Ownership Structure and Earnings Management of Listed Consumer Goods and Agricultural Companies in Nigeria

[1]OHIOKHA, Godwin, Ph.D, & [2]AYOBOH, Jimoh Abu

[1&2]**Department of Accounting, Faculty of Management and Social Sciences**
Edo University Uzairue, Edo State, Nigeria
E-mail: godwin.ohiokha@edouniversity.edu.ng

KEYWORDS

Earnings Management, Ownership Concentration, Institution Ownership Concentration, Managerial Ownership Concentration

ABSTRACT

This study is centered on the prevalent contemporary issue of ownership structure and earnings management of listed consumer goods and agricultural companies in Nigeria The study employed panel cross sectional research design and secondary source of data for 23 selected samples which include 5 agricultural firms and 18 consumer goods firms trading at the Nigeria exchange group which make accounts to 31st December each year. This study covered eight years period dated 2015 to 2022. Using a panel least square regression method, the study employed descriptive methods to investigate the characterization of variables and inferential statistical analytical technique to ascertain the model's predictive power and dependability in strengthening the judgment of acceptance or rejection of the null hypothesis. The Variance Inflation Factors test, the Breusch-Godfrey serial correlation LM test, the Heteroskedasticity ARCH test, the Hausman test for the random/fixed effect model, and the panel least square regression with random effect which are used to test the hypothesis with the help of the p -value—were all necessary for the inferential statistics. The findings showed that ownership concentration has a significant and inverse relationship with earnings management (coefficient value: -0.121654, p-value: 0.0000); institutional ownership concentration has a positive and significant effect with a coefficient value of 0.095582, p-value: 0.000; managerial ownership concentration has a direct relationship with earnings management (coefficient value: 0.00802, p-value: 0.9555); and foreign ownership concentration has an inverse relationship with earnings management (p-value: 0.0005). The study recommends that the statutory authority such as the security and exchange commission and other corporate regulatory agencies should institutionalize the principle of substantial ownership of major shareholders to involve holders of shares of 5% and above because the presence of such stakeholders will mitigate earnings manipulation of listed entities.

Introduction

One factor that arose grabs the interest of many scholars is the firm ownership structure. One of the key components of the broad corporate governance procedures is the idea of ownership structure. This is essentially the agency problem, where the agent fails to act in the best interests of the principal due to the pursuit of self-interests that result in the manipulating earnings. The separation of ownership from control has cause management to pursue its interests at the expense of shareholders (principal) (Mwangi & Nasieku, 2022). Alareeni (2018) asserted that the management manipulates earnings in order to meet predetermined performance targets, which becomes the basis for their incentives, salary increment, and maintenance of ego. The financial market may become less transparent and confident as a result of these phenomena. Earnings management (EM) encompasses both the management of earnings through flexible practice activities of GAAP and violations of the law or the General Accounting Principles (GAAP) (Baralexis, 2004). Managerial efforts to sway or alter the reported earnings are known as earnings manipulation (EM) (Akers et al., 2007). These are actions taken to increase or decrease earnings to a level that is anticipated. Managers are motivated to manipulate earnings in order to meet their goals or make earnings appear not uncertain (Bergstresser & Philippon, 2006).

Iraya et al. (2014) noted that management may also manipulate earnings in order to smooth out results and let the market know the company is a great place to invest. Strong corporate governance will undoubtedly effectively cover the gaps that top management uses to manipulate results, Swai and Mbogela (2016). Eventually, this will result in accurate and superior financial reporting. According to Mohammad et al. (2020), bonuses and improving the company's capacity to raise cash from the financial and capital markets are two reasons why top management may be motivated to manage earnings. Alareeni (2018), a very powerful board is necessary to curtail earnings management in the framework of corporate governance.

One important factor mentioned in appraise a competent board for reducing earnings management is ownership structure. The division of ownership of equity within an organization is known as its ownership structure (Mohammad et al., 2020). The term "ownership structure" is introduced by Jensen and Meckling (1976) to describe the capital held by external members (investors without direct management roles) and internal members (direct management components).

Similarly, Dinga (2015) viewed ownership structure of companies as the essential fractional ownership, by shareholders holding specific shares. For contemporary commercial organizations, the ownership structure is a crucial tool for raising significant sums of money and generating wealth through the issuance of shares. The partition of capital based on the relationship between the owner's capital ratios and is referred to as ownership structure (Farouk & Bashir, 2017).

Lassoued et al. (2018), posit that the important ownership structure characteristics of management, ownership concentration, foreign ownership, and institutional ownership are certain to lower the incidence of profits manipulation. Managerial ownership is the ownership of a share by an organization's upper management. Since this aligns their interests with the shareholders', there will be less temptation for them to manipulate earnings, which could have an impact on the future value of their shareholding. The term "institutional ownership" refers to an entity's interest held by institutional investors. Bao and Lewellyn (2017), asserted that institutional investors have knowledge and experience that is essential for giving the management high-quality oversight.

Concentrated ownership structures, are those in which a single person or a collection of connected people or organizations holds a sizable amount of the company's equity capital and has the authority to make decisions for the company Bashir and Farouk (2017), the board of directors is composed primarily of major shareholders, and management has direct authority over the business. Major shareholders have substantial voting rights, which allow them to dominate the company even though they do not own all of the stock. Decentralized ownership is another type of ownership structure where a large percentage of the company's capital is owned by one or more persons or organizations, but they do not have any authority over the business (Wati & Gultom, 2021). Additionally, under this structure, a corporation has many shareholders, each of whom holds a specific number of shares, and the board of directors is responsible for overseeing the administration of the firm's operations. Small stockholders are not interested in managing the company and have no reason to keep a close eye on it.

Ownership concentration has been seen essential in reducing earnings management, aside from institutional and managerial ownership. Because institutional investors have knowledge and experience that support high-quality governance and corporate activity monitoring, institutional ownership is also relevant. A company's ownership structure has a significant impact on how well the monitoring systems that restrict the capacity to alter earnings work. As a result, this study assesses how ownership structure affects the management of earnings for listed consumer goods and agricultural businesses in Nigeria.

Statement of Research Problem

Regarding the ownership structure of organizations and its role in effectively preventing earnings management opportunistic behavior of management, there has been dispute and debate. The managers of such organizations will be able to use the methods and means that enable them to achieve their own interests Siregar and Utama (2018) found that in companies where ownership structures are dispersed among a large number of owners, each of whom has a limited number of shares of the company's capital, there is no strong mechanism for shareholders to closely monitor the company's activities in addition to the weak participation of shareholders in management decisions or policy making, which may lead to the company's failure, as the cases of Dunlop Nigeria Plc, Glaxowellcome, Pfizer, Hoescht and Aventis (Oluwaseum, 2015) as well as Diamond Bank, which collapsed into Access Bank due to ownership challenges (Chijioke,2018).

The majority of previous works on ownership structure and return on investment (REM) were conducted in Asia, particularly in Malaysia and India. In contrast, only a small number of studies were conducted in Africa, particularly in Tunisia, Ghana, and Nigeria to the best of my knowledge. The majority of studies conducted in Africa, and particularly in Nigeria, primarily earnings management as measured by the Jones Model (1991) (Hassan, 2013; Farouk, 2014; Saidu et al., 2017; Farouk & Bashir, 2017; Osemene et al., 2018), whereas few others used Modified Jones Model of Dechow et al. (1995).

Previous studies also used real earnings management rather than discretionary accruals that take into consideration the manipulation of credit sales or receivables, which is a crucial technique by which firm earnings can be manipulated (Nguyen et al. 2021, Siraj & Nazar,2021, Abad et al. 2016). Therefore, by evaluating the impact of ownership structure on profits management of listed consumer goods and agriculture companies in Nigeria, this study addressed these research gaps.

LITERATURE REVIEW

Conceptual Review

Earnings Management

Earnings management is the practice of managers manipulating financial reports by using their personal opinions to shape transactions and report-writing in order to either deceive shareholders about the company's financial performance or affect financial outcomes that rely on reported accounting numbers. Bonsall et al. (2020), the act of purposefully participating in activities within the framework of Generally Accepted Accounting Principles to achieve a desired amount of reported income is what characterized as earnings management practice Farzand, et al, (2016). This happens when managers manipulate business transactions to change financial results and deceive certain stakeholders about the company's present financial situation. This is known as personal judgment in financial reporting.

In the literature on finance and economics, earnings management is mostly viewed as an undesirable phenomenon that results from accounting number manipulation, which lowers the standard of financial reporting. (Sankar & Subramanyam, 2010). Conversely, Arya, Glover and Sunder (2013) maintained that income manipulation is an evil that cannot be averted, stressing that many accounting researchers have argue that the practice to an extent can promotes efficient decisions depending on what the management tend to achieve. According to Ronen and Yaari (2018), there are some components of earnings management practice that are acceptable. They classified earnings management into three categories: namely are white, gray, and black. Scholars believe that white earnings management improves the quality of financial statement reporting and helps managers provide more and better information to investors by using their knowledge of the company's operations and supplementary information.

The most crucial common factor that indicates a company's success and stability financially is its earnings. This is related to the comprehensive income statement final line part. This illustrates the company's earnings level and relates that sum to the wealth of the owners. Kumar and Aggarwal (2018), Stock prices rise as a result of potential investors' decisions to invest based on how appealing companies in various industries are with to investment opportunities (Shittu and Amao, 2022). Companies will attempt to surpass their prior targeted profits if profits are significant component in stock price rise. Managers utilize effective and occasionally opportunistic earnings management (EM) to further their own personal agendas.

According to the definitions of the gray categories provided by Fields Lyds and Vincent (2001, p. 206), Ronen and Yaari classified earnings management practices as either an opportunistic means of maximizing management satisfaction alone or an economical means of enhancing the quality of financial reporting, which results in the efficient use of resources. But according to the authors, managers may only use their discretion over the accounting figures which they may do with or without constraints practices from this perspective. This discretion can be used in an opportunistic or firm value-maximizing manner. According to the authors' definition, which cites Schipper (1989), earnings management practices fall under the third category, or black, and are defined as deliberate attempts to intentionally distort or lessen the transparency of financial reporting through the use of techniques. In a similar vein, he views earnings management as a "purposeful intervention with the aim of obtaining some private gain in the external financial reporting process." Finally, the researcher upholds the definition of Ronen and Yaari (2018) because of: first, its comprehensiveness such that it covers all the aspects of the use of earnings management, seconds it did not only stressed earnings management as an undue advantage of the shortcomings of GAAP for ends of managers in a short run but also see earnings in a wider benefit of satisfying management and improving economic efficient of the organization

Additionally, Okoye and Nwobi (2020) stated that earnings management (EM) results from the expertise, which gives CEOs the latitude to portray their businesses in ways that at variance with prevailing economy realities.

Ownership Structure

Various academics have various perspectives on what is meant by "ownership." To be honest, owning a business entails a series of rights that allow one to participate in decision-making regarding the operation of the company and to get the profits (Hassan, 2018). The rights to additional value (income), the right to the company's surplus value in the event of a sale, the authority to choose the course of the business, and the ability to sell all or a portion of the business's value are the essential rights of a business (Gabrielso & Plenbory, 2002). Oyedokun et al, (2019) asserted that ownership is the distribution of equity or net worth of a business in respect to votes and capital and this is in consonant with the identity of the equity owners. Despite this, these structures are important for corporate governance since they influence management's incentives and the financial performance of the companies they oversee (Holderness et al., 1999). Ownership structure is the percentage of shares held by a particular number of people, organizations, or families. It demystifies the predominant ownership structure within a company Obigbemi (2021),. In the same vein, Obigbemi (2021) asserted that managerial ownership refers to the ownership held by members of the management team who possess a sizable portion of the company's shares. Obigbemi, (2021) continued by saying that ownership can also take the form of block-holder ownership, which ensures that a sizable portion of a company's shares are held by a single person or organization. The percentage of ownership and voting rights held by various shareholders is known as the shareholder structure. The study of shareholder structure examines the distribution of power among various management, prospective shareholders, and current shareholders (Hassan, 2018).

"There are two ways of categorizing ownership structure: the level of share ownership and the level of ownership concentration. The centralized ownership structure, which is defined as an individual or a group of linked individuals or organizations that possess the majority of an enterprise's equity and have the authority to manage the enterprise's decisions, is the first component of the degree of ownership concentration. By becoming a member of the board of directors and management team, they can take direct control of the company. Even while it might not hold all of the cash, this group can nevertheless control the company since it has a large number of voting rights. The second ownership structure is distributed, meaning that no single person, group of individuals, or organization owns the bulk of the company's capital and is therefore not entitled to control the business. In this case, the board of directors is in charge of all corporate operations, and the corporation has numerous owners, each of whom holds a number of shares. Regarding the various ownership rates associated with the characteristics of shareholders, such as the foreign ownership ratio, the private ownership rate, the state ownership ratio, and the institutional ownership, small shareholders have little incentive to closely monitor operations and do not wish to participate in running the business.

Ownership Concentration

The percentage of shares held by non-family individuals is known as ownership concentration or block-holder ownership, Block-holders are only considered to exist when their holdings account for 5% or more of the equity share capital of the company. Nguyen et al. (2020). Measurement block-holder ownership is defined as the sum of ownership shares held by block-holders divided by the total number of outstanding shares Nguyen et al., (2020) monitoring managers who may be able to ascertain the amount of debt block holders, according to Zang, (2012) can improve the standard of corporate governance and boost management effectiveness, Zang, (2012). This is because it because possess a smaller percentage of the company's equity and the loss resulting from managers' discretion is shared by numerous investors, companies with distributed ownership and control of the equity have less motivation to oversee managers and less influence. Furthermore, the costs of monitoring and gathering information outweigh the advantages (Hassan, 2018). On the other hand, companies with concentrated ownership, or big shareholders, are more motivated and powerful to monitor managers in order to safeguard their capital (McConnell & Servaes, 2009).One important internal governance tool that allows owners to defend their interests in the company's is ownership concentration.

Foreign Ownership Structure

The term "foreign ownership" describes the ownership of a part of a nation's assets (stock, bonds, natural resources, businesses, etc.) by people who are not citizens of that nation or by corporations with headquarters located outside of that country. According to National 1ndustrial Security Programmeds Operating Manual (NISPOM) (SPOM and the DODM 5220.22, Volume 3, (2023), a business is deemed to be under Federation of Construction Industry (FOCI) if a foreign interest owns, controls, or has a substantial influence over the firms.

Foreign ownership and earnings management of listed consumer goods and agricultural firms in Nigeria is the main focus of this section. Other areas that will be covered latter on include ownership concentration, managerial ownership, institutional ownership, and foreign ownership. The portion of a company's shares held by foreign investors, whether they are individuals or legal entities, is known as foreign ownership. The governments of developing nations encourage foreign businesses and investors to make FDI (Foreign Direct Investment) investments in their nations in order to boost local economies. If a sizable percentage of a company's shares are owned by foreign investors, this could indicate that these investors have confidence in the company and raise its valuation. As a result, foreign ownership typically improves a company's earnings management. The confidence that is in existence and potential investor place in their foreign owners result to higher stock prices, (an increase in Tobin's Q) and higher profit (which means higher return on capital) and higher stock prices are the results of current and potential investors' confidence in their foreign owners. However, this may not be in the case in the absence of strict cooperate governance principles and appropriate tax laws that protect foreign investors and enable them to earn reasonable return on their investments. The study continued to report mixed result due to difference in cooperate governance environment, data issues, and methods of measuring and estimating variables. Without stringent corporate governance guidelines and suitable tax legislation that safeguard foreign investors and allow them to realize a respectable return on their capital this might not be the case. Studies that clarify the extent to which certain aspects of relationships and the earnings management of firms are related, mostly in industrialized countries but also to some extent in underdeveloped countries. The study continued to report mixed results. This is due to differences in corporate governance environment, data issues, and methods of measuring and estimating variables.

In reality the study also examined that foreign ownership can lower financial constrain of domestic firms, improve their market access through global value chains and expose the listed consumer goods and agricultural firms in Nigeria to higher level of technology thereby improving their productivity and earnings management.

Managerial Ownership Structure

The interest of managers in the equity holdings of a company is represented by managerial ownership. This suggests that managers are motivated to act in a way that maximizes the firm's worth by their ownership of stock (Hassan, 2018). Managerial ownership structure, also referred to as insider ownership, provides a company's management members the chance to own a sizable portion of the company's shares Obigbemi, (2021). This suggests that the company's owners serve as its managers as well. Furthermore, a number of academics have contended that management ownership directly affects the company's success. However, Bello (2011) pointed out that in order for a firm to operate at a high level, its owners and managers must put in a lot of effort and drive.

Institutional Ownership

Institutional investors are those who own a sizable portion of a company's equity and who use personnel assessment to evaluate other investors' investments. Insurance companies, trust funds, pension funds, investment trusts, financial institutions, and investment businesses are among the groups of people who are regarded as institutional investors. These organizations are positioned to oversee, penalize, and regulate a manager's decisions for the company due to their degree of ownership in the company's shares (Parveen et al., 2020). Institutional ownership is the holding of shares in a corporation by businesses and financial organizations (Paramitha & Firnanti, 2018). It was asserted that a corporation is only deemed an institution if its ownership constitutes five percent or more of the capital of its shares Reyna (2018). It was stated that the amount of institutional ownership is calculated by dividing the total number of outstanding shares by the sum of institutional ownership shares .Reyna, (2018). Additionally, because institutional share ownership has the power to affect the company's management, the author contended that it may have applied for earnings management strategies.

Theoretical Framework

Agency Theory

Agency theory is the foundation of this research. One of the most well-liked and frequently mentioned hypotheses in management science is this one. Jensen and Meckling proposed agency theory, which Jensen and Meckling (1976) further refined. Two categories of ownership structures exist. First, an outsider (a principal who owns a significant stake in the company) can become a shareholder if she has the authority and motivation to oversee management, particularly the financial reporting process. Secondly, an insider or manager (an agent) of a company can also become a shareholder if she owns some of her shares in the firm. This enhances the quality of revenues and lessens the chance of manipulating them. Due to this underlying supposition of self-interest, Agency theory inevitably produces conflict.

However, agency theory suggests that the alignment of interests between managers and shareholders, as influenced by the ownership structure, can have a significant impact on earnings management practices within an organization. Understanding this relationship is crucial for effective corporate governance and aligning the incentives of all stakeholders.

Empirical Review

Ownership Structure and Earnings Management

Obasi et al. (2014) examined into the management of earnings and ownership structure of Nigerian industrial companies that were listed. We observed positive results of earnings managem. Nonetheless, research by Aygun et al. (2014), Alzaubi (2016), and Osemene et al. (2018) indicates that institutional ownership has a negative and substantial effect on earnings management. Additionally, Koh (2007) discovered that there is a greater likelihood of active institutional investors effectively curbing unethical earnings management tactics. In a similar vein, Hassan and Ahmed's (2012) study discovered that, in 15 Nigerian food and beverage companies that were listed, institutional ownership has a notable and adverse effect on ownership structure and earnings management between 2006 and 2010. Similarly, Liu and Tsai, (2015) observed that institutional investors ownership on the manipulation of real returns has negative and significant impact.

In a study conducted on listed Nigeria consumer goods Farouk and Bashir (2017) found that managerial ownership had a negative and significant impact on earnings management. Amel and Auis (2014) used regression analysis to demonstrate a negative and significant impact of ownership structure on earnings management among agricultural sector listed in Tunisia. However, studies by Aygun et al. (2014) and (Ogbonaya et al., 2018, Obigbenei, 2017) on a subset of Nigerian and Turkish companies, respectively, found that management ownership has a significant positive impact on earnings management. We also found that this impact is similar to what Omoye (2013) observed in a study on a subset of Nigerian companies, which found a significant negative impact on management involvement. According to earlier research on ownership concentration and earnings management (Choi et al., 2004, Zhaig et al., 2007, Kime Yoon, 2008, Ayadi, 2014), there is a positive and significant relationship between ownership concentration and earnings management. Block ownership and earnings management, however, were found to be negatively and significantly correlated in a study done by Obigbemi (2017) among a subset of Nigerian enterprises.

Ownership Concentration and Earnings Management

This section tends to discuss the relationship between ownership concentration and earnings management. A lot of research has been carried out in regard to this subject but most of the researchers came out with divergent view. Ownership concentration is defined as shareholders concentration (i.e foreign, domestic, state and free float).

Measuring ownership concentration often involves taking the largest shareholder's stake. or the aggregate ownership owned by several of the biggest owners (Demsentz & Villaonga, 2007; Gedajilovic & Shapiro, 2002). (Thomson & Pedensen, 2000). The correlation between policies for earnings management and ownership concentration, specifically concerning the functions of the first significant shareholder (also known as the controlling shareholder) and the second significant shareholder (also known as the second largest shareholder or multiple largest shareholders).

Furthermore, the results of numerous researches on the connection between profits management and ownership concentration a measure of the number of significant shareholders in a company appear to be extremely inconsistent in terms of the kinds of consequences that arise (Thomsen & Pendensen, 2000). However, other scholars contend that there is a negative correlation between ownership concentration and firm returns (Chem et al., 2010; Roodposhti & Chasmi, 2010; Zhong et al. 2007). Researchers find that there is a positive correlation because it incentivizes managers to manipulate earnings.

(Abdoli, 2011; Halliciui&Jorbi, 2012; Mc Connell & Servaes, 1990). Additionally, among the earlier locations are the indications derived from other researchers' work. The final one implies that there may be a curve-linear link between ownership concentration and earnings management (Ding et. al., 2007)

It is against this backdrop that the below hypothesis is raised:

H_{01}: *Ownership concentration has no significant effect on earning management of listed consumers' goods and agricultural companies in Nigeria.*

Institutional Ownership and Earnings Management

According to Bartov et al. (2001), management institutions can be thought of as knowledgeable investors who normally monitor the market to lessen pressure for impetuous management decisions. Two primary kinds of institutional investors were distinguished in a recent study, which also disclosed their impact on earnings management. First, institutional investors with a long-term investment horizon should invest with the goal of long-term ownership rights. They have every reason to keep a close eye on the businesses they invest in as a result. This implies that the degree of earnings management may be significantly harmed by institutional investors' long-term holdings monitoring function.

Second, however, the more prevalent type of institutional investors are short-term oriented investors, also known as myopic or temporary institutional investors. These investors mainly consider current profits when setting stock prices; they do not consider long-term earnings or returns from long-term investments. According to Habash (2010), this indicates that institutional investors' short-term holdings may benefit earnings management. This aligns with the research conducted by Isenmila and Afesimi (2012) as well. Ayadi and Boujeelbeine (2014); Farooq and Hassan, (2014).

It is based on the above fact that the following hypothesis is raised:

H_{02}: *Institutional ownership structures have no significant impact on earnings management of listed consumer and agricultural companies in Nigeria.*

Foreign Ownership and Earnings Management

According to Dahlquist and Robertsson (2001), foreign investors, who are primarily mutual funds or other institutional investors, can be viewed as an active mechanism that can be integrated with a company's governance structure to deter management from taking actions that do not maximize value because institutional investors play a larger role than management. By restricting REM, foreign owners can lower agency costs. Prior studies have demonstrated that foreign investors can increase positive spillover effects by lowering a company's cost of capital (Douma et al., 2006). Bekaert & Harvey, 2018), by encouraging sensible R&D investment (David et al., 2016), and by kicking off adjustments to the corporate governance practices of nearby companies (Gillan & Starks 2013). According to Ho et al. (2010), there is a positive correlation between Information Technology (IT) investment and business performance the more foreign participation there is in SME. Suggesting that in order to help these SMEs, international investors may contribute their IT knowledge. This result is in line with the findings of Ferreira (2017) and Chien (2015).Few research on foreign ownership and earnings management in industrialized and emerging nations were found in the examined literature. This becomes more important for further research on how foreign ownership may affect the earnings management of Nigerian listed consumer goods and agricultural companies and enhanced the formulation of the below hypotheses:

H_{03}: *Foreign ownership structure ratios have negative effect on earnings management of listed consumer goods and agricultural companies in Nigeria.*

Managerial Ownership and Earnings Management

According to Liu (2012), managerial ownership is regarded as a crucial tool for resolving disputes between managers and shareholders, because it provides managers with a significant stake in the business and makes them less likely to use profits for their own short-term benefit at the expense of outside shareholders. Earnings that accurately reflect the company's underlying economics are more likely to be reported by managers whose interests coincide with those of shareholders (Dhalwal et al., 2018). Nonetheless, because of the consequences of entrenchment or expropriation, it is evident that managerial ownership is positively correlated with the explanatory power on wages (Cheng & Warfield, 2005). In addition, research by HSU and Koh (2005), Isenmila and Afensimi (2012), and Farouk and Hassan (2014) indicates that managerial ownership and earnings management have a good association.

It is against this fact that the below hypotheses is raised:

H_{04}: *Managerial ownership structures do not significantly drive earnings management of listed consumer goods and agricultural companies in Nigeria.*

METHODOLOGY

The research designed is to investigate the statistical relationship between the independent variables (COWN, INOWN, MOWN, FOWN) and the dependent variable (Discretionary Accrual (DA)), the author used a longitudinal panel data research design covering the period of 2015 to 2022. This research method is perfect for the current study because it can be used to gather data across different variables at regular intervals of time in a chronological fashion (Ahmed Haji & Anifowose, 2016; Lee & Yeo, 2016). It is appropriate for the study because it allows us to calculate the percentage of variance in the independent variables that can be attributed to the variation in the market capitalization by Nigerian listed firms. The approach will also make it easier to evaluate research topics and hypotheses by applying quantitative and statistical techniques including content analysis, quantitative testing, and descriptive statistics. The population of the study is drawn from publicly accessible financial reports of businesses that have traded on the premium board, main board, or growth board of the Nigerian Exchange Group from the 2015 fiscal year through December 31, 2022.

Sampling and Sampling Technique

The sample size of twenty-three (23) companies that are members of the Nigerian exchange group and whose annual reports and accounts cover the years 2015 through 2022 have been chosen as the sample for this study based on the availability of data and a combination of convenience and purposeful sampling. It was also selected for this study through the scientific process of Taro Yamane sample size estimation as shown in appendix. This sample is made up of five (5) agricultural firms and eighteen (18) consumer goods firms. It was simple to select this sample because it is assumed that these companies share some fundamental traits that are essential to the study. It is reasonable to conclude that corporate entities compiled over the eight years under review, falls within the period in which the Nigeria Code of Corporate Governance (2011,2016, 2018) were operationalized.

Model Specification

The cross-sectional panel data utilized in this inquiry were subjected to appropriate descriptive and inferential statistics. Since the model used by Farouk and Bashir (2017), Lukani (2013), Ayadi (2014), and Saidu et al (2017) had various revisions and these studies adopted the modified Jones Model based on the assumption that all the variances of revenue are non-discretionary and managers could use credit sales to manage earnings rather than the use of cash.

The modified Jones model is stated as:

DA i,t = TA i, t/Ai, t-1－［ai （1/Ai, t-1）+ b1, i（△ REV i, t/Ai, t-1-△RECi, t/Ai, t-1） +b2, i（PPEi,t/Ai, t-1）］

Where:

DA= Discretionary Accruals is used to measure Earning Management

TAit= Total accruals for firm i in year t= Net Income-Operating cash flow

Ait-1= Total accruals for firm i in year t,

ΔREVit=Change in net revenues for firm i in year t,

ΔRit= Change in accounts receivable for firm i in year t

PPEit= Property plant and equipment for firm i in year t,

..a1, b1,b2 are coefficient, t= time.

Therefore, the model specification for this study is supplied in econometric form as follows from the study Farouk and Bashir (2017) as described below:

DACCRit =β0 +β1 MGROSit +β2INSTit + β3OWNCONSit + β4FROWit + β5SIZEit + β6SPit + εit

Where:

DACCRit= Discretionary Accrual which measures Earnings Management,

MGROS = (managerial) ownership,

INST= institutional ownership,

OWNCONS = Ownership concentration,

FROW = foreign ownership.

SIZE = Firm Size,

SP = Share Price,

The a priori expectation is β1- β6>0. = coefficient of the predictor

μ= Error term= unexplained variable.

t= time

β0= constant term or intercept.

However, in order to increase internal consistency and enable more precise comparisons, the model of Farouk and Bashir (2017) was modified for this research. This provides a more exact depiction of the study's specific changes in the underlying microeconomic data. The research technique is therefore described here.

This is now known as:

DAit= β0+β1COWNit+β2INOWNit+β3MOWNit+β4FOWNit +μt

The dependent variable is

DA= Earnings Management measured as Discretionary Accruals based Modified Jones Model.

The independent variables are defined as follows:

COWN= Ownership Concentration measured as % of shareholders who have up to 5% or more in the total shares in issue,

INOWN= Institutional Ownership Concentration measured as % of Total Shares held by Institutions

MOWN= Managerial Ownership Concentration measured as % of Total Shares held by Directors

FOWN= Foreign Ownership Concentration measured as % of Total Shares held by foreign investors

Ut= Error Terms

t= time (2015 -2022)

β0= constant term or intercept.

β1- β4= Regressors

Method of Data Analysis

Given that the data set has a panel structure, a panel regression analysis will be performed, and the choice of a fixed effect model or a random effect model will be connected to the outcome of the Hausman test. To support the analysis, these descriptive statistics were used. Both annual and long-term changes in business performance are represented by the random effect model. Over the course of the study period, the fixed effect model captures the characteristics of the sampled businesses (weber, 2017). The Breusch-Godfrey serial correlation LM test, the variable inflation factor test of multicollinearity, ARCH heteroskedasticity test, E-view 10 statistical application software is utilized to enhance statistical inference and empirical evidence. These techniques were used to increase the independent variables' ability to predict earning management of listed Nigeria firms.

Data Analyses and Interpretation

Descriptive Statistics

Table 4.1: *Descriptive Statistics*

	DA	COWN	INOWN	MOWN	FOWN
Mean	-0.767781	0.67%	0.64%	0.14%	0.29%
Median	-0.070272	72.25	71.47	0.971875	25.89
Maximum	0.965706	99	96.5	74.62508	75.97
Minimum	-35.52516	19.73	3.8148	0	0
Std. Dev.	3.973775	18.287	21.6687	23.34721	31.10194
Skewness	-7.69173	-0.980073	-1.127569	1.557008	0.248435
Kurtosis	66.11019	3.533205	3.510335	4.085185	1.278738
Jarque-Bera	30943.35	30.26087	39.20466	79.74792	23.53723
Probability	0	0	0	0	0.000008

Sum	-135.1295	11910.07	11404.45	2590.658	5230.365
Sum Sq. Dev.	2763.405	58522.51	82168.16	95391.12	169282.8
Observations	176	176	176	176	176

Source: Researchers' Compilation (2024)

The mean and median value of the Earnings Management (DA) of listed Nigeria companies has a value of -0.77 and -0.070272 respectively indicating that earning of listed firms in Nigeria within the period under review is being manipulated at the rate of a -77%. The kurtosis value of 66.11 that measures the peakedness or tailedness of a distribution tend to be leptokurtic or long tailed that has extreme values or outliers because this value is greater than the bench mark of 3. The positive JarqueBera value of 30943.35 expresses a goodness of fit of the earnings management distribution.

The mean and median value of the ownership concentration (COWN) of listed Nigeria companies has a value of 0. 67% and 0. 72% respectively indicating that 0, 67% of the equity structures of listed firm under review are owned by major shareholder or shareholders whose controlling interest is 5% and above. The kurtosis value of 3.533 that measures the peakedness or tailedness of a distribution tend to be leptokurtic or long tailed because the data has extreme values or outliers because this value is relatively greater than the bench mark of 3. The positive JarqueBera value of 30.26087 expresses a goodness of fit of the COWN distribution.

The mean and median values of the Institutional Ownership concentration (INOWN) of 0.64% and 0, 71% respectively shows that listed entities in Nigeria ownership structure under review is 64.8% averagely controlled by institutional investors. The Kurtosis value of 3.51 and JarqueBera value of 39.205 shows a long-tailed distribution or a Leptokurtic distribution.

The Managerial Ownership concentration (MOWN) mean and median values of 14.72 and 0.97 respectively which indicate that on the average 14.72% of the ownership structure of listed entities of this study is controlled by managers or directors. The kurtosis coefficient of 4.085185 and the JarqueBera value of 79.75 for managerial ownership concentration indicate a long-tailed distribution which tends to be leptokurtic because the Kurtosis is greater than 3.

The foreign ownership concentration (FOWN) mean and median values of 29.72 and 25.89 respectively implies that foreign investors have an average of 29.72% participating interest in the activities of the listed entities in Nigeria that is being evaluated. The Jarque-Bera coefficient of 23.54 and Kurtosis of 1.279 indicate a short-tailed distribution which is platykurtic that is devoid of extreme values.

Correlation Matrix

This study explores the relationship between variables through the use of Pearson product moment correlation method. The results are presented in the table below:

Table 4.2 *Correlation Matrix*

	DA	COWN	INOWN	MOWN	FOWN
DA	1	-0.196847784	0.100710562	-0.18038	0.132394
COWN	-0.19684778	1	0.697610083	0.208417	0.118752
INOWN	0.100710562	0.697610083	1	-0.16928	0.469423
MOWN	-0.18037734	0.208417023	-0.169284388	1	-0.42448
FOWN	0.132393806	0.118751515	0.469422844	-0.42448	1

SOURCE: Researchers' Compilation (2024)

The variables interdependence is displayed in table 4.2 above. The correlation coefficient of a variable with itself is 1.000 which indicates that multicollinearity does not exist among variables that are the problem of an independent variable predicting another independent variable is eliminated. The correlation or association between the exogenous variables and endogenous variable (Earning Management (DA)) are expressed as follows: institution ownership concentration and foreign ownership concentration which are independent variables have a positive association with earning management of listed firms in Nigeria with values of 0.1007 and 0.132 respectively. The independent variables of ownership concentration and managerial ownership concentration have a negative association with earning management of listed firms in Nigeria with coefficient values of -0.197 and -0.180 respectively.

Multicollinearity Test

This is used to examine how much the variance of an independent variable is influenced by its correlation with other independent variables through an econometric method of variance inflation factor (VIF). If the value of a variable is one (1) which implies that variable is not correlated or if the VIF value lies between 1 and 5, it is seen as moderate correlation but if the value is greater than 5, it shows that variables are highly correlated. The values are expressed in table 4.3 below:

Table 4.3 *Variance Inflator Factor estimates*

Variance Inflation Factors			
Sample: 184			
Included observations: 176			
	Coefficient	Uncentered	Centered
Variable	Variance	VIF	VIF
C	1.18685	15.20545	NA
COWN	0.000601	37.8287	2.56086
INOWN	0.000497	29.72211	2.97412
MOWN	0.000206	2.003034	1.430984
FOWN	0.000128	3.01708	1.572868

Source: Researcher's Computation (2024)

The center variance inflation factor values of 2.56086, 2.97412, 1.430984, 1.572868 with respect to ownership concentration (COWN), institutional ownership concentration (INOWN), managerial ownership concentration (MOWN), foreign ownership concentration (FOWN), and these values are less than 5 which implies that multicollinearity problem does not exist.

Diagnostic Test

One of these is the Breusch-Godfrey serial correlation LM test, which measures autocorrelation in regression model mistakes. In the event that the P-value exceeds 0.05, autocorrelation is not supported.

By evaluating how well the independent variable explains the dependent variable while keeping the residual variance unchanged, the heteroskedasticity test proves the correctness of the model.

The ARCH heteroskedasticity test is used to assess the null hypothesis that a series of residuals exhibit no conditional heteroskedasticity. Time series volatility is analyzed using the autoregressive conditional heteroskedasticity (ARCH) method to predict future volatility. If the P-value is higher than 0.05, the model is likely homoscedastic rather than heteroskedastic.

Table 4.4 *Diagnostic Test Estimates*

Diagnostic test	P-value	Significance Level	Decision
Breusch-GodfreySerial Correlation LM Test:	0.5808	0.05	No autocorrelation
Heteroskedasticity Test: ARCH	0.8436	0.05	Homoskedastic

Source: Researcher's Computation (2024)

The Breusch Pagan LM test with p-value of 0.5808 and Heteroskedasticity ARCH test P-value of 0.8436 is greater than the 0.05 level of significance indicate that there is no autocorrelation and the model is homoscedastic that is the explanatory variables can explain the dependent variables reliably.

Hausman test for fixed or random effect model

This enables the study to choose the model that suit the predictive reliability of the exogenous variables on the endogenous variable based on the criteria that if the p-value estimated exceed the P-value critical value accept the null hypothesis of a random effect; otherwise use the fixed effect model. This enhances prediction of the explained variable. The fixed effect model assumes that the value of the independent model is fixed and any change in the independent variables will create a responsive change in the dependent variable.

Table 4.5: *Hausman correlated random effect test*

Correlated Random Effects - Hausman Test			
Equation: Untitled			
Test cross-section random effects			
Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	7.528257	4	0.1105

Source: Researcher's computation (2024)

Evidence from Table 4.5 shows that a random effect model will be constructed because the P-value of the Hausman test of 0.1105 is greater than P-critical value of 0.05. The random effect implies that the unique errors are uncorrelated with the regressors therefore random effect helps to distribute randomly the error term across the cross-sectional sample which impact the dependent variable.

Panel Least Square Regression Result

This is used to predict the behaviour of the endogenous variables which indicate the line of best fit that enhances prediction with significant accuracy. The rejection or acceptance of the null hypothesis will be based on the estimates in Table 4.6.

Table 4.6 *Panel Least Squares Regression Estimates*

Dependent Variable: DA			
Method: Panel Least Squares			
Variable	Coefficient	Std. Error	Prob.
C	1.443197	1.086728	0.1860
COWN	-0.121654	0.024556	0.0000
INOWN	0.095582	0.022362	0.0000
MOWN	0.000802	0.014357	0.9555
FOWN	-0.006186	0.011325	0.5856
R-squared	0.191201		
Adjusted R-squared	0.136953		
Log likelihood	-473.3878		
Durbin-Watson stat	1.57362		

Source: Researcher's computation (2024)

Regression Result

The Durbin-Watson statistics of 1.57362 which is lower than 2.5 imply that the auto-correlation is within the normal region which aid co-integration and enhance the relationship between the dependent and exogenous variables. The DW result also indicates that stochastic dependence between successive units of the error term is unlikely in the model. The standard error in the model is used to control the issue of heteroskedasticity which shows the prowess of the explanatory variable explaining the dependent variable and the variance of the unexplained portion remains constant or standard error is constant. The log likelihood that measures the goods of fit of the model with a value of -473.3878 which is high indicate that the panel least square regression is good model that will enhance the explanatory variable prowess to explain the dependent variable. Therefore, the null hypothesis will be rejected when the p-value is less than the critical value of 0.05 level of significance and the alternative hypothesis is accepted.

Much more, ownership concentration (COWN) that measures ownership concentration of listed firms in Nigeria revealed a negative association and a significant effect on earnings management of listed Nigeria firms with a coefficient value of -

0.121654 and p-value of 0.0000. Base on this fact, the null hypothesis is rejected which states that ownership concentration does not determine earnings management of listed Nigeria firms. This implies that the manipulation of earnings is determined by the influence of major shareholders. The negative relationship implies that as majority shareholders increase therefore the manipulation of earnings is reduced or mitigated.

Institutional ownership concentration (INOWN) revealed a positive relationship and a significant impact on earnings management of listed Nigeria firms which is exhibited by its coefficient value of 0.095582 and p-value of 0.0000. Due to this result the null hypothesis is rejected implying that institutional ownership concentration determines earnings management. The positive association shows that as institutional investors appreciate; the level of earnings manipulations also appreciate.

Managerial ownership concentration (MOWN) has a positive relationship and an insignificant impact on earnings management with the coefficient values of 0.00802 and 0.9555 respectively. This implies that the null hypothesis is accepted which reveals that the ownership interest of directors in the shareholding of listed entities in Nigeria does not determine how earnings are manipulated. The positive association also shows that as manager increase their investment in the ownership structure of the listed firms, earnings management also increases.

The Independent variable of foreign ownership concentration (FOWN) with negative coefficient values of -0.006186 and an insignificant p-value of 0.5856 indicate that foreign ownership concentration does not determine earnings management implying that the null hypothesis is accepted. The inverse relationship implies that as foreign investment in the ownership structure of listed firms on Nigeria increases; the manipulation of earnings decreases.

Discussion of Findings

The study of Nguyen et al. (2021), demonstrates that ownership structure significantly decrease the management of earnings for listed consumer goods and agricultural companies in Nigeria under consideration, with which this study mostly concurs. This implies that ownership concentration increases the quality of earnings through fairly reduced earning manipulation.

This study finds that ownership concentration has a negative association and a substantial influence on earnings management which is at variance with the study of Nguyen et al., (2021) on this contemporary study were in line with the findings of this study with regards to negative relationship and significant impact on earnings management of listed consumer and agricultural companies in Nigeria. The negative association of ownership concentration on earnings management shows that the presence of majority shareholders or share holders whose interest in the ownership structure exceeds 5% will reduce earnings manipulation.

The findings of Nguyen et al. (2021) and Bashir and Farouk (2017) in their studies also shows that state ownership which is same as institutional ownership has positive effect on earnings management which is in consonance with the findings of this study. However, the study of Mwangi and Nasieku (2022) on the effect of ownership structure on earnings management of listed manufacturing companies in Kenya reveals that institutional ownership has no significant effect on earnings management which is at variance with this study. The positive association of institutional ownership with earnings management as revealed by this study implies that the interest of institutional investors in the ownership structure of listed entities cause a drive for earnings to be manipulated.

The present study's results also indicate that managerial ownership has a marginally positive impact on earnings management. Conversely, research by Alves (2012) regarding the impact of ownership structure on earnings management in Portugal and Mwangi and Nasieku (2022) regarding the impact of ownership structure on earnings management in Kenya indicates a negative correlation between managerial ownership and earnings management. The correlation between managerial ownership and earnings management is positive, indicating that managers' interest in the ownership structure provides a catalyst for the manipulation of listed companies' earnings in Nigeria.

Nguyen et al (2021) finding that reveals that foreign ownership concentration has a negative effect on earnings management which is in consonance with the findings of this study. However, the finding from the study of Bashir and Farouk (2017) that is averse to the findings of this study reveals a negative relationship with earnings management. The positive relationship of foreign ownership with earnings management implies that foreign ownership concentration does not reduce earnings manipulation.

Conclusion

The study concludes that ownership structure somewhat mitigates earnings management based on its findings, which showed that ownership concentration and foreign ownership concentration have an inverse relationship with earnings management; however, institutional ownership and managerial ownership have a positive association with earnings management.

Recommendations

Deducing from the evidential analytics and finding of this study, the following recommendation are made:

The study recommends that the statutory authority such as the security and exchange commission and other corporate regulatory agencies should institutionalize the principle of substantial ownership of major shareholders to involve holders of shares of 5% and above because the presence of such stakeholders will mitigate earnings manipulation of listed entities.

The government and other macro and micro economic agencies that enhance foreign direct investment should create an enabling environment that allows foreign investors to access our capital market to invest in corporate entities. This investment will mitigate the manipulation of earnings because their presence in the ownership structure of entities results in transparency and transfer of professional expertise.

Though the relationship between institutional ownership and earnings management is direct but the impact of institutional ownership concentration is significant. Therefore, such investment in the capital structure of entities create a participatory or controlling interest on entities operations; as a results institutional investor like the government and corporate institution will ensure that management becomes transparent and ensure deterrent from earnings manipulation as required by stakeholders' theory.

More so, managerial ownership concentration exhibited no effect on earnings management and the relation is positive. Therefore, the corporate governance code needs to be strengthened through introduction of earnings transparency committee which will enhance the responsibilities of the risk committee and audit committee. This earnings transparency committee will ensure that all manipulated avenues to manipulate the earnings are eradicated which will boost stakeholders' confidence.

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