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Financial Leverage and Financial Performance of Listed Service Companies in Nigeria: The Moderating Role of Ownership Structure

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Abstract: *This study examined the effect of financial leverage on the financial performance of listed service companies in Nigeria, by considering whether ownership structure (managerial and foreign) moderates this relationship. A correlational research design was adopted using secondary data from the annual reports of 15 service firms listed on the Nigerian Exchange Group, covering 2012–2025 (210 firm-year observations). Return on assets measured performance, and panel regression with robust estimation was applied after heteroskedasticity was detected. Findings show that financial leverage significantly reduces return on assets, while foreign ownership significantly improves it, and managerial ownership has no significant direct effect. However, managerial ownership significantly worsens the leverage–performance relationship, whereas foreign ownership does not moderate it. The study concludes that borrowing in the sector is not yet value-creating and that ownership structure shapes how debt affects performance. It recommends that managers limit interest-bearing debt to levels where asset returns exceed borrowing costs and favour equity, retained earnings and cheaper long-term funding; that firms attract foreign and institutional investors; and that firms with high managerial ownership strengthen board independence, audit and risk committees, and independent approval of major borrowing decisions.*

Keywords: financial leverage, return on assets, managerial ownership, foreign ownership

INTRODUCTION

Financial performance remains the easiest criterion in assessing a firm's ability to transform available resources into sustainable value. It also indicates for investors, financiers and regulators whether the firm is able to honour its obligation as it falls due, keep running and reward investors. However, it is evident that, most times, revenue growth may not be translated into improved profit,

especially in terms of operating costs and financing cost burden (Arhinful and Radmehr, 2023; Khan et al., 2024). Therefore, if firms must perform better, there is a need to work on their financial cost burden so that increased operating costs would not overcome the positive effect of increased revenue. This is evident for publicly listed service firms in Nigeria, whose business models require constant reinvestment of assets, technological advancement, development of logistics infrastructure and working capital. Their published financial statements indicate serious concerns in terms of their financial performance. For instance, ABC Transport Plc saw its revenue grow from ₦7.33 billion in 2023 to ₦12.52 billion the following year; meanwhile, it returned to profit after the previous year's ₦540.55 million loss after tax. But it incurred finance costs of 465.98 million in 2024, up from ₦408.81 million the previous year. Academy Press Plc showed a similar trend, with revenues about ₦4.51 billion in 2024, while its finance costs (₦136.70 million in 2023) had grown to ₦179.95 million. For both firms, operations were continuing and generating income, but a bigger share of those earnings was being used to pay off debt (ABC Transport Plc, 2024; Academy Press Plc, 2024). This suggests that inadequate financial leverage forms one of the problems associated with poor financial performance, in the presence of revenue growth.

Financial leverage, which denotes the percentage of a firm's total assets that are financed with interest-bearing debt, can be very advantageous. It can enable a firm to fund growth and working capital needs without diluting the ownership stakes of its current equity investors. At the same time, it has fixed contractual claims to pay interest and repay principal, and these have to be met regardless of the firm's operating performance (Ifurueze et al., 2022). An example of ABC Transport Plc is that, in 2024 there is a bank facility of N308m at 32% p.a. 145% debt-to-equity ratio of borrowings of approximately N1,855,048,902. This can help sustain business operations, but it can have a negative impact on profitability. If returns on borrowed money are not enough to offset the costs of borrowing, this will have an adverse effect on cash flows and financial sustainability (Lawani et al., 2023). This study will look at the impact of leverage on performance. If leverage is used correctly, then it can improve performance, but if not, then it will be detrimental. How leverage affects performance greatly depends on who is using it and how they have structured their financing. Ownership structure refers to how shares are distributed and who holds the real power within decision-making processes (Nwude et al., 2023). This study looks at four aspects of ownership structure: managerial, institutional, foreign ownership and ownership concentration. Managers with a stake in the company are presumed to be more vigilant to preserve their own interests, but larger managerial ownership might be unhealthy for external oversight; institutional investors can play the roles of professional corporate monitors and demand more responsibilities from managers, foreign investors serve as a more forceful force of capital and professionals, and blockholders are more aggressive company monitors as well (Sani, 2020; Kerim et al., 2021).

Combined, these ownership factors go some way toward determining whether borrowed funds are being used efficiently or inefficiently. With strong shareholder monitoring, managers would borrow conservatively and target investments that could generate value for the company (Opara et

al., 2026). With weak monitoring and conflicts of interest among shareholders, firms would run into greater risk, over-borrow and divert funds inefficiently (Olanisebe et al., 2025). Over time, this will play out in the form of lower asset performance, financial distress and loss of investor confidence. The ownership structure of some service companies shows how important this issue is. ABC Transport Plc, for example, revealed that its founder held about 58% of the firm's issued share capital in 2024, from direct and indirect interests (ABC Transport Plc, 2024). Though this figure does not by itself suggest good or weak governance, it demonstrates how owner-managers can control access to external financing and why ownership needs to be considered when looking at leverage.

Notwithstanding the importance of this financial performance issue, the Nigerian evidence is not conclusive. Some studies have reported paradoxical and conflicting effects of debt on performance through different measures of leverage and performance (Ifurueze et al., 2022; Lawani et al., 2023; Adeyeye et al., 2024; Opara et al., 2026). For example, Tanko et al. (2021) observed that long-term debt enhanced return on assets and that board financial literacy moderated the impact, while Opara et al. (2026) detected negative leverage effects for listed manufacturing firms. Interestingly, results relating to ownership are also inconsistent, with some studies indicating different effects for managerial, institutional, foreign, and concentrated ownership (Sani, 2020; Kerim et al., 2021; Nwude et al., 2023; Salihu et al., 2024; Olanisebe et al., 2025). This implies that leverage does not impact all firms uniformly, and the ownership of monitoring may be instructive. However, a lot of the debate has been on manufacturing firms, consumer goods and financial institutions, with little focus on those categorised in the Services sector of the Nigerian Exchange Group. Second, few studies have, in fact, explicitly tested how different ownership structures moderate the leverage-performance relationship, leaving out some possible types of ownership or treating leverage and ownership as independent. It is against this backdrop that this study investigates whether the effect of financial leverage on financial performance is influenced by ownership structure and the severity of its impact in listed service companies in Nigeria.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

This section contains a review of the concepts, theories and empirical literature that serve as a foundation for the study.

Conceptual Review

Financial Performance

Gibson (2012) refers to financial performance as an entity’s financial condition over a given period. Financial performance measures a firm's use of resources and of its capital base to generate earnings and value. Accounting-based measures (return on assets, return on equity, net profit margin, earnings per share) gauge realised operating and shareholders' results. Stock market-based measures (stock return) reflect market investors' expectations. (Arhinful & Radmehr, 2023; Khan & Qasem, 2024; Nam & Tuyen, 2024). Return on assets is therefore used as the primary dependent

variable because it relates to profit and the firm's total asset base, which management controls, and because of its widespread use in the Nigerian leverage literature.

Financial Leverage

Financial leverage shows the extent to which a firm uses interest-bearing debt to fund assets, investments and operating activities (Arhinful & Radmehr, 2023). In other words, it reflects the proportion of a firm's resources that come from lenders rather than shareholders or internally generated funds; it can be seen as a ratio of debt to shareholders' funds or retained earnings (Okudo et al., 2023). It is a central piece of a firm's financing structure and its financial risk (Khan et al., 2021). The economic significance of this choice lies in how interest and principal payment commitments affect shareholder benefits and the likelihood of bankruptcy. Financial leverage can be measured in different ways, including: total debt to total assets; equity debt; the separation of short-term from long-term debt; interest-coverage ratios. Nigerian studies show that these measures do not necessarily imply the same. Ifurueze et al. (2022), Lawani et al. (2023), Adeyeye et al. (2024), Muritala and Arowolo (2025), Okezie et al. (2025), Abubakar and Maishanu (2025), and Opara et al. (2026) find varying coefficients with different debt definitions and show maturity structure as well as the exposure of financing costs to be relevant. For this study, total interest-bearing debt divided by total assets is used as the main measure of leverage. The use of this measure completely rules out other kinds of operating liabilities because, unlike bank loans, bonds, or other borrowings, trade payables, statutory payables and the like may not necessarily be a conscious decision to finance the assets.

Ownership structure

Ownership structure refers to the ownership of shares and the distribution of control rights among various classes of owners. It determines who has the incentives and who has the ability to monitor management, approve major financing decisions, replace directors, and restrain opportunistic behaviour. (Khattak & Khan, 2026) Nigerian literature on ownership structure is conventionally divided into four types: managerial, institutional, foreign and concentrated ownership (Uwuigbe and Olusanmi, 2012; Kerim et al., 2021; Nwude et al., 2023; Salihu et al., 2024; Adedipe & Ayodele, 2026; Habila & Daniel, 2026). These are therefore considered separately in this study.

Managerial ownership

Managerial ownership represents the percentage of ordinary shares held by the chief executive and his/her managers. Managerial ownership helps to constrain managerial risk-taking by aligning management's interest with that of shareholders, thereby reducing the likelihood that conflicts of interest would exist. Under the entrenchment hypothesis, however, if managerial ownership reaches too high a level, managers are protected from the threat of being ousted, which would encourage self-serving behaviour and strategic entrenchment. The evidence in Nigeria is diverse: previous research finds a negative, adverse effect of insider holdings, while more recent work identifies positive, negative and contingency managerial ownership-performance relationships based on the extent of managerial ownership, board and other corporate characteristics (Abosede

& Kajola, 2011; Ahmad & Umar, 2023; Onoja & Salman, 2026; Sani, 2020; Tsegba & Achua, 2011).

Institutional Ownership

Institutional ownership consists of the equity owned by institutions such as pension funds, investment companies, insurance firms and other corporate investors. Institutional investors are generally better at processing information than individuals and have more professional monitoring and management expertise (Kerim et al., 2021). Institutional ownership may lead to better financial performance because of increased monitoring and professional management, but more work is necessary in the Nigerian context to uncover its effect (Uwuigbe & Olusanmi, 2012).

Foreign Ownership

Foreign ownership captures the percentage of shares held by non-resident individuals and institutions. Because foreign owners likely possess better information, research skills and monitoring incentives than their domestic counterparts, and because of national reputational concerns, foreign ownership increases value by adding governance expertise (Uwuigbe & Olusanmi, 2012). However, information asymmetries, country risk and less credible reputation issues of foreign investors would negatively affect managerial accountability and motivation (Tsegba & Achua, 2011).

Concentrated ownership

Concentrated ownership refers to the proportion of voting shares controlled by relatively few blockholders. In contrast to dispersed ownership, large owners have greater incentives and ability to monitor management within the firm to reduce principal-agent problems with minority shareholders (Uwuigbe & Olusanmi, 2012).

Conceptual Framework

This diagram in Figure 1shows the conceptual framework of this study. Financial Leverage is the key independent variable, Financial Performance is the dependent variable, and ownership is the moderating variable (split into four categories). Controls are included to account for Firm Size, Liquidity, and Revenue Growth.

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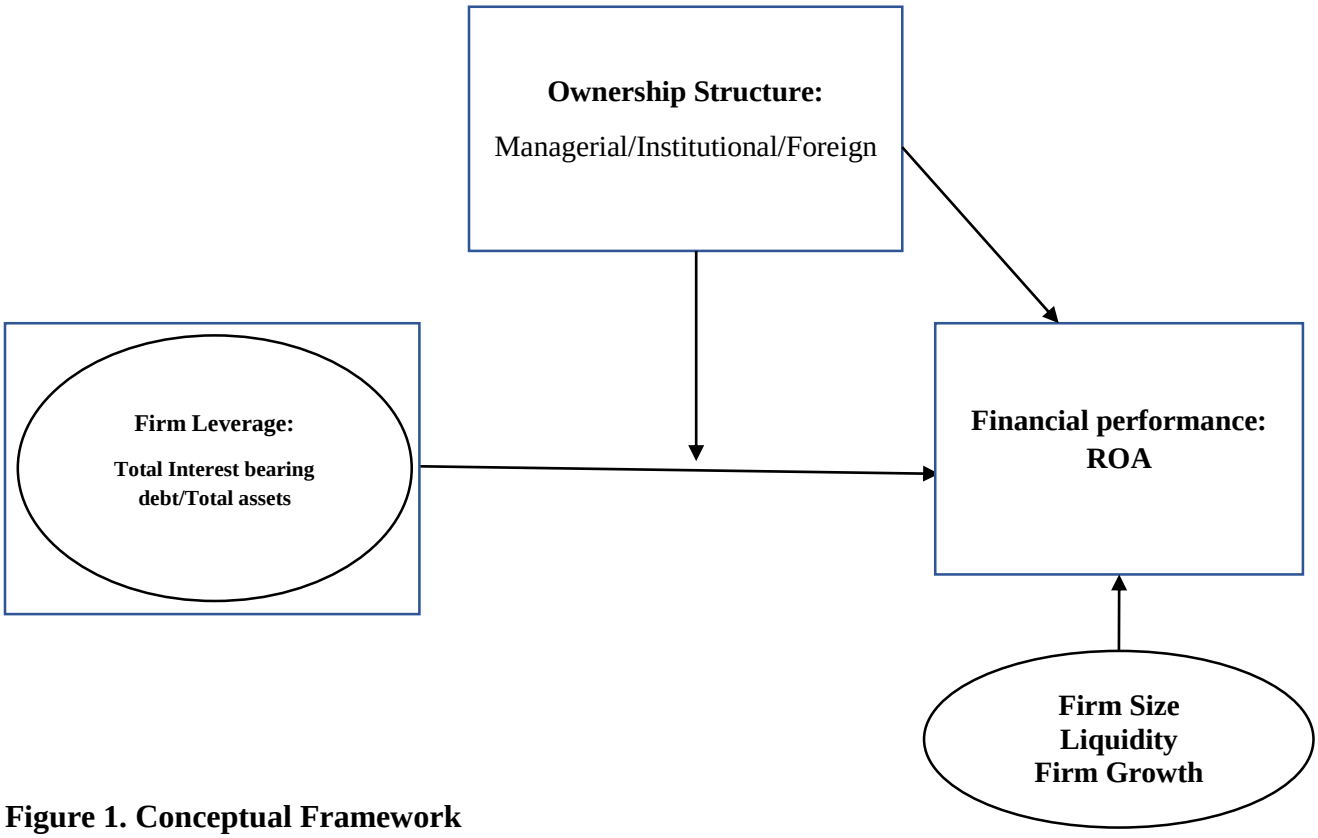

Figure 1. Conceptual Framework

Theoretical Review

Agency Theory

Agency theory finds its origin in earlier discussions of the separation of ownership and control; however, its modern corporate-finance form is credited mainly to the works of Jensen and Meckling (1976). The scope of the theory is expanded by separating decision management from decision control and by explaining the role governance systems play once owners/shareholders are separated from decision-makers (management) (Velte, 2023). The central theme is the separation of ownership and control of businesses and the dynamics between owners (principals) and managers (agents).

The theory assumes that principals and agents may pursue different objectives (Jensen & Meckling, 1976), agents possess superior information (Kyere & Ausloos, 2021), actions are costly to observe, and contracts are incomplete (Velte, 2023). Consequently, principals incur monitoring

costs, agents may bear bonding costs, and some residual loss remains. The theory does not assume every manager will be dishonest; behaviour also depends on ownership structure and other factors. The propositions for this theory are that, firstly, the separation of ownership from control creates a demand for monitoring (DeAngelo, 1981; Giwa et al., 2024). Secondly, monitoring only has value when it cuts the expected loss from managerial opportunism by more than it costs to run. The third proposition concerns debt: leverage can result in better performance or hurt performance, depending on whether managerial discipline or debt-related agency cost dominates (Ayaz et al., 2021; Danso et al., 2021; Arhinful & Radmehr, 2023).

In this study, managers of listed non-financial firms prepare the accounts from which accounting-based performance measures are calculated. The performance and audit quality effect is indirect because an audit does not generate sales or run assets, but it can curb reporting risks and governance failures that get in the way of efficient resource use (DeFond & Zhang, 2014; Francis, 2011; Jeroh & Ozegbe, 2022). Financial leverage also relates here because lenders become additional principals with their own contractual claims, and firm age changes these relationships because younger firms usually have shorter reporting histories and weaker external reputation, while older firms tend to have established systems, reputational capital and deeper audit trails. According to Velte (2023), the strength of Agency theory is that it explains why debt can discipline managers, and why conflicts can make both mechanisms costly. Its weakness in this study is that leverage ratios are imperfect proxies for monitoring intensity and contractual pressure. Agency theory is relevant to the current study because the study involves various stakeholder groups.

Trade-Off Theory

Trade-off theory emanates as a result of Modigliani & Miller (1963) attempts to explain capital structure. Its main idea is simply that debt has both benefits and costs (Sunitha, 2024), and firms look for a financial leverage position where the marginal benefits of debt are just equal to its marginal cost (Voutsinas & Werner, 2025). Kraus and Litzenberger (1973) gave the theory its classic tax-benefit and distress-cost form.

The theory holds the assumptions that debt offers tax benefits and also creates distress and bankruptcy costs from financing interest and principal of debts, and that firms differ in risk, profitability, growth opportunities and type of collateral (Saona et al., 2023). The main proposition is that moderate debt can raise firm value through the present value of interest tax shields (Kraus & Litzenberger, 1973), and debt can also curb the agency costs of free cash flow by instilling discipline (Myers, 1984). The ideal capital structure is the point where one more unit of debt no longer adds more value than the expected costs it brings (Ayaz et al., 2021; Danso et al., 2021; Sunitha, 2024).

The study defines financial leverage as the amount of interest-bearing debt as a proportion of total assets. This can be best explained by the trade-off theory. Debt can incentivise managers to use their assets efficiently, as they will need to create cash to pay their contractual obligations (Danso et al., 2021; Arhinful & Radmehr, 2023). Whilst the trade-off theory is mainly a finance theory,

the quality of audit can impact how debt is traded off (Ho & Gong, 2022). This theory has many strengths as it explains why different companies have different levels of debt capacity and that performance can be improved with an optimum level of leverage but worsens with higher levels as financing and distress costs outweigh the benefits. However, it also assumes managers will have a certain level of future outlook, which may not be the case. It does not adequately explain why highly profitable companies often do not borrow as much. (Saona et al., 2023; Sunitha, 2024). This theory is relevant to the current study, as if the benefits of having leverage, such as tax, investment and disciplinary benefits, outweigh the costs of financing and distress, then performance should be improved (Arhinful & Radmehr, 2023; Voutsinas & Werner, 2025).

Empirical Review

Financial Leverage and Financial Performance

The academic literature on the impact of financial leverage on corporate financial performance remains mixed, with varying findings. Some Nigerian investigations have shown contrasting findings of negative, positive and insignificant relationships, which suggests that the effect of debt on performance may be dependent on the proxy used for leverage, performance indicator and sector in question. Ofulue et al. (2022) present findings from 14 quoted industrial goods firms that operated from 2008 to 2020. The study employed debt-to-equity, short-term debt and long-term debt ratios as indicators of leverage and Cash Value Added as a performance measure; the study established statistically significant negative relationships for debt-to-equity and long-term debt, whereas short-term debt had a positive impact on performance. These results demonstrate that the effect of leverage on corporate performance may differ based on the debt indicator examined. Similar evidence of variation is observable in Ifurueze et al. (2022), who investigated 75 Nigerian listed non-financial companies over 2010-2019. A significant positive effect was detected between long-term debt-to-equity and return on equity (ROE) but was not significant on Tobin's Q, and a significant negative effect was observed between long-term debt-to-assets and the two performance proxies. Thus, both the chosen proxy for leverage and the type of performance measure may influence the empirical outcome.

Tanko et al. (2021) also showed why institutional constraints are significant; their study among Nigerian listed non-financial companies found a significant positive impact of long-term debt on ROA and that the financial literacy of board members significantly moderated the relationship between financial leverage and financial performance. Opara et al. (2026) studied 31 Nigerian listed manufacturing companies; the study period was 2010-2022 and applied three alternative proxies of financial leverage and three forms of performance indicators. Using fixed-effects estimation and multiple model stability tests, only negative leverage and performance relationships were derived. These findings confirm the absence of a one-size-fits-all effect of debt on performance and support the sector-specific line of research. Insights on Nigerian service-sector

firms were provided by Abdulwahab et al. (2023), who sampled 11 listed service companies traded over 2011-2020 using generalised least squares. The authors reported a positive impact of retained earnings and total debt on a single performance proxy-earnings per share (EPS), whereas short-term debt, long-term debt and equity were statistically insignificant. With these findings and scanty literature on listed service firms in Nigeria, empirical research is therefore justified by developing the following hypothesis one (H01): *Financial leverage does not significantly affect the financial performance of listed service firms in Nigeria.*

Ownership Structure and Financial Performance

Meilanda et al. (2025) in his study analysed the existing empirical literature on institutional ownership and firm performance that was published or authored in the period of 2016-2025. Their review reported that ownership by institutions may enhance performance through decreased agency costs and increased monitoring, albeit with differential effects for different countries and investor types. Olanisebe et al. (2025) analysed the impact of ownership structure on the financial performance of consumer goods firms listed on the Nigerian Stock Exchange. They used a correlational *ex-post facto* research design and sampled 16 firms over the period 2015-2024. The study examined institutional, managerial and foreign ownership in relation to return on assets; the results indicated that the ownership variables did not have a significant impact on financial performance.

Onoja and Salman (2026) examined the impact of ownership structure on the financial performance of quoted companies in Nigeria. They adopted a survey research design and considered 740 firm-year observations of 74 listed companies over a period of ten years spanning from 2012 to 2021. Return on assets was used as a proxy for measuring financial performance. It was concluded that managerial ownership enhanced financial performance while blockholder ownership significantly impacted negatively. Habila and Daniel (2026) carried out a study to explore the relationship between ownership structure and financial performance of Nigerian commercial banks; it included state, managerial, institutional and foreign ownership, while performance was measured using ROA, ROE, NIM and EPS. Employing panel regression analysis, the impact changed across ownership groups and performance indicators, with negative influences being noted in many cases. It follows that the structure of ownership could affect the outcomes of performance in different ways.

In general, empirical results cannot be summarised to reach an unambiguous conclusion regarding the nature of the relationship between ownership structure and performance. Some kinds of ownership structures are linked to superior monitoring and high performance, while others are linked to poor performance or no significant relationship. However, much of the Nigerian evidence also relates to the banking and consumer goods industries, and the service industry remains largely neglected, which could form a good basis for investigating listed service firms in Nigeria.

Empirical research is therefore justified by developing the following hypothesis two (H02): *Ownership structure does not significantly affect the financial performance of listed service firms in Nigeria.*

Ownership Structure, Financial Leverage and Financial Performance

The impact of ownership structure on performance is certainly not limited to a direct link; ownership structure may impact other determinants of performance such as managerial monitoring, managerial risk preferences and the financial leverage and performance relationship. Sani (2020), in his study, reported a significant negative association between managerial ownership and firm performance among 71 Nigerian listed companies observed over 2012-2018 by applying the Generalised Method of Moments (GMM). More importantly, the author also showed that a variable representing board independence negatively moderated the ownership and financial performance relationship. This empirical example emphasises the significance of considering interaction effects. A more direct and relevant study to the current one is, Ibrahim et al. (2022) that used 12 Nigerian listed manufacturing companies during 2012-2019 to test managerial ownership as a moderator of debt financing and performance. The results showed that both total debt and managerial ownership negatively affected corporate performance; however, the interaction term between debt and ownership did not significantly influence firm performance.

Despite the extensive literature on financial leverage and financial performance reviewed, there are four notable gaps. Firstly, the effect of leverage on the performance of Nigerian listed companies remains inconsistent across different proxies and sectors. Secondly, the effect of different dimensions of ownership structure on corporate performance shows mixed results, and the variables should be delineated into categories. Thirdly, even among studies that examine the impact of ownership variables on financial leverage and financial performance, the use of certain ownership factors remains somewhat impractical, namely, using each variable independently. Fourth, in the few studies exploring the moderation effect, the majority have focused on one ownership aspect at a time. These identified gaps are what encouraged the present study to investigate the financial leverage and financial performance relationship of listed service companies while moderating with ownership structure as a moderator. Empirical research is therefore justified by developing the following hypothesis three (H03): *Ownership structure does not significantly moderate the relationship between financial leverage and financial performance of listed service firms in Nigeria.*

METHODOLOGY

Research design

A correlational research design was adopted in this study because the study examines the relationship between two or more variables without manipulation and deals with various variables. The study population was 20 firms in the services sector listed on the Nigerian Exchange Group

(NGX) as of 31st December, 2025. Meanwhile, only 15 firms have complete data for all the periods covered; therefore, those not having complete data were dropped from the analysis. The study covers fourteen (14) years from 2012 to 2025, providing a balanced panel dataset of 210 firm-year observations. Secondary data are to be extracted from the annual reports and financial statements of the sampled firms. The data for the study are to be obtained from the financial statements and reports of the population that are on the Nigerian Exchange Group website. Panel regression analysis was used to estimate the relationships among the variables. Diagnostic tests were conducted to evaluate the suitability of the regression models. The Breusch-Pagan/Cook-Weisberg test was conducted for the presence of heteroskedasticity; therefore, robust regression estimation was employed to obtain consistent standard errors.

Model Specification

The econometric models for the study are specified below. Firm size, liquidity and firm growth are included explicitly as control variables in all estimable models.

Model 1: Does financial leverage have a significant effect on financial performance?

$$ROA_{it} = \beta_0 + \beta_1 LEV_{it} + \beta_2 SIZE_{it} + \beta_3 LIQ_{it} + \beta_4 GROWTH_{it} + \varepsilon_{it} \quad \ldots\ldots\ldots\

GROWTH = Firm growth
β_0 = Intercept/constant term
β_1–β_7 = Parameters to be estimated
ε_{it} = Error term for firm i in year t
i = Cross-sectional unit (firm)
t = Time period (2012–2025)

3.2 Measurement of Variables

Variable	Variable Type	Measurement	Literatures
Return on assets (ROA	Dependent	Profit after tax / average total assets	Onoja & Salman (2026); Habila & Daniel (2026)
Financial leverage (LEV)	Independent	Total interest-bearing debt / total assets	Olanisebe, Bawa & Tanko (2025)
Managerial ownership (MOWN)	Moderator	Shares held by executive directors/managers divided by shares outstanding	Olanisebe et al. (2025); Habila & Daniel (2026)
Institutional ownership (IOWN)	Moderator	Shares held by identifiable institutions divided by shares outstanding	Meilanda et al. (2025); Habila & Daniel (2026)
Foreign ownership (FOWN)	Moderator	Shares held by foreign individuals/entities divided by shares outstanding	Olanisebe et al. (2025); Ayaz etal.(2021)
Firm size (SIZE)	Control	Natural log of total assets	Olanisebe et al. (2025); Muhammad et al. (2026)
Liquidity (LIQ)	Control	Current assets / current liabilities	Khan et al. (2021); Eneh et al. (2024)
Revenue growth (GROWTH)	Control	(Revenue_t - Revenue_t-1) / Revenue_t-1	Ayaz et al.(2021); Khan et al. (2021)

Source: Authors' Compilations (2026)

A Priori Expectation: $\beta1, \beta2, \beta3, \beta4, \beta5 \neq 0$; implying that financial leverage, ownership structure, the interaction between the two, and control variables have a positive, negative or insignificant impact on financial performance

RESULTS AND DISCUSSION

Descriptive Statistics

Table 4.1 summarises 210 firm-year observations (15 firms × 14 years) as follows:

Table 4.1 Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
ROA	210	-.003	.129	-1.146	.372
LEV	210	.618	.536	0	5.607
MOWN	210	26.071	29.536	0	94.74
FOWN	210	9.32	18.748	0	61.72
SIZE	210	6.876	.696	5.496	9.033
LIQ	210	2.183	2.811	.16	12
GROWTH	210	17.633	35.868	-85	95.66

Source: Authors' Computations (2026)

For return on assets (ROA), the mean of −0.003 shows that the average listed service firm earned essentially no return on its assets and, on balance, lost a little value. The standard deviation (0.129) is roughly 43 times the absolute mean, and the range from −1.146 to 0.372 is highly asymmetric: the worst loss (114.6% of assets) is three times the best gain (37.2%). Profits are scarce and losses severe, so investors face high downside risk, weak dividend capacity and, in the worst cases, capital erosion.

The average financial leverage ratio (LEV) was 0.618. This means that approximately 62% of the assets of the firms are financed by interest-bearing debt, meaning they heavily rely on lenders. There is also a large standard deviation (0.536). The lowest value (0) shows that some companies have no debt. The largest value (5.607) indicates that some companies have over 5 times debt compared to their total assets, indicating they are technically insolvent and relying upon creditors to be lenient. Due to the high cost of borrowing (32% p.a. for ABC Transport Plc) and a low return on assets (near zero), all earnings from operations go towards paying off interest.

For managerial ownership (MOWN), the mean of 26.071% (SD 29.536, range 0–94.74%) shows insider-influenced firms with very uneven ownership. Some firms have no managerial shareholding, while others are almost wholly insider-owned. Where insider stakes are very high, entrenchment, weak external oversight and insider-driven borrowing decisions become likely, and minority shareholders are poorly protected. Foreign ownership (FOWN) produced a mean of 9.32%, which is low, and the standard deviation (18.748) is about double the mean. With a minimum of 0 and a maximum of 61.72%, foreign capital is concentrated in a few firms. Most firms therefore do not have foreign governance expertise, monitoring and access to external capital, though those with foreign investors also carry exchange rate exposure.

Overall, SIZE has a mean of 6.876; however, due to the log transformation, this variable has been compressed around the mean (SD: 0.696). The variable still has a large range (5.496-9.033), showing that the size of the firms differs quite substantially (3.5-unit difference). In turn, economies of scale, collateral and bargaining power will be very different. LIQ has a fairly high mean current ratio (2.183). However, there is a large standard deviation (2.811), and the minimum shows that some companies have very low liquidity (0.16), showing that they cannot meet their short-term liabilities (only possessing 16 kobo of current assets for every ₦1 of current liability).

On the other hand, the maximum value shows that there is a lot of excess cash in the company (12). GROWTH has a fairly large mean (17.633%); however, the standard deviation is large (35.868), and the range is very large (- 85% to 95.66%). This shows the revenue is very volatile. A large proportion of the mean is likely to be due to nominal growth (inflation). This also shows that revenue is not being translated into profits, as the mean ROA is around 0. This is again consistent with the pressure on costs and financing mentioned above (ABC Transport Plc and Academy Press Plc). Overall, all variables have a high standard deviation relative to their mean. This shows a large amount of variation within the sample. This also shows that there are extreme values. Overall, listed service companies have low returns, high levels of debt, varying liquidity and volatile revenues. This is likely to cause heteroscedasticity and outliers. Therefore, a robust estimation was used below.

Correlation Analysis

Table 4.2 reports Spearman coefficients as follows:

Table 4.2 Spearman's rank correlation coefficients

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)
(1) ROA	1.000						
(2) LEV	-0.152	1.000					
(3) MOWN	-0.011	0.159	1.000				
(4) FOWN	-0.200	-0.209	-0.210	1.000			
(5) SIZE	-0.026	0.412	0.009	-0.201	1.000		
(6) LIQ	0.173	-0.894	-0.144	0.222	-0.403	1.000	
(7) GROWTH	-0.120	-0.022	-0.086	0.037	0.013	0.056	1.000

Spearman rho = 0.056

Source: Authors' Computations (2026)

From the correlation analysis, ROA is negatively related to LEV (−0.152), FOWN (−0.200) and GROWTH (−0.120), almost unrelated to MOWN (−0.011) and SIZE (−0.026), and positively related to LIQ (0.173). Among the explanatory variables, LEV rises with MOWN (0.159) and SIZE (0.412) but falls with FOWN (−0.209) and GROWTH (−0.022, negligible). LEV and LIQ have a very strong negative link (−0.894): highly levered firms hold far less liquidity because debt service drains cash. MOWN is weakly negative with FOWN (−0.210), LIQ (−0.144) and GROWTH (−0.086), and negligible with SIZE (0.009), meaning insider and foreign shareholdings substitute for each other. FOWN is negative with SIZE (−0.201), weakly positive with LIQ (0.222) and negligible with GROWTH (0.037). SIZE is negative with LIQ (−0.403) and negligible with GROWTH (0.013), while LIQ–GROWTH is 0.056. Apart from LEV–LIQ, coefficients are below 0.42, so linkages are weak to moderate. These are bivariate associations only; the regressions give the partial effects.

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Regression Results and Hypothesis Testing

Generally, ordinary least squares assume a constant error variance. The Breusch-Pagan/Cook-Weisberg tests reject this in Model 1 ($\chi^2 = 10.13$, $p = 0.0015$) and Model 2 ($\chi^2 = 10.59$, $p = 0.0011$), and heteroskedasticity was also found in Model 3. Under heteroskedasticity, OLS coefficients remain unbiased but are inefficient, and the standard errors are biased, so t-tests and p-values are misleading. The descriptive statistics point to the cause: ROA from −1.146 to 0.372, LEV up to 5.607 and GROWTH from −85% to 95.66% create extreme observations and unequal variance across firms. The tables confirm the consequence. In Model 1, the leverage p-value moves from 0.131 (OLS) to 0.000 (robust), and in Model 2, foreign ownership, liquidity and growth change from insignificant to significant. Because the coefficients themselves also shift, the robust estimator appears to down-weight influential outliers as well as correct the standard errors. This suggests that inference should therefore rest on the robust estimates. The regression results of Models 1 to three are hereby presented as follows (Tables 4.3 to 4.5):

Hypothesis One

Table 4.3 shows the results of Hypothesis One as follows:

Table 4.3: Model 1

	(1) OLS	(2) ROBUST
LEV	-0.029	-0.075***
	(0.131)	(0.000)
SIZE	0.021	-0.013
	(0.976)	(0.757)
LIQ	-0.012	-0.006***
	(0.621)	(0.006)
GROWTH	0.018	-0.024
	(0.718)	(0.094)
_cons	0.015	0.091
	(0.890)	(0.115)
Observations	210	210
R-squared	0.212	0.233
Adj R^2	0.207	0.218
F-stat	2.616	15.532
VIF	1.34	
Hettest	10.13(0.0015)	

p-values are in parentheses
**** p<.01, ** p<.05*
Source: Authors' Computations (2026)

From the results of Model 1 in Table 4.3 (H_{01}: financial leverage does not significantly affect ROA). Robust LEV is −0.075 (p = 0.000). H01 is **rejected**: leverage has a significant negative effect, so a 0.1 rise in the leverage ratio is associated with an ROA fall of about 0.0075. LIQ is

also negative and significant (−0.006, p = 0.006); SIZE and GROWTH are insignificant at 5%. R^2 = 0.233 and F = 15.532.

4.3.2 Hypothesis Two

Table 4.4 shows the result of hypothesis two as follows:

Table 4.4: Model 2

	(1) OLS	(2) ROBUST
MOWN	-0.342	-0.243
	(0.660)	(0.324)
FOWN	-0.001	0.022***
	(0.121)	(0.000)
SIZE	-0.000	-0.002
	(0.998)	(0.789)
LIQ	0.014	0.017***
	(0.346)	(0.004)
GROWTH	0.042	-0.067**
	(0.892)	(0.038)
_cons	-0.000	0.036
	(0.997)	(0.526)
Observations	210	210
R-squared	0.213	0.225
Adj R^2	0.201	0.204
F-stat	2.535	5.836
VIF	1.48	
Hettest	10.59(0.001 1)	

p-values are in parentheses
**** p<.01, ** p<.05*
Source: Authors' Computations (2026)

From the results of Model 2 in Table 4.4 (H_{02}: ownership structure does not significantly affect ROA). FOWN is positive and significant (0.022, p = 0.000), while MOWN is negative and insignificant (−0.243, p = 0.324). H02 is rejected for foreign ownership and not rejected for managerial ownership. LIQ is positive and significant (0.017, p = 0.004), GROWTH is negative and significant (−0.067, p = 0.038), and SIZE is insignificant. R^2 = 0.225 and F = 5.836, so the model is jointly significant.

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Hypothesis Three

Table 4.5 shows the result of hypothesis three as follows:

Table 4.5: Model 3

	(1) OLS	(2) ROBUST
LEV	0.020	-0.014
	(0.462)	(0.796)
MOWN	0.001**	0.230
	(0.015)	(0.131)
FOWN	-0.042	-0.031
	(0.809)	(0.288)
LEV_MOWN	-0.012***	-0.051***
	(0.001)	(0.001)
LEV_FOWN	-0.032	-0.341
	(0.838)	(0.372)
SIZE	0.022	0.024
	(0.894)	(0.595)
LIQ	0.067	0.082
	(0.947)	(0.504)
GROWTH	-0.130	-0.230
	(0.726)	(0.118)
_cons	-0.018	-0.231
	(0.868)	(1.000)
Observations	210	210
R-squared	0.285	0.287
Adj R^2	0.249	0.255
F-stat	2.338	5.793

p-values are in parentheses
*** *p<.01,* ** *p<.05*

Source: Authors' Computations (2026)

From the results of Model 2 in Table 4.5, Model 3 (H03: ownership structure does not significantly moderate the leverage–performance relationship). LEV×MOWN is negative and significant (−0.051, p = 0.001), so H03 is rejected for managerial ownership. LEV×FOWN is insignificant (−0.341, p = 0.372), so H03 is not rejected for foreign ownership. The direct LEV, MOWN and FOWN terms are insignificant once interactions are included, meaning the leverage effect depends on the level of managerial ownership. R^2 = 0.287 and F = 5.793.

DISCUSSION OF FINDINGS

The results show a service sector in which borrowed funds cost more than assets earn, and in which ownership matters mainly through foreign participation and its interaction with debt.

From the leverage findings, debt significantly lowers ROA (−0.075), and OLS had masked this. The link to the descriptive profile is direct: mean ROA is about zero (−0.003) while mean leverage is 0.618 and reaches 5.607. When assets earn almost nothing, and debt is expensive, as in the 32% facility reported for ABC Transport Plc, interest absorbs operating returns. This supports trade-off theory, under which distress and financing costs outweigh benefits beyond an optimal debt level (Kraus & Litzenberger, 1973). The finding is in tandem with Opara et al. (2026), who found only negative leverage effects among Nigerian manufacturers; Ofulue et al. (2022), who found negative debt-to-equity and long-term debt effects; Ibrahim et al. (2022), who found total debt negative; and Ifurueze et al. (2022) for long-term debt-to-assets. It disagreed with Tanko et al. (2021), who found long-term debt improved ROA, and Abdulwahab et al. (2023), who found total debt positive for service firms, though with EPS as the performance proxy. For service firms, the implication is that debt-funded expansion currently erodes value, and the −0.894 LEV–LIQ correlation shows highly levered firms are also short of cash, raising refinancing and insolvency risk.

From Ownership structure findings, foreign ownership raises ROA (0.022), while managerial ownership has no significant effect (−0.243). With mean foreign ownership of only 9.32% and many firms at zero, foreign investors are scarce but valuable, bringing capital, monitoring and governance expertise, as argued by Uwuigbe and Olusanmi (2012), which this is in tandem with. It disagreed with Olanisebe et al. (2025), who found no significant foreign ownership effect in consumer goods firms, and the information-asymmetry concern of Tsegba and Achua (2011). The insignificant managerial result is in tandem with Olanisebe et al. (2025) but disagrees with Onoja and Salman (2026), who found managerial ownership improved ROA, and Sani (2020), who found a significant negative effect. The wide MOWN range (0–94.74%) likely mixes alignment and entrenchment effects that cancel out on average.

From the Moderation results, managerial ownership significantly worsens the leverage–performance relationship (−0.051), while foreign ownership does not moderate it. Where insiders hold very large stakes, debt is probably used with weak external monitoring, consistent with agency and entrenchment arguments (Jensen & Meckling, 1976). This contradicts Ibrahim et al. (2022) findings which showed no significant moderation effect of management ownership however agrees with Sani (2020) and Tanko et al. (2021) findings that show corporate governance variables moderate performance. This suggests foreign ownership has a positive direct effect on performance.

CONCLUSION

The study investigated whether ownership structures moderate the relationship between leverage and financial performance (15 service listed companies in Nigeria, 2012-2025). Robust regression analysis was done due to heteroskedasticity detected in the models. Leverage had a significant

negative impact on ROA. Thus, the null hypothesis stating leverage had no effect was rejected. Foreign ownership had a significant positive impact on ROA. However, managerial ownership had no significant direct impact. The null hypothesis was thus rejected only for foreign ownership. Managerial ownership had a significant moderate negative impact on the leverage-performance relationship. However, foreign ownership did not have this effect. The null hypothesis was thus rejected only for managerial ownership. This is due to the descriptive statistics indicating that firms had very low mean ROA, large and volatile debt, uneven liquidity and concentrated insider ownership. Generally, this sector is not creating value through borrowing, and the ownership structure will determine the impact debt has on performance.

Recommendations

Interest-paying debt should be limited to provide positive returns on assets; managers should prefer equity, retained profit and long-term cheaper debt. Regulators and lenders should ensure companies disclose details of their gearing and liquidity and offer cheap long-term finance to service companies.

Companies should also be proactive in attracting foreign and other institutional investors. Policy makers should also simplify investment, withdrawal and listing processes. As there are no significant benefits from having insider ownership, companies should not use this as the sole method for improving performance. Instead, an independent monitoring system should be implemented.

Companies with high insider ownership should have more independent directors and audit and risk committees. Large borrowing decisions should be approved by independent parties. Regulators should oversee borrowing decisions at insider-dominated companies to protect minority shareholders.

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