EFFECT OF OWNERSHIP STRUCTURE ON EARNINGS MANAGEMENT OF LISTED CONGLOMERATE FIRMS IN NIGERIA

BY

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NSU/ADM/MSC/ACC/060/15/16

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MAY, 2024

DECLARATION

I hereby declare that this dissertation has been written by me and it is a report of my research work. It has not been presented in any previous application for the award of any degree. All quotations are indicated and sources of information specifically acknowledged by means of references.



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CERTIFICATION

This dissertation entitled "Effect of Ownership Structure on Earnings Management of Listed Conglomerate Firms in Nigeria" meets the regulations governing the award of the degree of Master of Science (M.Sc.) in Accounting and Finance of the School of Postgraduate Studies, Nasarawa State University, Keffi, and is approved for its contribution to knowledge.

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DEDICATION

In humble reverence, and profound gratitude, I dedicate this work to Almighty God, the source of all knowledge, wisdom and inspiration. To You, O Lord, I offer my heartfelt thanks for guiding me through this academy journey, for granting me strength during challenging times, and for illuminating my path with divine light. With profound gratitude, I acknowledge your infinite wisdom that has allowed me to delve into the depth of knowledge and understanding, expanding my intellectual horizon; I pray for your continued guidance, support, and blessing in all future endeavors, that I may utilize the knowledge gained for the greater good and to bring glory to your name. In Your name, I begin and end this academic pursue. I am forever grateful for your unwavering presence in my life.

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ABSTRACT

The separation of ownership and control leads to the conflicts of interests between managers and owners. These conflicts arise when managers seek to maximize their interests and engage in activities that are not in line with the objective of maximizing shareholder's wealth. An effective control system for the management is vital to make sure manager's action is in agreement with shareholder's interest. Conflict of interest between managers and shareholders becomes clear when there is a division between the people who own the organization and the people who manage the organization. The study evaluates the effect of ownership structure on earnings management among conglomerates firms listed in Nigeria. Ownership structure was measured by managerial ownership, institutional ownership, ownership concentration and foreign ownership while earnings management is measured by Modified Jones model. The study adopts Ex-post facto research and panel multiple regression technique was used for the analysis. It was found that managerial ownership has a positive but insignificant effect on earnings management, institutional ownership has negative significant effect on earnings management, ownership concentration has a positive significant effect on earnings management, and foreign ownership has a positive insignificant effect on earnings management of listed conglomerate firms in Nigeria. Generally, the study concludes that ownership structure influence earnings management. The study recommends that conglomerate should encourage institutional participation in their share ownership since they (Institutional investors) have the opportunity, resources and ability to monitor. discipline to constrain manager's opportunistic behavior.

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

In a world characterized by imperfect information and costly monitoring, a divergence of interests between shareholders and management can lead to sub-optimal management decisions. Such decisions are possible because the actions of managers are largely unobservable, and the goals of the managers and their shareholders are not necessarily aligned. Managers are posited to opportunistically manage earnings to maximise their utility at the expense of other stakeholders. Agency theory suggests that the monitoring mechanisms can improve the alignment of management and shareholders' interests and mitigate any opportunistic behavior resulting from conflict of interests.

The agency theory posits that the separation of ownership and control leads to the conflicts of interests between managers and owners. These conflicts arise when managers seek to maximize their interests and engage in activities that are not in line with the objective of maximizing shareholder's wealth. In the current business ownership structure, separation of ownership from management of an organization is foreseeable particularly in large, listed businesses where the owners are more detached among shareholders and the appointed management may have very nominal shareholding. In these firms, failure to observe the management may lead to inefficient resource distribution and cause business failure (Johari, et al, 2008). An effective control system for the management is vital to make sure manager's action agrees with shareholder's interest. Conflict of interest between

managers and shareholders becomes clear when there is a division between the people who own the organization and the people who manage the organization (Jensen & Meckling, 1976).

A conflict of interests has potential agency cost such as management decisions that do not maximize shareholder's interests. Managers may manage reported earnings to justify their actions. Earnings management may lead to an agency cost where investors make non-optimal investment decisions from reported earnings. In a situation where a company has a high free cash flow, the manager may be engaged in earnings management to show better performance of the company. This relation can be explained by using agency theory. In this contractual context, characterized by the conflict of interests between shareholders and managers, corporate governance involves the design series mechanisms that reconcile the interests of shareholders and managers (Fama & Jensen, 1983; Hart, 1995), thus avoiding the management that seeks to maximize his or her utility function even at the expense of shareholder's wealth. There is, in turn, a relationship between fund sources and investment, that holds both when firms face positive NPV opportunities and when they do not.

According to Roychowdhury (2006), financial executives usually exploit the real activities to earn their desired earnings. The exploitation or control on the earnings will lower the value of the company because the cash flows in the future. For instance, if the companies set a big discount to give to the customers as to enhance large volume of sales in short term but in the future, the customers as well expect the same thing to happen and this, may lead to small volume of sales without discount given. Additionally, managers manage companies' earnings through hiding the real condition of the financial position and

manipulate possible information needed by companies' stakeholders. It happens when there is a separation of ownership between the managers and companies' shareholders that creates agency problem (Amir, et al, 2019).

The phenomenon of earnings management is one of the management practices to comply with the rapid changes in the external and internal environment and the ability to survive, grow and compete. It can also be seen as a reflection of the aims and interests of the management rather than as a reflection of the real performance of the company by exploiting the flexibility of the management to choosing between alternative accounting policies within the accepted accounting principles and non-compliance with professional standards and ethical values, as well as a conflict of interests between the management of the company and other parties' interests. Ownership structure affects earnings management due to its ability to decide how businesses choose to reveal its financial information. Organizations with concentrated ownership vest more powers in the hands of major shareholder who tend not to release all information to collect personal benefits of control. The presence of institutional investors in the ownership structure result in better observation and control of management and give better information about company (Gedajlovic & Shapiro, 2002).

The entrenchment problem arises when the top executives and board members of conglomerate firms prioritize their own interests and maintain control over the corporation, rather than acting in the best interests of shareholders. When executives and board members have a significant amount of power and influence within a corporation, they may be able to engage in earnings management, which involves manipulating financial

statements to create the appearance of better performance than is occurring. This can be done to boost the stock price and increase executive compensation, which can help entrench their power and control over the corporation (Buhr & Kauffman, 2018).

Despite this, agency theorist counters the argument by suggesting that managerial ownership lends their effectiveness as monitoring mechanisms in helping companies to mitigate agency problem. This is because managers see the companies as their own and accordingly make the best investment decision that will enhance the value of the firm (Jensen & Meckling, 1976). Watts and Zimmerman (1986) and Patten and Trompeter (2003) noted that managers are entrusted with the resources of the firm with the sole responsibility of maximizing the wealth of the owners. Based on this responsibility, managers are expected to objectively report back to the owners. Therefore, managerial power to control and direct increase with the extent of managerial equity stake which will reduce managerial incentive to manipulate earnings (Teshima & Shuto (2008). Based on the backdrop, the study determined how ownership structure affect earnings management of conglomerate firms in Nigeria.

1.2 Statement of the Problem

The ownership structure of the company has raised controversy and debate regarding its role in an effective control of the management behavior and the limitation of earnings management practices, since Siregar and Utama (2008) found that in companies where ownership structures are dispersed among a large number of owners, each has a limited number of shares of the company's capital, the managers there will be in a position to use the methods and means that enable them to achieve their own interests, because there is no

incentive for shareholders to closely monitor the company's activities in addition to the weak participation of shareholders in management decisions or policies.

Dispersed ownership in corporations causes earnings management problem since large number of small investors hold shares in a company, this makes it difficult for them to exert meaningful influence over corporate decision-making. In such cases, it may be easier for executives and board members to engage in earnings management, which involves manipulating financial statements to create the appearance of better performance than is occurring (Healy & Palepu, 1993).

Information of high quality enables investors to make efficient investment decisions, as investment can be directed where it is most productive. However, if the provisions for financial information remain unchecked, there is a good chance that the providers of such information will use it opportunistically and/or in a misleading manner to generate private gains, financial report is so important to all users of financial statement in making decision that the study of earnings management is expected to be very useful to them (Al-Khabash & Al-Thuneibal, 2009). Earnings management involves the manipulation of company earnings by managers towards pre-determined target. This target can be motivated by a preference for more stable earnings, a phenomenon commonly referred to as "income smoothing" while income smoothing may seem appealing to managers, its effect pose significant challenges for stakeholders in accurately assessing the true value of a company or firm.

At the theoretical level, the ownership structure as a governance mechanism appears to ensure a better quality of accounting information by reducing the earnings management and improving the earnings informativeness. But at the empirical level, previous studies do

not lead to a consensus regarding the role of ownership structure in improving the quality of financial information. Though studies were conducted on the effect of ownership structure on earnings management such as Maswadeh (2018), Parveen, et al (2016), Imoleayo, et al (2017), Oyedokun (2019), Ayadi and Boujelbène (2014) but these studies cannot be generalized to conglomerate companies because they were conducted in other developed nations and other sectors in Nigeria, thus, the data used were not of conglomerate firms and conclusions cannot be applied to conglomerate firms in Nigeria. The findings of the study could inform policy and regulatory decisions related to ownership structure and earnings management in Nigeria unlike the underlisted studies.

More to that, the period covered in other studies were not up to 2021, which this study also want to take care of by extending the study to more recent work. The study of Parveen, et al (2016) who determined the impact of ownership structure on firm's earning management was carried out in Banking sector of Pakistan from 2000 to 2012. Considering the period of previous studies, there is a gap between 2012 -2021 thus, this study used conglomerate firms from 2012 to 2021 which is more recent compared to the previous literatures.

The study of Oyedokun (2019) was conducted in listed industrial goods companies in Nigeria from 2008 to 2017 while Ayadi and Boujelbène (2014) used 117 French companies belonging to the SBF 250 index during the period 2003-2011. Ogbonnaya, et al (2016) investigate the effect of cooperate governance and ownership structure on earnings management of Brewery industries from 2004-2013 and Isenmila and Elijah (2012) examined the relationship between ownership structure and earnings management of 10 commercial banks in Nigeria from 2006-2010. Therefore, to the extent of studies reviewed, there is no research on conglomerate firms in Nigeria and, there is no study that used up to

2021 data to draw conclusion on the relationship between ownership structure and earnings management in Nigeria conglomerate firms.

Furthermore, many Nigerian conglomerate companies such as Chellerams PLC, John Holt PLC, SCOA NIG. PLC are characterized by a high concentration of ownership, with a small number of shareholders holding a significant percentage of shares (David-West & Faleye, 2015). An empirical study could investigate how this ownership structure affects the likelihood of earnings management. Based on the existing gap in knowledge, the study considered more paramount to bridge existing knowledge in literature by using conglomerate firms from 2012 to 2021.

1.3 Research Questions

In a study such as this, it is imperative that research questions are raised, so that the study objectives can be achieve. The following research questions form the bedrock of this study:

i. How does managerial ownership affect earnings management of listed conglomerates firms in Nigeria?
ii. What is the effect of institutional ownership on earnings management of listed conglomerates firms in Nigeria?
iii. To what extent does ownership concentration affect earnings management of listed conglomerates firms in Nigeria?
iv. How does foreign ownership affect earnings management of listed conglomerates firms in Nigeria?

1.4 Objectives of the Study

The main objective of this study is to assess the effect of ownership structure on earnings management of conglomerates firms in Nigeria. The specific objectives are to:

i. Assess the effect of managerial ownership on earnings management of listed conglomerates firms in Nigeria.

ii. Determine the effect of institutional ownership on earnings management of listed conglomerates firms in Nigeria

iii. Investigate the effect of ownership concentration on earnings management of listed conglomerates firms in Nigeria.

iv. Evaluate the effect of foreign ownership on earnings management of listed conglomerates firms in Nigeria.

1.5 Statement of Hypotheses

The null hypotheses developed for this study includes the following:

H_{o1}: Managerial ownership has no significant effect on earnings management of listed conglomerates firms in Nigeria.

H_{o2}: Institutional ownership has no significant effect on earnings management of listed conglomerates firms in Nigeria

H_{o3}: Ownership concentration has no significant effect on earnings management of listed conglomerates firms in Nigeria

H_{o4}: Foreign ownership has no significant effect on earnings management of listed conglomerates firms in Nigeria

1.6 Significance of the Study

This study would be very important as the findings would extend the frontier of knowledge and provide knowledge base in the area of effects of ownership structure on earnings management of conglomerates firms in Nigeria. This is imperative because the few studies on the effects of ownership structure on earnings management of conglomerates firms in Nigeria are outside of the domain of this study and with different focus. The study would benefit the following:

Conglomerate firms would benefit from the study because it would provide the needed theoretical information on factors that positively or otherwise influence the practice of ownership structure on earnings management of conglomerates firms in Nigeria. The findings and the recommendations of the study would also provide the base and veritable tool for informed decisions on ownership structure.

The findings of the study will provide empirical evidence that will help investors in monitoring and protecting their investments by checking the activities of the managers. The study will also be of great use to accounting educators as the outcome of the study will serve as motivation for further research. Similarly, it is hoped that the findings of this research will go a long way in assisting other stakeholders like government, employees and creditors to make informed decisions about policies, employments and ratings respectively. The findings of this study will also contribute to existing empirical studies on ownership structure and earnings management of conglomerate firms in Nigeria.

1.7 Scope of the Study

The study assesses the effect of ownership structure on earnings management of conglomerate firms in Nigeria from 2012 to 2021. The choice of the sector is based on lack of literatures in the area and the significance of the sector in the contribution to economic development. The choice of the period is to make the study more recent. Ownership structure is measured by managerial ownership, institutional ownership, ownership concentration and foreign ownership while earnings management is measured by modified Jones model

CHAPTER TWO

LITERATURE REVIEW

2.1 Conceptual Framework

2.1.1 Concept of Ownership Structure

According to Jensen and Meckling (1976), ownership structure is the distribution of equity regarding votes amongst shareholders, capital and also by the identity of the equity owners. These structures are of major importance in corporate governance because they determine the incentives of managers and thereby the economic efficiency of the corporations they manage. It can also represent the degree of concentration of ownership in firms, which means large shareholders proportion in a firm. Zhang (2005) defined Ownership structure as stockholders ownership proportion.

In addition, Zhang (2005) further reiterated that there are three types of ownership structure. First, absolute concentration of ownership where there is only one stockholder who has the absolute power to control the firm and usually keep 50% ownership. Second, absolutely dispersed ownership, in which case there are numerous stockholders; and a complete separation of ownership and control where single stockholder keeps share below 10%. Third, there co-exist relative concentration of ownership and some large shareholders in a firm. However, in a firm with a relative concentration of ownership and some large shareholders, ownership structure can almost decide the composition of the board.

And so, It is always assumed that only shareholders who hold large share may closely monitor the management of board. Dispersed shareholders have little or no incentive to

monitor the management; they may have no power to decide for the board. Then, some large shareholders control the exercise of the board and hire managers to act on their behalf. Such shareholders may use their voting power to improve their own position at the expense of other shareholders.

Ownership structure of a firm can be categorized into two groups: proportion of shares owned by insiders and outsiders; proportion of shares owned by institutional versus individual shareholders. For the insider and outsider shareholders category, it was found that managerial ownership is negatively linked with earnings exploitation. Ownership structure of a firm can be viewed as the nature in which firm's equity holdings are structured. It may also be viewed as stakeholder ownership proportion in the firm. Ownership structure is very important and influential in determining the efficacy of the market by giving information about two significant things (Carvalhal-da-Silva & Leal, 2004). Firstly, it will show the extent of risk diversification of shareholders and secondly, it will give possible agency problems encountered while managing the firm. Mehrani (2011) posits that corporate ownership structure in a company is an influential factor for the company's policies, of which one of them is dividend policy.

In Nigeria, many conglomerate companies are characterized by a high concentration of ownership, with a small number of shareholders holding a significant percentage of shares. These companies often have complex ownership structures that involve family members, business associates, and political elites. The top shareholders in these companies often have significant control over strategic decisions, including the

appointment of executives and board members. This concentration of power can lead to conflicts of interest and create opportunities for insider dealings and other forms of financial malpractice (David-West & Faleye, 2015). Research has shown that ownership structure in Nigerian conglomerate companies can affect earnings management, with higher levels of ownership concentration associated with a greater likelihood of earnings management and other forms of financial manipulation. In addition, the lack of transparency and accountability in these companies can make it difficult for investors and other stakeholders to assess their financial health and performance (David-West & Faleye, 2015).

Managerial ownership is a category of ownership in which members of the management of a company hold a large part of the shares of a company. This term is also known as insider ownership. Under this form of ownership, the owners of the company are also the managers of the company. Insider or managers of a firm act also as shareholders if they possess some portion of the company shares; this reduces the agency conflicts and aligning the interest of management and that of shareholders. Agency theory predicts that low insider ownership implies poor alignment of interest between managers and shareholders (Jensen & Meckling, 1976). This insider with low ownership manages earnings for better compensation, relax contractual constraint or avoid debt covenants (Healy, 1985). It is suggested that they will be more involve in the firm when they own larger ownership, thus, the need for outside monitoring will be reduced, if the interest of insider and outsider converge.

There are two views concerning managerial ownership. The convergence hypothesis states that insiders will be seen as monitoring mechanism when they acquire some portion of the company equity, they will prevent managers" opportunistic behavior, and the magnitude of discretionary accruals is predicted to be negatively associated with insider ownership (Warfield, et al, 1995). On the other hand, when there is little separation between managers and owners (that is, when the managers are also part of the owners), management face less pressure from capital markets to signal the firm value to the market and they pay less attention to the short term financial report (Jensen, 1986). Then highly invested managers are more likely to manipulate earnings, since the lack of market discipline, may lead managers to make accounting choice that is out of self-serving interest.

Institutional investors are large investors, other than natural person. Organizations which are considered as institutional investors are insurance companies (life and non-life), pension funds, investment trusts (including unit trusts), financial institutions (including banks, finance companies, building societies and credit cooperatives), investment companies, and other nominee companies associated with the above categories of institutions (Lang & McNichols, 1997). Institutional investors have the opportunity, resources and ability to monitor, discipline and influence a manager's decision in the firm (Monks & Minow, 1995). Managerial ownership might decrease the agency conflicts as the objectives of managers are lineup closely to the objectives of other shareholders. Institutional investors are large investor, who uses personnel judgment over investment of others. Organizations which are considered as

institutional investors are insurance companies, pension funds, investment trusts, financial institutions, investment companies.

Institutional investors are classified into two main groups. The long term institutional investors who invest in a firm with the intention of holding their ownership stake for a long period. Therefore, they have strong incentive to monitor managers because of the huge investment they have in the firm. In this case the relationship between institutional ownership and earnings quality is expected to be positive. The second class is the short term institutional investors, they focus mainly on current earnings rather than in long term earnings, they engage less in monitoring management activity, if they are unhappy with the performance of a firm they sell their ownership stake rather than monitor or remove inefficient managers (Coffee, 1991). Mashayekhi (2008) argued that institutional share ownership may have implications for earnings management as they are able to influence the company's management. Moreover, they showed that an increase in the number of institutional investors plays a positive role in determining earning quality.

Velury and Jenkins (2006) note that an institutional investor can control the behavior of the management indirectly by influencing the company's information environment, and it considers one of the key objectives of corporate governance to increase the quality of the company's financial statements and the information it contains. Moreover, increasing the percentage of institutional ownership in the company's shares leads to timeliness, neutrality, and faithful representation of information. According to Boehmer and Kelley (2009), institutional ownership is an important mechanism for

reducing agency costs and problems, reducing opportunistic behavior of management, protecting investor interests, and assisting in the convergence of interests between management and owners, because they have the motivation and ability to exercise effective and continuous control over the decisions, practices, and behaviors of the management. Cillian and Patricia (2002) argue that institutional ownership leads to a lower probability of management managing or manipulating earnings to achieve their own interests by controlling the elements and decisions that are dependent on the opinion and personal judgment of management.

Ownership concentration is a measure of the existence of large block holders in a firm (Thomsen & Pedersan, 2000). Normally, a shareholder who holds 5% or more of a corporation common stock is considered a major shareholder or block holder. The shareholding of an owner should be significant enough to provide for monitoring the action of the management. The major shareholder can be an individual, a domestic foreign corporation, an institutional investor and or the state. Large block holders have greater incentive to monitor management as the costs involved in monitoring is less than the benefits to large equity holdings in the firm. Ownership concentration is a governance system that allows the major shareholder to boost power overboard behavior and decisions. Concentrated ownership is common in countries with weak legal protection of minority shareholders. In these countries, getting authority over administration decreases issues of interests between managers and shareholders and thus reduces the agency conflicts. However, control by one shareholder over organization's activities produce agency problems between major shareholder and minority shareholders (Gedajlovic & Shapiro, 2002).

Concentrated ownership, which is the act of having more than 10 percent of a company's shares in the hands of an individuals or institutions have been acknowledged to provide incentives for large shareholders to monitor management. As the ownership stake of large block holders increases, there is the incentive to increase firm performance and monitor management than other shareholders (Lee, 2008). The block holders due to their interest and investment in the company are more active than other shareholders in the company, which is aimed at achieving the objective of maximizing return on investment.

Alwshah (2009) finds that the presence of foreign ownership in the shares of companies often leads to improved company's performance, due to the improvement of the control and supervision of the company's management, so that the foreign ownership strengthens the local companies with foreign shareholders who are working to develop and enhance the means of corporate governance effectively. Phung (2015) states that the presence of foreign ownership in the company may lead to transfer of modern technology and management skills, in addition to supervisory roles exercised by foreign owners, will reduce the agency's problems in the company. Also, foreign owners are interested in disclosure and perform best accounting practices, in turn, improving the quality of financial reports.

2.1.2 Concept of Earnings Management

Earnings management is recognized as attempts by management to influence or manipulate reported earnings by using specific accounting methods or accelerating expense or revenue transactions, or using other methods designed to influence short-

term earnings. The term as generally understood refers to systematic misrepresentation of the true income and assets of corporations or other organizations (Beneish, 2001). Healy and Wahlen (1999) states that earnings management occurs when managers use judgment in financial reporting in structuring transactions to alter financial reports, to either mislead some stakeholders about the underlying economic performance of the company, or to influence contractual outcomes that depend on reported accounting".

Schipper (1989) defined earnings management as "a purposeful intervention in the external financial reporting process with extent of obtaining some private gain". Also, Dechow and Schrand (2004) provided two definitions that tend to be similar. Firstly, a high-quality earnings number is one that accurately reflects the company's current operating performance, is a good indicator of future operating performance, and is a useful summary measure for assessing firm value. Secondly, earnings quality refers to a situation when the earnings number accurately annuitizes the intrinsic value of the firm.

Roman (2009) opined that "earnings management occurs when management has the opportunity to make accounting decisions that change reported income and exploit those opportunities". Additionally, Healy and Wahlen (1999) indicated that earnings management occurs when managers use judgment in financial reporting and in structuring transaction to alter financial report either to mislead some stakeholders about the underlying economic performance of the company or influence contractual outcomes that depend on reported accounting numbers.

According to Oyedokun (2019), earnings management is the transformation of accounting figures from what they are to what preparers desire by taking advantage of the existing rules and ignoring some or all of them. Earnings management is known as a situation where management alter reported earnings using exact accounting systems either by expense increase or revenue decrease, or by other means designed to influence short term incomes. The term is normally assumed as systematic falsification of the true earnings as well as company's assets. Earnings management happens when managers use discretion in reporting to structure items as to adjust annual reports, to either misinform some stakeholders regarding the underlying economic performance of the entity, or to influence contractual outcomes that depend on reported income.

Earnings management occurs when managers use judgment in financial reporting and in structuring transactions to alter financial reports to either mislead some shareholders about the underlying economic performance of the company or to influence contractual outcomes that depend on reported accounting numbers (Healy & Wahlen, 1999). Earnings management is therefore the opportunistic behaviour of managers regarding the financial reporting of the firms under their watch. It represents a purposeful intervention in the external reporting process with the intent of obtaining some private gains (Schipper, 1989).

Rahman et al. (2013) defined earnings management as reasonable and legal management decision making and reporting intended to achieve stable and predictable financial results. Amat (1996) described earnings management as a process whereby accountants use their knowledge of accounting rules to manipulate the figures or

numbers reported in the accounts of a business. Kirschenheiter and Melumad (2002) viewed earnings management as some misdeeds, misdemeanors or other transgression that alter earnings to be reported. DeAngelo and Skinner (1994) on their part considered earnings management as the manipulation of some accounting principles by managers to conceal poor performance or postpone a portion of usually good current earnings to future years.

Holland and Ramsay (2003) defined earnings management as multiple management practices in financial measurement and reporting, including all interventions in preparing external financial reporting with the intention of achieving intended gains or goals.

2.2 Empirical Review

2.2.1 Managerial Ownership and Earnings Management

Khan (2020) examined effect of managerial ownership, audit quality on earnings management in Malaysia. The study adopts descriptive design and uses regression technique for the analysis. The study examined the effect of managerial ownership on earnings management and found that higher levels of managerial ownership were associated with lower levels of earnings management. The study also found that higher audit quality mitigated the effect of managerial ownership on earnings management. The study is limited in its geographic scope, as it only examined Malaysian firms. Additionally, the studies did not control for the potential effects of other ownership structure such as board composition and ownership concentration, which may have influenced the results.

Widyanto (2020) evaluated effect of managerial ownership on earnings management in Indonesia moderated by institutional Ownership. The study used panel multiple regression for the analysis and the results showed that higher levels of managerial ownership were associated with higher levels of earnings management, but this effect was moderated by institutional ownership, which reduced the likelihood of earnings management. The study does acknowledge that this effect is moderated by institutional ownership, suggesting that the relationship between managerial ownership and earnings management may be complex and context-specific which differs from previous studies.

Imoleayo, et al (2017) examined the effect of ownership structure on earnings management practices of 137 Nigerian companies. Earnings management was measured using the magnitude of the discretionary accruals. The OLS regression technique was used to measure the research model as well as the Pearson Moment Correlation Coefficient. The study shows that ownership structure has a significant relationship with earnings management practices in Nigeria. It further revealed that there is a positive significant relationship between management ownership and family ownership with earnings management. Also, there is a negative significant relationship between block ownership with earnings management practices in Nigeria. Imoleayo, et al (2017) disclose the diagnostic test of the variables such as variance, heteroskedasticity test, normality test hence, the findings of the study may be spurious to drawn conclusion.

Ayadi and Boujelbène (2014) used 117 French companies belonging to the SBF 250 index during the period 2003-2011 and investigate the relationship between ownership

structure and earnings quality, proxied by earnings management and informativeness. Panel multiple regression for used for the analysis. The results of linear regressions show that managerial ownership has a positive impact on the earnings management and reveal that ownership concentration and institutional ownership have a positive impact on the earnings informativeness. In addition, the results of the study show the existence of non-linear relationship only for ownership concentration and institutional ownership. This study does not carry out a diagnostic test such as the variance inflation factor and heteroskedasticity test thus, there might exist multicollinearity between the individual variables thereby leading to spurious result.

Amir, et al (2019) investigate the association between ownership structure and real earnings management. The ownership structure was measured by managerial ownership, external block-holders ownership, and family ownership. The study used 650 firm-year observations of Malaysian non-financial corporations for years 2012 to 2016. The study used Feasible Generalized Least Squares (FGLS) Regression Analysis after controlling for firm size, growth, profitability, and leverage, as expected, the study found that managerial ownership, external block-holders and family ownership are negatively associated with real earnings management. The study was not able to determine the multicollinearity between the independent variable of the study was well as the heteroskedasticity of the variable. Also, the study does not consider cross-section effect between the variables' thus, only pooled regression was used as such, the finding of the study may be faulty.

Isenmila and Elijah (2012) investigated the relationship between ownership structure and earnings management of 10 commercial banks in Nigeria from 2006-2010. The study used multivariate regression technique for the analysis. The ownership structure was disaggregated into insider ownership, institutional ownership and external block ownership respectively. The finding of the study revealed the existence of a positive and significant relationship between external block ownership and earnings management. The relationship between insider ownership and earnings management was also observed to be positive and statistically significant. A positive insignificance relationship was also observed between institutional Investors ownership and earnings management. The period considered by the study is too small thus, the study could have used longer duration.

Ogbonnaya, et al (2016) exanined the effect of cooperate governance and ownership structure on earnings management of Brewery industries from 2004-2013. Regression technique was used to analyses the data, the result shows that CEO and Managerial ownership have positive significant effect on Earning management, the findings also reveal that price earnings ratio, Net assets per share of firm affect Earning Management. There is lag period between the period of the study and the period at which the study was conducted hence, the study could have extent the period to 2015.

Musa and Shehu (2014) explored the influence of ownership structure on earnings management of listed Nigeria Chemical and Paints. Ownership structure is measure by managerial ownership, institutional ownership as well as block holder Ownership, while Earnings management is represented by modified Jones (Dechow, Sloan and

Sweeney 1995) technique. Employing 40 annual observations, panel Ordinary least square was estimated from 2007-2011. The findings revealed that, there is positive as well as significant correlation among Institutional, managerial ownership with earnings management while correlation among Block-Holders' ownership and earnings management was found to be negative as well as significant. Their study was done in chemical and paint sector and make use of block holders, managerial ownership, and institutional ownership to measure ownership structure which covers the period 2007-2011 while this study is conducted in conglomerate firms in Nigeria.

Spinos (2013) investigated the relationship between earnings management and managerial ownership within the U.S. setting using Modified Jones model on 235 U.S. firms listed in the S&P 500 index from 2004-2009 as well as to compare the findings 3 years before (2004-2006) and 3 years after (2007-2009) the economic recession to investigate whether the potential association between them is affected by it. The results provide evidence that during the whole research period there is no significant relationship between managerial ownership and earnings management. However, the findings suggest that the latter relationship is indeed influenced by the effects of the financial crisis.

Obigbemi, et al (2017) investigate ownership structure function on earnings management practices of firms in Nigeria using financial reports of 137 sampled companies. Earnings management was proxy by discretional accruals. The study tested ownership structure effects on earnings management. OLS regression technique was used to ascertain the research model as well as the Pearson Moment Correlation

Coefficient. The study reveals a positive significant correlation among ownership structure as well as earnings management practice in Nigeria. Furthermore, there exists a negative significant connection linking block ownership with earnings management practices in Nigeria.

Hsu and Koh (2005) investigate the effect of both short-term and long-term managerial ownership on the extent of earnings management in Australia. They found that managerial ownership is statistically significant for all linear specifications but insignificant for the non-linear models. However, managerial ownership is positively associated with income-decreasing discretionary accruals and negatively associated with income-increasing accruals.

Teshima and Shuto (2008) studied managerial ownership effects on earnings management employing discretionary accruals. 18,790 Japanese companies were used covering 1991-2000. Kasznik (1999) model was used to proxy the discretional accruals. The outcome revealed a significant positive association among ownership composition with earnings management.

2.2.2 Institutional Ownership and Earnings Management

The study of Widyanto (2020) evaluated effect of managerial ownership on earnings management in Indonesia moderated by institutional Ownership. The study used panel multiple regression for the analysis and the results showed that higher levels of managerial ownership were associated with higher levels of earnings management, but this effect was moderated by institutional ownership, which reduced the likelihood of

earnings management. The study does acknowledge that this effect is moderated by institutional ownership, suggesting that the relationship between managerial ownership and earnings management may be complex and context-specific which differs from previous studies.

Al-Fayoumi, et al (2010) reported that insider ownership is significant and positively affect earnings management. The study determined the relationship between earnings management and ownership structure for 39 listed Jordanian industrial firms in Amman stock exchange between 2001 and 2005. The study proxied earnings management by discretionary accruals and the three types of ownership studied are; insiders, institutions and block-holders. This study used the Generalized Method of Moment (GMM). The study found that there is a positive and significant relationship between insiders' ownership and earnings management. Also, findings indicates that neither institutions nor block-holders have significant influences on earnings management.

Ayadi and Boujelbène (2014) used 117 French companies belonging to the SBF 250 index during the period 2003-2011 and investigate the relationship between ownership structure and earnings quality, proxied by earnings management and informativeness. Panel multiple regression for used for the analysis. The results of linear regressions show that managerial ownership has a positive impact on the earnings management and reveal that ownership concentration and institutional ownership have a positive impact on the earnings informativeness. In addition, the results of the study show the existence of non-linear relationship only for ownership concentration and institutional ownership. This study does not carried out a diagnostic test such as the variance inflation factor

and heteroskedasticity test thus, there might exist multicollinearity between the individual variables thereby leading to spurious result.

Juan (2018) analyzed the relationship between ownership structure measured by command share ownership, family, institutions or external block holders and earnings management of 67 companies listed in the Mexican Stock Exchange for the period 2005-2015. A cross-sectional version of the Jones model (1991) was used to measure the earnings management while GMM (generalized method of moments) model was for the analysis. The results show that family and institutional ownership reduce the earnings management, but the impact is different depending on the company size.

Mansourning and Arabi (2013) examined the relationship between earnings management and institutional investors on registered firms on the Tehran stock exchange by examining a sample of 700 companies for the period 2006 –2010. The findings show that a positive and significant relationship between earnings management and institutional investors. This suggests that increasing the ownership level of institutional shareholders increases the possibility earning management. The period consider in the study is too short hence, the study could have expand the scope of the study.

Isenmila and Elijah (2012) examined the relationship between ownership structure and earnings management of 10 commercial banks in Nigeria from 2006-2010. The study used multivariate regression technique for the analysis. The ownership structure was disaggregated into insider ownership, institutional ownership and external block ownership respectively. The finding of the study revealed the existence of a positive

and significant relationship between external block ownership and earnings management. The relationship between insider ownership and earnings management was also observed to be positive and statistically significant. A positive insignificance relationship was also observed between institutional Investors ownership and earnings management. The period considered by the study is too small thus, the study could have used longer duration.

Attia and Hegazy (2015) examined whether the internal mechanisms of corporate governance especially ownership structure (institutional /family) can control earning management manipulations and enhance the firm performance of the listed companies in Egyptian stock exchange. The study used 49 listed companies whose shares are among Egypt's 100 most actively traded shares (EGX100 price index) form 2006 to 2013 after excluding Firms with insufficient data, Banks and Financial Institutions, and Insurance companies from annual reports of Egyptian companies, Egyptian disclosure Books, and Egyptian financial statements. The study employs an advanced panel threshold regression estimation developed in 1999 by Hansen that test whether there are positive and negative impacts of ownership structure on earning management and firm value. The results show that institutional ownership is only pertinent to the firm value up to a threshold level from 62%- 64 % while, family ownership is only pertinent to the firm value up to a threshold level from 36%-41%. Additional increase in level of ownership structure beyond the threshold level does not add to a firm's value.

Nedal, et al (2009) studied the association among earnings management and ownership combination of some Jordanian industrial companies spanning 2001 to 2005. Earnings

management is determined by discretionary accruals, insiders, institutions as well as block holders are determinants of ownership composition used. Employing the Generalized Method of Moment, outcome revealed insider ownership is significant as well as positively influence earnings management. The result of the study also shows that responsibility of institutions and block holder are not significant in monitoring managerial behavior of earnings management. The study period is too small thus, the study could have used longer scope.

Vince, et al (2016) investigate institutional ownership effects as well as managerial ownership on earnings management of 115 manufacturing firms in Indonesian spanned 2008 -2012. Tool of analysis is least square regression while the outcome revealed that managerial ownership positive influence earnings management practices. Institutional ownership as well as firm size influences correlation among managerial ownership as well as earnings management. The possible practice of earnings management has been reducing as the result of the existence of institutional ownership. Their study was carried out in manufacturing firms for the period of 2008-2012, which differs from this study and the scope of the study could have been extent to 2015.

Sani, et al (2015) determined institutional ownerships impact on earnings management. They employed both modified Jones (1991) as well as Roychowdhury (2006) models to measure accrual and actual activity behaviors. Institutional ownerships were determined by Conservative and Neutral Pressure Groups. The outcome showed that Malaysian Initial Public Offering companies connect in both real and accrual earnings around Initial Public Offering corporate event. Multivariate analysis indicates

institutional investors limit real accrual earnings management which supports the various regulatory reforms by Securities Commission as well as Bursa Malaysia. The study indicates the need to persuade the Neutral Pressure Group of institutional investors to employ more in shareholders' activism to preserve the value of their investments and for investors to determine real activity behaviors in making their investment policy while standard setters and regulatory agencies need to implement additional determinant to limit real activity discretionary behavior.

2.2.3 Ownership concentration and Earnings Management

Parveen, et al (2016) determined the impact of ownership structure on firm s' earning management of 20 Banking sector of Pakistan from 2000 to 2012 and ownership structure was measured by ownership concentration and ownership mix. From the panel regression, the results showed that independent variables including major shareholders, directors, government and financial institutions negatively affect earnings management of banks. Ownership by local, foreign investors/companies and associated organizations' ownership positively affects earning management of banks. Considering the period of the study, it could have been better if the study extent the scope to 2015 since the study was conducted 2016 thus there was a lag between the two period.

Maswadeh (2018) investigate the effect of ownership structure measured by concentration ownership, institutional ownership and foreign ownership on earnings management while debt ratio and company size is used as control variables of the Jordanian industrial companies for the period 2012–2016. The study used multiple regression models for the analysis and it was found that a significant effect of the concentration ownership was found in the limitation of earnings management practices;

while, there was no significant influence of institutional ownership and foreign ownership on the earnings management practices in Jordanian industrial companies. Generalization of the result without diagnostic result seems to be misleading because there may be problem of heteroskedasticity and multicollinearity among the explanatory variables. Also, the data may have problem of non-normality which may require robust regression analysis instead of pooled regression analysis.

Baba (2015) studied ownership structure effects on earnings quality of quoted Nigeria insurance companies using Generalized Least Squared (GLS) Techniques and institutional ownership, managerial ownership and ownership concentration was used to measured ownership structure from 2008-2013. Kothari and Abir (2005) performance adjusted discretionary accrual technique was employed to determine earnings quality. The study found that institutional ownership negatively influences earnings quality, Managerial ownership negatively influences earnings quality and ownership concentration negatively impacts on earnings quality but not significant. The study used only five years for the study which is too small.

Alves (2012) determined the relationship between corporate ownership structure in Portugal and earnings management while the study measured firm's ownership structure by managerial ownership, ownership concentration and institutional ownership. The study used a sample of 34 non-financial listed Portuguese firms for years from 2002 to 2007 and it was discovered that discretionary accruals as a proxy for earnings management is negatively related both to managerial ownership and to ownership concentration. The study's results suggest that both managerial ownership

and ownership concentration improve the quality of annual earnings by reducing the levels of earnings management. There is time lag in the period of the study and the period in which it was conducted. The study could have extent the period to 2011.

Ling and Pavinee (2012) determined the influence of block holders on earnings management, employing accounting discretional accruals as earnings management determinants. Block holder is measure by outside block holders and owners. They found that income diminishing earnings management circumstances, therefore, the study does not establish a significant outcome between the block holders and earnings management.

Hidetaka (2010) examined the connection among corporate governance mechanism and earnings management with 799 manufacturing companies in Japanese covering 1999 -2004. Governance mechanisms are proxy by managerial ownership, ownership concentration as well as management inventory option, institutional investors' shareholding, financial institutions and other corporations' shareholding. For internal governance mechanisms, outcome reveals that, entities with higher managerial ownership are linked with more earnings management. Also, there is a significant inverse association among ownership concentration and earnings management. Furthermore, executive inventory option does not influence the earnings management; the performance based managerial system is not constantly effective. Also, there is a significant rounded link among the shareholdings of financial institutions and earnings management. Thirdly, shareholdings of foreign entity have a positive significant

influence on earnings management. Also, the cross-shareholding of other domestic entity does not influence earnings management.

2.2.4 Foreign Ownership and Earnings Management

Hoong and Abdullah (2020) investigated the effect of foreign ownership on earnings management in Malaysian public listed companies. The study adopted descriptive design while panel regression was used for the analysis. From the analysis, the study found that higher levels of foreign ownership were associated with lower levels of earnings management. The study also found that the presence of foreign directors further reduced the likelihood of earnings management. The studies did not control for the potential effects of other ownership structure, such as managerial ownership, institutional ownership, and ownership concentration, which may have influenced the results.

Oyedokun (2019) analysed the effect of ownership structure on earnings management of listed industrial goods companies in Nigeria from 2008 to 2017 using Ex-post facto research design and panel regression model for the analyze. The results revealed that domestic institutional ownership has positive significant effects on earnings management, foreign institutional ownership has positive insignificant effects on earnings management, managerial ownership has insignificant effects on earnings management and number of block holders has negative significant effects on earnings management. The outcome from number of block holders identify that it has negative insignificant effect on earnings management but the result report that it has negative significant effect on earnings management hence, the result is misleading.

Osemene, et al (2018) determine the effect of ownership structure and the characteristics of the boards on aggressive earnings management of Nigeria's listed deposit money banks (DMBs) for a period of 5 years (2011-2016). The panel least-square method was used to analyze the data collected. The findings revealed that private, foreign and government shareholdings have a negative and significant impact on aggressive earnings management. Also, directors' tenures status has a significant effect on aggressive earning management, while the board size, the gender and the size of the firm have no such significant effect in the period observed. Based on these findings, the study concludes that the ownership structure has a significant impact on aggressive earnings management, whereas the characteristics of the board, excluding directors' tenures status, do not have any significant effect. The study does not conduct diagnostic test of variance inflation factor to assess how the independent variables interact with each other and the heteroskedasticity test. Also, the study does not random and fixed effect test before using between them with the aid of Hausman specification hence, the pooled result used may not be accurate to established the effect of ownership structure on earnings management.

Alzoubi (2016) conducted a study in Jordan which spanned a period of eight years, namely from 2006 to 2013, on the samples of listed companies. Jordan is characterized by a high concentration of the ownership on the family-investor basis. The findings revealed that a greater family ownership presented a lower level of discretionary accruals. The study concluded that the proportion of insider managerial ownership,

institutional ownership, external block holders, family and foreign ownerships could reduce earnings management.

2.3 Theoretical framework

2.3.1 Agency Theory

The debate about the impact of governance mechanisms on earnings management should be placed in the context of the agency problem arising from the ownership and control separation, creating interests asymmetries between managers and shareholders (Jensen & Meckling, 1979). When managers do not own the company, their behavior is affected by self-interest that put off their goals of maximizing company value and, consequently, the interests of the shareholders or owners (Ali, et al, 2010). Agency Theory is a supposition that explains the relationship that exists between the principal or owner and the agent or manager in the business. The separation of ownership from management in a modern organization, provide background designed for the functions of agency theory. Contemporary corporations have generally isolated ownership, in the form of shareholders, who are not more often than not involved in the management of their entity. This good connection needs to be treated with the good faith of transparency and accountability by managers. It, therefore, connotes that stakeholder's interest is the most paramount compared to the manager's interest, as such managers must act to pursue stakeholder's interest.

Consequently, agency theory suggests that a separation between ownership and control, leads to a divergence between manager and owner interests. Conflicts of interest among

principles (shareholders) and agents (managers) frequently happen. The agency problem becomes more evident on both the managers and shareholders, because the presumption is that managers will not act in the best interest of the shareholders (Bukit & Iskandar, 2009). Thus, monitoring managerial decisions becomes essential to assure that shareholders' interests are protected (Fama & Jensen, 1983). In this sense, the separation of ownership from control is the main problem which leads to possible opportunistic behavior of managers. The agents are usually dishonest.

Agency theory suggests that monitoring by institutional ownership can be an important governance mechanism (the efficient monitoring hypothesis). In fact, institutional investors can provide active monitoring that is difficult for smaller, more passive or less-informed investors (Almazan, Hartzell & Starks, 2005). Additionally, institutional investors have the opportunity, resources, and ability to monitor managers. Therefore, the efficient monitoring suggest that institutional ownership is associated with a better monitoring of management activities, reducing the ability of managers to opportunistically manipulate earnings. The efficient monitoring hypothesis suggests an inverse relationship between a firm's earnings management activity and its institutional share ownership (Ebrahim, 2007).

2.3.2 Stakeholder Theory

This theory states that managers act in response to forces situated by owner stakeholders since legitimacy, power as well as necessity considerations. Freeman (1984) revealed company stakeholders' effects on upper directors who are in control of strategic improvement as well as execution via resource usage and withholding

techniques. Murtha and Lenway (1994) established nations are capable of influencing administration since they control power, markets, as well as possessions rights which are the major tactical properties by their participation in the engagement of entity's top management as well as board members as well as providing indirect or direct government subsidies and incentives. States participation in the markets can adversely influence the level of openness (free market) or control (closed market). This effect can also show itself via property rights in nations that the government has unwarranted controls in relation to property possession.

2.3.3 Signaling Theory

This theory suggests that given information asymmetry between insider managers and outsider shareholders, costly dividend can be used to signal the future prospect of firms and can thus use to resolve adverse selection. Spence (1973) states, in situation where one party has more information than another, Individuals will use signals to convey that information in order to influence the behavior or decisions of the other party. These signals are credible when they are costly to produce, making them difficult for individual with certain characteristics to fake. By sending credible signals, individuals can mitigate information asymmetry and improve outcomes in various interactions, such as employment negotiations and consumer purchase.

The study aligned with the agency theory and signaling theory, since it has to do with owners and their workers (shareholders and management) and how management report the company activities to the public.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Research Design

Ex-post facto research is adopted as research design for this study. This research design eases the understanding, explanation and prediction of any relationship between variables under study. In this study it is used to estimate how ownership structure affects earnings management of conglomerate firms in Nigeria.

3.2 Population, Sample and Sampling Technique

The population for this study comprised of all the five listed conglomerates firms in Nigeria as at 31-December, 2021. The firms are: Chellarams PLC., John Holt PLC., SCOA NIG. PLC., Transnational Corporation of Nigeria Plc., and U A C N PLC.

All the firms were used for this study since there exist all the financial statement of the firms within the period of the study. No sampling was adopted because of the availability of needed information.

3.3 Methods of Data Collection

The study employed secondary source of collecting data for purposes of this study. Thus, the audited financial statement of each of these firms were scrutinized to provide the secondary data relevant for the study. The data that were sourced is modified Jones model using discretionary accruals as proxy for earnings management while proxies

for ownership structure are managerial ownership, institutional ownership structure, ownership concentration and foreign ownership.

3.4 Technique for Data Analysis and Model Specification

The study used panel multiple regression technique to determine the relationship that exists between the earnings management and ownership structure variables of this study. Diagnostic tests of correlation matrix, variance inflation factor, heteroskedasticity and normality test of the data were conducted. Before the regression analysis, descriptive statistics and correlation matrix were conducted. Furthermore, the study conducts the cross-sectional effect on the data by using fixed and random effect model while Hausman specification test was used to choose between the models.

In view of the discussion above, the various hypotheses and variables are combined into a functional equation to explain ownership structure effects on earnings management. The model specification is shown thus;

$$EM_{it} = \beta o + \beta_1 MGO_{it} + \beta_2 INO_{it} + \beta_3 OWNC_{it} + \beta_4 FO_{it} + \beta_5 FS_{it} + e_{it}$$

Where:

EM_{it}= Earnings management (Measured by Modified jones model for firm i at time t)

MGO_{it} = Managerial Ownership for firm i at time t (Proxy for ownership structure)

INO_{it}=Institutional ownership for firm i at time t (Proxy for ownership structure)

$OWNC_{it}$= Ownership concentration for firm i at time t (Proxy for ownership structure)

FO_{it} = Foreign Institutional Ownership for firm i at time t (Proxy for ownership structure)

FS_{it} = Firm size for firm i at time t (Control variable)

$\beta 1 - \beta 5$ = Coefficient of explanatory variables

βo = Constant or Intercept

e = Error Term.

Measurement of Variables

Earnings Management: Modified Jones Model (MJM)

$$\frac{TAI_{it}}{TAI_{it}} = \alpha(1/TA_{it-1}) + \alpha_1[(\Delta Rev_{it} - AR_{it}) / TA_{it-1}] + \alpha_2 [(\Delta PPE_{it}/TA_{it-1})] + E_{it} \quad (1)$$

Where:

TAI_{it} = Total accrual information for firm *i* in the yearly period *t* [calculated in equation (2)].

TA_{it-1} =Total assets of firm *i* in the yearly period t- *1*.

ΔRev_{it} =Change in revenue of firm *i* in the year *t* compared to previous year.

ΔAR_{it} = Change in accounts receivable of firm *i* in the year *t* compared to previous year.

ΔPPE_{it} = Change in property, plant and equipment gross of firm *i* in the year *t* compared to previous year

ε_{it} = Other relevant information of firm *i* in the yearly period *t*, being orthogonal to independent variables.

There are two views concerning managerial ownership. The convergence hypothesis states that insiders will be seen as monitoring mechanism when they acquire some portion of the company equity, they will prevent managers" opportunistic behavior, and the magnitude of discretionary accruals is predicted to be negatively associated with insider ownership (Warfield, et al, 1995). On the other hand, when there is little separation between managers and owners (that is, when the managers are also part of the owners), management face less pressure from capital markets to signal the firm value to the market and they pay less attention to the short term financial report (Jensen, 1986). Then highly invested managers are more likely to manipulate earnings, since the lack of market discipline, may lead managers to make accounting choice that is out of self-serving interest.

Institutional investors are large investors, other than natural person. Organizations which are considered as institutional investors are insurance companies (life and non-life), pension funds, investment trusts (including unit trusts), financial institutions (including banks, finance companies, building societies and credit cooperatives), investment companies, and other nominee companies associated with the above categories of institutions (Lang & McNichols, 1997). Institutional investors have the opportunity, resources and ability to monitor, discipline and influence a manager's decision in the firm (Monks & Minow, 1995). Managerial ownership might decrease the agency conflicts as the objectives of managers are lineup closely to the objectives of other shareholders. Institutional investors are large investor, who uses personnel judgment over investment of others. Organizations which are considered as

3.5 Justification of Methods

Regression analysis was used to determine the degree of correlation of a dependent variable with one or more independent variables because it helps to determine whether the relationship is strong or weak, cause and effect between variables. It gives the intercept and slopes of the best fitting line. The period is chosen to make the study more recent due to changes in economic policies over this period. The sector is considered to make the study more unique and to be able to establish how ownership structure affect earnings management in the sector due to lack of adequate studies in the area.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1 Data Presentation

The data extracted from the various financial statement for the purpose of testing the hypotheses of this study are presented in the appendix A. It covers data on earnings management and ownership structure variables (managerial, institutional, ownership concentration and foreign ownership). The analysis is presented in the next section which covers the summary of the data, correlation matrix, post diagnostic test of variance inflation factor and heteroskedasticity test. Furthermore, test of hypotheses was carried using fixed and random model.

4.2 Data Analysis and Results

Table 4.1 Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
em	50	-.0942484	.1661645	-.44927	.4532
mgo	50	.174646	.2166744	.0005	.811
ino	50	.438468	.3095744	.0044	.8224
ownc	50	.51019	.3097029	.1044	.9208
fo	50	.242804	.29893	0	.6828
fs	50	10.24315	.4021994	9.624824	11.08982

Source: Stata 13 Output

The result above shows the companies element of earnings management is between -.44927 and .4532. This signifies that conglomerate firms had low earnings management practice which portrays that their reported shows true and fair view to some extent. The average earnings management of the companies is -.0942484.

Management ownership represent the unit of ownership by the directors of the company. The result shows that the directors own an average unit of share to the extent of .174646 (17.46%) which is quite reasonably because the higher their unit of ownership, the better the alignment of interest in the between the director's and other shareholders of the company. The minimum ownership by the directors is .0005 (.05%). This is not encouraging in some companies because it will discourage goal congruence by the directors of those companies. In the same way, the maximum ownership by the directors is .811 (81%).

Institutional ownership represents a unit of ownership by other companies. The result shows that the average institutional ownership in the conglomerate firms is .438468 (43.85%) which is quite high because the higher the ownership by other institutions, the higher they will exhibit control in the operation of the company. This can lead to the exploitation of asset by those institutions at the detriment of the owners. The minimum and maximum institutional ownership are 0.0044 and .8224 respectively. In the case of minimum value, it therefore means that some of the companies had sold low of their shares to other institutions however, the maximum value is high. Nevertheless, institutions that owns share in a different company tries to protect their investment by exerting monitoring in the affairs of those companies. This may benefit the entire

shareholders of the companies from the misuse of fund by the directors of those companies.

Ownership concentration represents the unit of ownership by investors that owns more than 5% shares in a company. The result shows that the average ownership by those concentrated investors is .51019 while the minimum and maximum are .1044 and .9208 respectively. From the minimum value, those investors own 10.44% shares of conglomerate companies while their maximum ownership is 92.08%.

Foreign ownership represents unit of ownership by foreign investors in the company. The result shows that the average ownership by foreign investors in the conglomerate companies in Nigeria is 24% (.242804) of their total shares while the minimum and maximum are .0 and .6828 respectively. From the minimum percentage of ownership, it signifies that in some cases, there are no foreign investors in the companies while in some cases, there is up to the maximum of 62%. The company had grown to an average of 10.24315 in assets while the minimum and maximum is 9.624824 and 11.08982 accordingly.

Table 4.2 Correlation Result

	em	mgo	ino	ownc	fo	fs
em	1.0000					
mgo	-0.0209	1.0000				
ino	0.5500	-0.3401	1.0000			
ownc	0.8057	-0.2460	0.8476	1.0000		
fo	0.5866	-0.0752	0.5928	0.6305	1.0000	
fs	-0.0727	-0.1994	0.4752	0.1744	0.2312	1.0000

Source: Stata 13 Output

The Pearson correlation analysis matrix show the relationship between the explanatory and the explained variables and also the relationship among all pairs of independent variables themselves. It is useful in discerning the degree or extent of relationship among all independent variables as excessive correlation could lead to multicollinearity, which could consequently lead to misleading findings and conclusions. According to Gujarati (2009), the correlation should not be high so that it won't affect the correlation between the variables.

From the result, managerial ownership and firm size has negative correlation with earnings management at varying degree while institutional ownership, ownership concentration and foreign ownership has positive correlation with earnings management.

Managerial ownership is correlated with earnings management to the extent of -0.0209 (2%), institutional ownership is correlated with earnings management to the extent of 0.5500 (55%).

At a varying rate, ownership concentration is correlated with earnings management to the extent of 0.8057 (80.57%) while foreign ownership is correlated with earnings management to the extent of 0.5866 (58.66%). The firm size which is used as a control variable is correlated with earnings management to the extent of -0.0727 (7.27%).

Table 4.3 Test for Multicollinearity

Variable	VIF	1/VIF
ino	6.13	0.163084
ownc	5.15	0.194253
fo	1.75	0.572400
fs	1.71	0.583931
mgo	1.17	0.858255
Mean VIF	3.18	

Source: Stata 13 Output

Based on the evidence presented in Table above, it can be concluded that there is no Multicollinearity problem since the mean VIF value of 3.18 is less than 10 and the tolerance values for all the variables are greater than 0.10. According to Gujarati (2009), collinearity can only exist when the VIF values are above 10.

Table 4.4 Test for Heteroscedasticity

Breusch-Pagan / Cook-Weisberg test for heteroskedasticity

Ho: Constant variance

Variables: fitted values of em

chi2(1) = 0.79

Prob > chi2 = 0.3748

Source: Stata 13 Output

The heteroscedasticity test explains the homoscedasticity of the study. The Chi2 of 0.79 with the probability value of 0.3748 are all greater than the t-value of 5% which indicates homoscedasticity of the residuals and can be said to be desirable. This however, reveals absence of heteroscedasticity in the residuals, since the null hypothesis states that the residuals are homoscedastic, and the alternative hypothesis says the residuals are heteroscedastic.

Table 4.5 Hausman Specification Test

```
Test:  Ho:  difference in coefficients not systematic

                chi2(5) = (b-B)'[(V_b-V_B)^(-1)](b-B)
                        =         4.75
              Prob>chi2 =       0.4472
```

Source: Stata 13 Output

In panel data analysis, the Hausman Test can help to choose which between fixed effects model or a random effects model is appropriate for interpretation. The null hypothesis is that the preferred model is random effects; The alternate hypothesis is that the model is fixed effects. Essentially, the tests look to see if there is a correlation between the unique errors and the regressors in the model. The null hypothesis is that there is no correlation between the two. Therefore, because of the homogeneity of data used in this study, which assumes that fixed effects and random effects models are similar, Hausman test is performed to determine which of the two models is more efficient. The result for the Hausman Specification Test for the study is presented in the table above. From this result, the probability of the Hausman Specification test of 0.4472 which is greater than 5% significance level signifies that the random model is appropriate for interpretation.

Table 4.6 Lagrange Test

```
Breusch and Pagan Lagrangian multiplier test for random effects

        em[id,t] = Xb + u[id] + e[id,t]

        Estimated results:

                         |       Var     sd = sqrt(Var)
                ---------+-----------------------------
                      em |   .0276106       .1661645
                       e |   .0075875       .0871062
                       u |          0              0

        Test:   Var(u) = 0

                           chibar2(01) =    21.63
                        Prob > chibar2 =   0.0000
```

Source: Stata 13 Output

The Lagrange Multiplier is a general principle for testing hypotheses. If the model of the study specifies fixed-effect model as the appropriate model from the Hausman test, then there is no need in conducting Lagrange test but where the study specifies random model as the appropriate model, the study needs to conduct Lagrange test which shall enable the study to choose between a Random model or pooled regression.

The Lagrange result shows that random model is most appropriate since the probability of the Breusch and Pagan Lagrangian multiplier test of 0.0000 is less than 5% significance level. This agrees with hausman specification result.

Table 4.7 Regression Model / Test of Hypotheses

em	Coef.	z	P>|z|	[95% Conf.	Interval]
mgo	.0842697	1.35	0.177	-.0381895	.2067289
ino	-.0063914	-2.23	0.026	-.0120192	-.0007636
ownc	1.659923	5.95	0.000	1.113292	2.206553
fo	.3570504	1.71	0.088	-.0530461	.767147
fs	-.047231	-1.16	0.247	-.1272117	.0327496
_cons	.455669	1.10	0.270	-.35479	1.266128

Prob > chi2 = 0.0000

R-square (overall) = 0.7493

Source: Stata 13 Output

The result above was used to test the stated hypotheses of the study. It was found that managerial ownership has a positive but insignificant effect on earnings management with p-value less than 95% confidence level (greater than 5% significance level). This signifies that managerial ownership had not affected earnings management of conglomerate significantly.

Institutional ownership has negative significant effect on earnings management of conglomerate firms with p-value greater than 95% confidence level (less than 5% significance level). This means that a unit increase in institutional ownership will decrease earnings management of conglomerate companies by -.0063914 coefficient.

Ownership concentration has a positive significant effect on earnings management with p-value less than 5% significance level. This means that a unit increase in ownership concentration will increase earnings management by 1.659923. This can lead to exploitation of resources by concentrated shareholders.

Foreign ownership has a positive but insignificant effect on earnings management with p-value greater than 5% significance level. It therefore means that foreign investors had not been able to influence earnings management of conglomerate firms significantly. Firm size has negative insignificant effect on earnings management with p-value greater than 5% significance level (95% confidence level).

The model exerts explanatory power on earnings management to the extent of 74.93%. This means that managerial ownership, institutional ownership, ownership concentration, foreign ownership and firm size explain 74.93% variation on earnings management while the remaining 25.07% is explained by other exogenous variables that are not included in the model. Based on the f-statistics, the combination of the variables is fit because it is less than 5% significance level

4.3 Discussion of Findings

Companies with managerial ownership tends to reduces the agency conflicts and aligning the interest of management and that of shareholders. The insider with low ownership manages earnings for better compensation, relax contractual constraint or avoid debt covenants. It is suggested that managers will be more involve in the firm

when they own larger ownership, thus, the need for outside monitoring will be reduced, as long as the interest of insider and outsider converge. Managerial ownership might decrease the agency conflicts as the objectives of managers are lineup closely to the objectives of other shareholders. The study found that managerial ownership has a positive but insignificant effect on earnings management. This signifies that managerial ownership had not affected earnings management of conglomerate significantly.

Based on the finding, the study fails to rejects the hypothesis rather it concludes that managerial ownership has no significant effect on earnings management of conglomerates firms in Nigeria. This finding is consistent with the finding of Spinos (2013); Ayadi and Boujelbène (2014); Imoleayo, Eddy and Oluku (2017); Isenmila and Elijah (2012); Ogbonnaya, Ekwe and Ihendinihu (2016); Musa and Shehu (2014); Hsu and Koh (2005); Teshima and Shuto (2008); Vince, Mohamad and Oluwatoyin (2016) but the finding contradicts the finding of Amir, Shaari and Ariff (2019).

Institutional investors have the opportunity, resources and ability to monitor, discipline and influence a manager's decision in the firm. The institutional investor controls the behavior of the management indirectly by influencing the company's information environment, and also it considers one of the key objectives of corporate governance to increase the quality of the company's financial statements and the information it contains. Furthermore, Institutional share ownership may have implications for earnings management as they are able to influence the company's management. Moreover, they showed that an increase in the number of institutional investors plays a positive role in determining earning quality. The study found that institutional

ownership has negative significant effect on earnings management of conglomerate firms. This means that a unit increase in institutional ownership will decrease earnings management of conglomerate companies.

The finding gives the study a basis of rejecting the stated hypothesis that institutional ownership has no significant effect on earnings management of conglomerate firms. The finding aligns with the finding of Juan (2018); Attia and Hegazy (2015); Vince, Mohamad and Oluwatoyin (2016); Sani, Bany, Hairul and Siti (2015); Parveen, Malik, Mahmood and Jan (2016); Baba (2015) but contradict the finding of Ayadi and Boujelbène (2014); Isenmila and Elijah (2012); Musa and Shehu (2014); Al-Fayoumi, Abuzayed and Alexander (2010); Mansourning and Arabi (2013); Nedal, Bana and David (2009).

Ownership concentration are those shareholders who holds 5% or more of a corporation common stock. They have a significant shareholding that provide them with power to monitor the action of the management. Large block holders have greater incentive to monitor management as the costs involved in monitoring is less than the benefits to large equity holdings in the firm. The block holders due to their interest and investment in the company are more active than other shareholders in the company, which is aimed at achieving the objective of maximizing return on investment. However, they can also use the power to exploit the company's resources when not control. The study found that ownership concentration has a positive significant effect on earnings management. The finding agrees with the finding of Isenmila and Elijah (2012); Ayadi and Boujelbène (2014); Alves (2012); Ling and Pavinee (2012) but contradict the finding

of Imoleayo, Eddy and Oluku (2017); Amir, Shaari and Ariff (2019); Musa and Shehu (2014); Obigbemi, Omolehinwa and Mukoro (2017); Al-Fayoumi, Abuzayed and Alexander (2010); Nedal, Bana and David (2009); Baba (2015); Hidetaka (2010).

The presence of foreign ownership in the company may lead to transfer of modern technology and management skills, in addition to supervisory roles exercised by foreign owners, will reduce the agency's problems in the company. Also, foreign owners are interested in disclosure and perform best accounting practices, in turn, improving the quality of financial reports. The study found that foreign ownership has a positive but insignificant effect on earnings management. The finding gives the study a basis of rejecting the stated hypothesis that institutional ownership has no significant effect on earnings management of conglomerate firms in Nigeria. The finding is supported by the finding of Parveen, Malik, Mahmood and Jan (2016); Maswadeh (2018); Oyedokun (2019) but contradict the finding of Osemene, Adeyele and Adinnu (2018); Alzoubi (2016)

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

Separation of ownership and control leads to the conflicts of interests between managers and owners. These conflicts arise when managers seek to maximize their interests and engage in activities that are not in line with the objective of maximizing shareholder's wealth. An effective control system for the management is vital to make sure manager's action is in agreement with shareholder's interest. Conflict of interest between managers and shareholders becomes clear when there is a division between the people who own the organization and the people who manage the organization. Guided by four specific objectives, the study evaluates the effect of ownership structure on earnings management of conglomerates firms in Nigeria.

The various concept of ownership structure (managerial ownership, institutional ownership, ownership concentration and foreign ownership) were discussed were agency theory, signaling theory and stakeholders theory were reviewed as the theory that underpins the study. The study adopts Ex-post facto research while panel multiple regression technique was used for the analysis.

The study found that managerial ownership has a positive but insignificant effect on earnings management. institutional ownership has negative significant effect on earnings management, ownership concentration has a positive significant effect on

earnings management while foreign ownership has a positive insignificant effect on earnings management of listed conglomerate firms in Nigeria. Based on the finding, the study draws conclusion and recommendations.

5.2 Conclusion

The study examined the effect of ownership structure on earning management of listed conglomerate firms in Nigeria. Drawing from the findings, the study concludes that companies with reasonably managerial ownership tends to reduce agency conflicts since it leads to goal congruence between the managers and other shareholders of the company. This will lead to the involvement of the managers in the firm's operation and alignment of interest, thus, the need for outside monitoring will be reduced, as long as the interest of insider and outsider converge. The study concludes that managerial ownership has a positive but insignificant effect on earnings management.

The presence of institutional investor controls the behavior of the management indirectly by influencing the company's information environment, and also it considers one of the key objectives of corporate governance to increase the quality of the company's financial statements and the information it contains. The study concludes that institutional ownership has negative significant effect on earnings management of conglomerate firms.

Also, the study concludes that ownership concentration has great incentive to monitor management as the costs involved in monitoring is less than the benefits to large equity

holdings in the firm. Hence, ownership concentration has a positive significant effect on earnings management of conglomerate firms in Nigeria.

Furthermore, the presence of foreign ownership in the company may lead to the reductio in the agency's problems. Foreign owners are interested in the best accounting practices that improves the quality of financial reports. The study concludes that foreign ownership has a positive insignificant effect on earnings management of listed conglomerate firms in Nigeria.

5.3 Recommendations

Based on the conclusion, the study recommends that:

i. To reduce the agency problem in the organization, managers of conglomerate firms are encouraged to acquire more unit of shares in the company. This will lead to aligning of interest between managers and shareholders. Furthermore, acquiring shares may reduce information asymmetry between managers and shareholders. When managers acquire shares, they gain a deeper understanding of the company's operations and financial position, which can help them make more informed decisions. This increased transparency can lead to greater trust between managers and shareholders, which in turn can reduce the need for earnings management to manipulate perceptions of performance.

ii. Since institutional ownership has negative effect on earnings management, it means that having more of them will help mitigate managerial opportunistic behaviour. The study suggest that conglomerate firms should encourage institutional

participation in their share ownership since they (Institutional investors) have the opportunity, resources and ability to monitor, discipline and influence a manager's decision in the firm.

iii. Since ownership concentration is found to have positive effect on earnings management, conglomerate firms should maintain their (block holders) shareholding in proportion to the point at which they can discourage earnings management practice in the organization because ownership concentration has more power in decision making and they can influence management decision for their own benefit since they are block holders that owns large shares in an organization.

iv. Since foreign investors are concern with the disclosure and performance of best accounting practices by improving the quality of financial reports, conglomerate firms should encourage foreign investors to partake in their shares because their (foreign investor) supervisory roles will reduce the agency's problems in the company.

5.4 Limitations of the Study

The study examined the effect of ownership structure on earnings management of listed conglomerate firms in Nigeria. Various ownership structure studied are managerial ownership, institutional ownership, ownership concentration and foreign ownership while family ownership, domestic and government ownership are not examined because of the peculiarity of the sector and lack of data on government, family and domestic ownership. Despite the fact that the study does not exhaust all the known

ownership structure variables, the ones studied were able to account for 74.93% variation on earnings management.

5.5 Suggestion for further Study

The study suggests that further studies should replicated in other sectors that has domestic, family and government ownership. This will give basis for subsequent studies.

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APPENDIX A DATA

MPANY	YEAR	id	DIRECTOR SHARE	TOTAL SHARE	mgo	INSTITUTION SHARE	TOTAL SHARE	INO
E:LLARAMS	2012	1	324862980	722925000	0.4494	594543012	722925000	0.8224
	2013	1	324862980	722925000	0.4494	594543012	722925000	0.8224
	2014	1	324862980	722925000	0.4494	594543012	722925000	0.8224
	2015	1	324862980	722925000	0.4494	594543012	722925000	0.8224
	2016	1	324862980	722925000	0.4494	594543012	722925000	0.8224
	2017	1	324862980	722925000	0.4494	594543012	722925000	0.8224
	2018	1	324862980	722925000	0.4494	594543012	722925000	0.8224
	2019	1	324862980	722925000	0.4494	594543012	722925000	0.8224
	2020	1	324862980	722925000	0.4494	594543012	722925000	0.8224
	2021	1	324862980	722925000	0.4494	594543012	722925000	0.8224
HN HOLT PLC.	2012	2	5107738	390000000	0.0131	200785513	390000000	0.5148
	2013	2	5107738	390000000	0.0131	200785513	390000000	0.5148
	2014	2	5107738	390000000	0.0131	200785513	390000000	0.5148
	2015	2	5107738	390000000	0.0131	200785513	390000000	0.5148
	2016	2	5107738	390000000	0.0131	200785513	390000000	0.5148
	2017	2	5107738	390000000	0.0131	200785513	390000000	0.5148
	2018	2	5107738	390000000	0.0131	200785513	390000000	0.5148
	2019	2	5107738	390000000	0.0131	200785513	390000000	0.5148
	2020	2	5107738	390000000	0.0131	200785513	390000000	0.5148
	2021	2	5107738	390000000	0.0131	200785513	390000000	0.5148
CC O A NIG. PLC.	2012	3	141493000	649500000	0.2178	443491944	649500000	0.6828
	2013	3	141493000	649500000	0.2178	443491944	649500000	0.6828
	2014	3	141493000	649500000	0.2178	443491944	649500000	0.6828
	2015	3	141493000	649500000	0.2178	443491944	649500000	0.6828
	2016	3	141493000	649500000	0.2178	443491944	649500000	0.6828
	2017	3	141493000	649500000	0.2178	443491944	649500000	0.6828
	2018	3	141493000	649500000	0.2178	443491944	649500000	0.6828
	2019	3	141493000	649825665	0.2177	443491944	649825665	0.6825
	2020	3	141493000	649825665	0.2177	443491944	649825665	0.6825
	2021	3	141493000	649825665	0.2177	443491944	649825665	0.6825
TTRANSNATIONAL CCORPORATION COF NIGERIA PLC	2012	4	141493000	2579563680	0.0549	443491944	2579563680	0.1719
	2013	4	2091994423	2579563680	0.8110	180000000	2579563680	0.0698
	2014	4	2091994423	2580465440	0.8107	180000000	2580465440	0.0698

	2015	4	2091994423	38720996425	0.0540	180000000	38720996425	0.0046
	2016	4	2091994423	38720996425	0.0540	180000000	38720996425	0.0046
	2017	4	2091994423	38720996425	0.0540	180000000	38720996425	0.0046
	2018	4	2196594151	40647990292	0.0540	180000000	40647990292	0.0044
	2019	4	399994143	40647990292	0.0098	180000000	40647990292	0.0044
	2020	4	419418963	40647990292	0.0103	180000000	40647990292	0.0044
	2021	4	419418963	40647990292	0.0103	180000000	40647990292	0.0044
AA C N PLC.	2012	5	1394181	1920864000	0.0007	284314439	1920864000	0.1480
	2013	5	1394181	1920864000	0.0007	284314439	1920864000	0.1480
	2014	5	1394181	1920864000	0.0007	284314439	1920864000	0.1480
	2015	5	1394181	1920864000	0.0007	284314439	1920864000	0.1480
	2016	5	1394181	1920864000	0.0007	284314439	1920864000	0.1480
	2017	5	1394181	1920864000	0.0007	284314439	1920864000	0.1480
	2018	5	1394181	1920864000	0.0007	284314439	1920864000	0.1480
	2019	5	1394181	1920864000	0.0007	284314439	1920864000	0.1480
	2020	5	1394181	2881296000	0.0005	284314439	2881296000	0.0987
	2021	5	1394181	2881296000	0.0005	284314439	2881296000	0.0987

COMPANY	YEAR	FOREIGN SHARES	TOTAL SHARE	FO	S H MORE THAN 5% OWN	TOTAL SHARE	OWNC
HELLARAMS LC.	2012	0	722925000	0.0000	665676990	722925000	0.9208
	2013	0	722925000	0.0000	665676990	722925000	0.9208
	2014	0	722925000	0.0000	665676990	722925000	0.9208
	2015	0	722925000	0.0000	665676990	722925000	0.9208
	2016	0	722925000	0.0000	665676990	722925000	0.9208
	2017	0	722925000	0.0000	665676990	722925000	0.9208
	2018	0	722925000	0.0000	665676990	722925000	0.9208
	2019	0	722925000	0.0000	665676990	722925000	0.9208
	2020	0	722925000	0.0000	665676990	722925000	0.9208
	2021	0	722925000	0.0000	665676990	722925000	0.9208
JOHN HOLT PLC.	2012	200230371	390000000	0.5134	200230371	390000000	0.5134
	2013	200230371	390000000	0.5134	200230371	390000000	0.5134
	2014	200230371	390000000	0.5134	200230371	390000000	0.5134
	2015	200230371	390000000	0.5134	200230371	390000000	0.5134

	2016	200230371	390000000	0.5134	200230371	390000000	0.5134
	2017	200230371	390000000	0.5134	200230371	390000000	0.5134
	2018	200230371	390000000	0.5134	200230371	390000000	0.5134
	2019	200230371	390000000	0.5134	200230371	390000000	0.5134
	2020	200230371	390000000	0.5134	200230371	390000000	0.5134
	2021	200230371	390000000	0.5134	200230371	390000000	0.5134
O A NIG. PLC.	2012	443491944	649500000	0.6828	443491944	649500000	0.6828
	2013	443491944	649500000	0.6828	443491944	649500000	0.6828
	2014	443491944	649500000	0.6828	443491944	649500000	0.6828
	2015	443491944	649500000	0.6828	443491944	649500000	0.6828
	2016	443491944	649500000	0.6828	443491944	649500000	0.6828
	2017	443491944	649500000	0.6828	443491944	649500000	0.6828
	2018	443491944	649500000	0.6828	443491944	649500000	0.6828
	2019	443491944	649825665	0.6825	443491944	649825665	0.6825
	2020	443491944	649825665	0.6825	443491944	649825665	0.6825
	2021	443491944	649825665	0.6825	443491944	649825665	0.6825
RANSNATIONAL ORPORATION F NIGERIA PLC	2012	443491944	2579563680	0.1719	443491944	2579563680	0.1719
	2013	0	2579563680	0.0000	1705891709	2579563680	0.6613
	2014	0	2580465440	0.0000	1705891709	2580465440	0.6611
	2015	0	38720996425	0.0000	1705891709	38720996425	0.0441
	2016	0	38720996425	0.0000	1705891709	38720996425	0.0441
	2017	0	38720996425	0.0000	1705891709	38720996425	0.0441
	2018	72991911	40647990292	0.0018	17912912960	40647990292	0.4407
	2019	72991911	40647990292	0.0018	32782904520	40647990292	0.8065
	2020	72991911	40647990292	0.0018	3762647995	40647990292	0.0926
	2021	72991911	40647990292	0.0018	3762647995	40647990292	0.0926
J A C N PLC.	2012	0	1920864000	0.0000	263718089	1920864000	0.1373
	2013	0	1920864000	0.0000	263718089	1920864000	0.1373
	2014	0	1920864000	0.0000	263718089	1920864000	0.1373
	2015	0	1920864000	0.0000	263718089	1920864000	0.1373
	2016	0	1920864000	0.0000	263718089	1920864000	0.1373
	2017	0	1920864000	0.0000	263718089	1920864000	0.1373
	2018	0	1920864000	0.0000	263718089	1920864000	0.1373
	2019	0	1920864000	0.0000	263718089	1920864000	0.1373
	2020	0	2881296000	0.0000	263718089	2881296000	0.0915
	2021	0	2881296000	0.0000	263718089	2881296000	0.0915

)MPANY	YEAR	Total Asset	FS	ACCURAL	ASSET LAG INVERSE	SALES CHANGE ASSET LAG
IELLARAMS C:.	2012	8387205000	9.9236	0.010843135	0.000613692	0.129709578
	2013	9887196000	9.9951	-0.151492627	0.000796439	0.39245764
	2014	13309835000	10.1242	0.019341321	0.0001475	0.333974231
	2015	13763804000	10.1387	-0.201470182	0.000147739	0.04704266
	2016	16021499000	10.2047	-0.179147066	0.000179009	0.081663085
	2017	16648570000	10.2214	-0.248996626	0.000194666	0.268631951
	2018	12460091000	10.0955	-0.247755936	0.000225579	0.095295633
	2019	12273978000	10.0890	-0.148478458	0.000248558	0.217890111
	2020	11612164000	10.0649	0.003841713	0.000140913	0.003105597
	2021	11120328000	10.0461	-0.032759022	0.000138319	0.02161367
)IHN HOLT PLC.	2012	8187265000	9.9131	0.06239679	0.0003522	0.109183297
	2013	6073000000	9.7834	0.054631443	0.000351902	0.075807285
	2014	5768000000	9.7610	-0.091185921	0.00034698	-0.093455309
	2015	4835000000	9.6844	0.002157918	0.000231628	-0.121423405
	2016	6159000000	9.7895	-0.012221282	0.000249026	0.055040941
	2017	7174000000	9.8558	-0.111345579	0.000297121	-0.016640128
	2018	8521000000	9.9305	0.049013614	0.004614349	0.011841342
	2019	6903000000	9.8390	-0.074895421	0.009810385	0.12292216
	2020	6949000000	9.8419	0.047217114	0.001003891	0.091592011
	2021	7241000000	9.8598	0.015719574	0.000968133	0.035152713
;; C O A NIG. PLC.	2012	4215248000	9.6248	-0.126146261	0.001042494	0.020793795
	2013	5581162000	9.7467	-0.192897328	0.001094365	0.117001229
	2014	6579312000	9.8182	-0.328875015	0.001470761	0.065877456
	2015	7976352000	9.9018	-0.215426479	0.001437107	-0.000828348
	2016	9794526000	9.9910	-0.068587898	0.000155263	-0.012599803
	2017	10199535000	10.0086	-0.013360197	0.000145082	0.091062427
	2018	13379043000	10.1264	0.077678303	5.60596E-05	0.194512412
	2019	12135665000	10.0841	-0.21410991	9.74423E-05	0.669107353
	2020	12010497000	10.0796	-0.044146708	0.000107757	0.066838523
	2021	13541649000	10.1317	-0.046418034	0.00012025	-0.099790095
TRANSNATIONAL CORPORATION OF NIGERIA PLC	2012	22299616000	10.3483	0.279082222	0.000120545	-0.044774201
	2013	24249646000	10.3847	-0.195855849	0.000137335	-0.004814796
	2014	38646720000	10.5871	-0.035133654	0.000151797	0.171656851
	2015	49079491000	10.6909	-0.102329819	0.000129117	-0.370758968
	2016	54241970000	10.7343	0.065921145	2.89562E-05	0.526650062
	2017	56619479000	10.7530	-0.097865865	2.91673E-05	0.098672855

	2018	57913703000	10.7628	-0.054802693	3.36418E-05	-0.078675185
	2019	63102771000	10.8000	-0.071011454	3.56828E-05	0.107766839
	2020	66438734000	10.8224	-0.046959562	4.29447E-05	0.187552914
	2021	60230775000	10.7798	0.028213613	6.12513E-05	0.119264295
AA C N PLC.	2012	105779700570	11.0244	-0.186447299	0.000749314	0.309162847
	2013	121593623170	11.0849	0.132828041	0.000689913	-0.249463214
	2014	122975593130	11.0898	-0.117684016	7.29967E-05	0.174803707
	2015	25082424820	10.3994	-0.005691682	8.18018E-05	-0.135159963
	2016	26474320000	10.4228	-0.186990198	7.55696E-05	0.07023261
	2017	27572156000	10.4405	-0.079164653	8.26032E-05	-0.109543615
	2018	29481889000	10.4696	-0.117295067	9.4331E-05	0.056614233
	2019	32174633000	10.5075	-0.101136182	0.000108427	-0.078081025
	2020	49041894000	10.6906	-0.196154615	2.72371E-05	0.083942984
	2021	48987189000	10.6901	-0.117166939	2.80726E-05	0.0556887

COMPANY	YEAR	PPE ASSET LAG	DEBT TO TOTAL ASSET	LOG OF TOTAL ASSET	EM
CHELLARAMS PLC.	2012	0.389490995	67.29610746	17.0183898	0.089919052
	2013	0.538316415	56.50010009	16.60635819	-0.193624182
	2014	0.595020848	84.81517779	18.28252895	-0.070215403
	2015	0.628425201	63.4500993	18.03202277	-0.055557361
	2016	0.795526802	64.64064506	18.03040233	0.103212522
	2017	0.737655803	68.98012966	17.83841656	0.001645605
	2018	0.79971453	75.51501192	17.75456821	-0.449271108
	2019	0.661826679	76.96097972	17.60718134	-0.15218126
	2020	0.355352456	38.51005321	18.02597618	-0.194576829
	2021	0.338677074	36.43950306	18.07770778	-0.173970613
JJOHN HOLT PLC.	2012	0.488928537	58.68578054	17.16271353	-0.049434276
	2013	0.499258736	61.0581725	17.16165147	-0.18025897
	2014	0.533157458	56.76779801	17.16249829	0.453204907
	2015	0.373683888	59.9514811	17.17658386	-0.135233622
	2016	0.421586907	44.4209576	17.58071715	0.217375536
	2017	0.414112528	50.09686599	17.50829508	0.080276198
	2018	0.529229362	46.26738459	14.60550673	-0.095733889
	2019	0.084686185	83.45234508	14.58892488	-0.020014328
	2020	0.700889046	19.36195771	16.1269425	-0.049358532
	2021	0.65505956	22.99292056	16.11421212	-0.218620355

CC O A NIG. PLC.	2012	0.721156093	31.0530866	16.15048152	-0.286010619
	2013	0.749019777	38.80110684	16.0764797	-0.365757421
	2014	1.064774238	150.4325807	16.02792102	-0.044146708
	2015	0.81297923	150.4471114	15.73231552	-0.046418034
	2016	0.378383028	35.76880155	18.09628517	-0.345163957
	2017	0.353424877	33.44174062	17.98072978	0.010843135
	2018	0.333070651	52.46287597	19.08892259	-0.151492627
	2019	0.534198223	62.91544915	18.99943586	-0.204922822
	2020	0.590506812	43.33848862	18.44659051	0.076489994
	2021	0.606935963	44.59806178	18.34597123	-0.04714977
RANSNATIONAL CORPORATION F NIGERIA PLC	2012	0.504447719	43.5088859	18.23627554	-0.117295067
	2013	0.245806202	44.22491339	18.23382908	-0.101136182
	2014	0.39987219	82.46738848	17.8192279	0.085430724
	2015	0.387383298	72.51492471	18.00330997	-0.449271108
	2016	0.627962679	78.75183341	19.99470546	-0.15218126
	2017	0.622902508	72.26969419	19.6600656	-0.011638733
	2018	0.708435503	75.39663771	19.65280184	-0.156821002
	2019	0.60406495	71.88912094	19.51008223	-0.117158845
	2020	0.619891832	70.06440778	19.45118266	-0.055557361
	2021	0.635445652	64.63894943	19.26593667	0.103212522
I A C N PLC.	2012	0.262701279	74.84393772	19.26593667	-0.196154615
	2013	0.264141449	73.71064473	19.26593667	-0.117166939
	2014	0.637440602	70.59467297	18.7993789	-0.09899252
	2015	0.713581912	69.58912201	18.73543633	-0.072558232
	2016	0.663154351	60.45586696	18.62155112	-0.205365121
	2017	0.749074342	65.94702252	18.70079631	-0.075713973
	2018	0.831177519	61.97020086	18.61180198	-0.248996626
	2019	0.827232474	63.57736507	18.47904085	-0.247755936
	2020	0.531750707	53.35296337	19.76153004	0.242234755
	2021	0.536697576	54.80992398	19.72127142	-0.223382989

Appendix B ANALYSIS

Descriptive

Variable	Obs	Mean	Std. Dev.	Min	Max
em	50	-.0942484	.1661645	-.44927	.4532
mgo	50	.174646	.2166744	.0005	.811
ino	50	.438468	.3095744	.0044	.8224
ownc	50	.51019	.3097029	.0441	.9208
fo	50	.242804	.29893	0	.6828
fs	50	10.24315	.4021994	9.624824	11.08982

Correlation

	em	mgo	ino	ownc	fo	fs
em	1.0000					
mgo	-0.0209	1.0000				
ino	0.5500	-0.3401	1.0000			
ownc	0.8057	-0.2460	0.8476	1.0000		
fo	0.5866	-0.0752	0.5928	0.6305	1.0000	
fs	-0.0727	-0.1994	0.4752	0.1744	0.2312	1.0000

Variance Inflation Factor

Variable	VIF	1/VIF
ino	6.13	0.163084
ownc	5.15	0.194253
fo	1.75	0.572400
fs	1.71	0.583931
mgo	1.17	0.858255
Mean VIF	3.18	

Heteroskedasticity Test

Breusch-Pagan / Cook-Weisberg test for heteroskedasticity

Ho: Constant variance

Variables: fitted values of em

chi2(1) = 0.79

Prob > chi2 = 0.3748

pooled Regression

Source	SS	df	MS		
Model	1.0137906	5	.202758121	Number of obs =	50
Residual	.339130422	44	.00770751	F(5, 44) =	26.31
Total	1.35292103	49	.027610633	Prob > F =	0.0000
				R-squared =	0.7493
				Adj R-squared =	0.7208
				Root MSE =	.08779

em	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
mgo	.0842697	.0624803	1.35	0.184	-.0416511	.2101905
ino	-.4383639	.2535269	-1.73	0.091	-.9493138	.072586
ownc	1.659923	.2788982	5.95	0.000	1.09784	2.222005
fo	.3570504	.2092368	1.71	0.095	-.0646386	.7787395
fs	-.047231	.0408072	-1.16	0.253	-.1294725	.0350104
_cons	.455669	.4135071	1.10	0.276	-.3776998	1.289038

fixed

Fixed-effects (within) regression — Number of obs = 50

Group variable: id — Number of groups = 5

R-sq: within = 0.7534 — Obs per group: min = 10

between = 0.3220 — avg = 10.0

overall = 0.6760 — max = 10

F(5,40) = 24.45

corr(u_i, Xb) = -0.2793 — Prob > F = 0.0000

em	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
mgo	.1978732	.1010187	1.96	0.057	-.0062932	.4020396
ino	-1.038122	.5646472	-1.84	0.073	-2.179316	.1030729
fo	.5542858	.2535019	2.19	0.035	.0419394	1.066632
ownc	2.088872	.506157	4.13	0.000	1.065891	3.111854
fs	.0606444	.0777334	0.78	0.440	-.0964606	.2177494
_cons	-.6497967	.80136	-0.81	0.422	-2.269406	.9698123

Random

Random-effects GLS regression — Number of obs = 50

Group variable: id — Number of groups = 5

R-sq: within = 0.7338 — Obs per group: min = 10

between = 0.9145 — avg = 10.0

overall = 0.7493 — max = 10

Wald chi2(5) = 131.53

corr(u_i, X) = 0 (assumed) — Prob > chi2 = 0.0000

em	Coef.	Std. Err.	z	P>|z|	[95% Conf.	Interval]
mgo	.0842697	.0624803	1.35	0.177	-.0381895	.2067289
ino	-.0063914	.0028714	-2.23	0.026	-.0120192	-.0007636
fo	.3570504	.2092368	1.71	0.088	-.0530461	.767147
ownc	1.659923	.2788982	5.95	0.000	1.113292	2.206553
fs	-.047231	.0408072	-1.16	0.247	-.1272117	.0327496
_cons	.455669	.4135071	1.10	0.270	-.35479	1.266128

hausman fixed random

	---- Coefficients ----			
	(b)	(B)	(b-B)	sqrt(diag(V_b-V_B))
	fixed	random	Difference	S.E.
mgo	.1978732	.0842697	.1136035	.0793788
ino	-1.038122	-.4383639	-.5997577	.50453
fo	.5542858	.3570504	.1972354	.1431195
ownc	2.088872	1.659923	.4289497	.4223868
fs	.0606444	-.047231	.1078754	.0661608

b = consistent under Ho and Ha; obtained from xtreg

B = inconsistent under Ha, efficient under Ho; obtained from xtreg

Test: Ho: difference in coefficients not systematic

chi2(5) = (b-B)'[(V_b-V_B)^(-1)](b-B)

= 4.75

Prob>chi2 = 0.4472

(V_b-V_B is not positive definite)

Lagrange

Breusch and Pagan Lagrangian multiplier test for random effects

em[id,t] = Xb + u[id] + e[id,t]

Estimated results:

	Var	sd = sqrt(Var)
em	.0276106	.1661645
e	.0075875	.0871062
u	0	0

Test: Var(u) = 0

chibar2(01) = 21.63

Prob > chibar2 = 0.0000