	**P**	**Coef.**	**Std. Err.**	**Z**	**p>|z|**
FO	0.1107	0.0405	2.7400	0.0080	0.0354	0.0209	1.6900	0.0910
SZ	0.9322	2.3700	0.3900	0.6960	1.4587	0.7353	1.9800	0.0470
Tang	-0.7176	0.7885	-0.9100	0.3670	-1.0999	0.4544	-2.4200	0.0160
Cons	-15.4584	50.8329	-0.3000	0.7620	-23.5864	16.1744	-1.4600	0.1450
R-squared:								
Within	0.1980				0.1517			
Between	0.0942				0.4744			
Overall	0.1134				0.2758			
Prob>F	0.0054				0.0001			
Hausman test (Prob>Chi)	0.1620							

Source: Generated from the annual reports and accounts of the banks using STATA 12.

Considering the Hausman specification test outcome of 0.1620 that is higher than 0.05 from Table 4 above, the random-effects GLS regression is accepted. The result revealed that the coefficient of determinants of "*R*-square" within and between values of 15.17% and 47.44% which is remarkable. While the overall R^2

value is 27.58% signifying that the variables reflected in the model account for about 27.58% change in the dependent variables, that is GC, while about 72.48% variation could be as a consequence of other variables not considered in this model. As well, the P-Value of 0.0001 which is less than 0.05 attested the model to be fit.

Similarly from Random-effect model result of Table 4, the FO z-value of 1.6900 is higher than 1.96 (for a 95% confidence level) the null hypothesis will not be rejected as the z-value is lower than 1.96 that means the FO has no significant influence on the GC as the higher the z-value the higher the relevance of the variable. However, using Two-tall test p-value, for a null hypothesis to be rejected the p-value has to be lower than 0.05 at (for a 95% confidence level), 0.1 (for a 90% confidence level), thus the at 95% confidence level FO has no significant influence on the dependent variable (GC) as the p-value of 0.0910 is higher than 0.05. However, at 90% confidence level FO has a significant influence on the dependent variable (GC) as the p-value of 0.0910 is lower than 0.1. In general, the overall probability is positively significant at 10%. Thus, the model equation can be written as:

$$GC_{it} = -23.5864_{it} + \alpha_1\, 0.0354_{it} + \alpha_2\, 1.4587_{it} - \alpha_3\, 1.0999_{it} + \epsilon_{it}$$

In summary in view of both correlation and regression results, the result of correlation between GC and FO show a positive 0.1026 which implies as FO increases by 10.26% GC will increase by the same percentage and on the other hand p-value reveal a significant relationship between FO and GC, thus it will be concluded that relationship between the FO and going concern of listed Banks in Nigeria is a positive and significant this in line with (Aydin, Sayim & Yalama, 2007; Mohandi & Odeh, 2010; Ogega, 2014; Paik & Koh, 2014; Guo & Ma, 2015). However, contradicts (Ali et al., 2008; Klai & Omri, 2011; Zureigat, Fadzil, & Ismail, 2014a; Guo, Huang, Zhang, & Zhou, 2015; Kim, 2015; Alzoubi, 2016) that claim negative relationship.

Conclusion and Recommendations

Based on the research findings foreign ownership is positively and significantly related to going concern of listed Banks in Nigeria. It recommended that banks should encourage foreign investment as is likely to increase ease of contact to resources, therefore safeguarding the supply of resources precarious to its going concern.

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