AE-FUNAI JOURNAL OF ACCOUNTING,
BUSINESS AND FINANCE(FJABAF)
ISSN:2635-392X, VOL.7, NO.1 DECEMBER. 2020
www.fujabf.org

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# EFFECT OF OWNERSHIP STRUCTURE ON EARNINGS MANAGEMENT OF LISTED OIL MARKETING COMPANIES IN NIGERIA

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**ABSTRACT**

This study examines the effect of Ownership structure on Earnings management for a sample of nine (9) oil marketing companies listed on the Nigerian Stock Exchange (NSE) for the period of 2009 to 2015. Ownership structure was measured by Insider ownership, Institutional ownership, blockholding ownership and foreign ownership, while Earnings management was represented by the modified Jones model. Using 63 firm-year paneled observations, Fixed and Random effect were estimated. Secondary data was collected from the sampled companies. The data were analyzed using multiple regression analysis through E-views software version 8. The findings revealed that insider ownership is positively and significantly influencing the earnings management of listed oil marketing companies, while blockholding ownership and foreign ownership were found to have negative and significant influence on earnings management of listed oil marketing companies in Nigeria. However, Institutional ownership was found to have a negative and insignificant contribution to earnings management of listed oil marketing companies in Nigeria. Based on the above findings, the study concludes that Ownership structure has a great influence in checkmating the opportunistic behaviours of managers in listed Oil marketing companies in Nigeria. It is therefore recommended that the proportion of shares held by management should not be reduced, while the proportion of shares held by both blockholders and foreign investors be increased so as to constrain managers from engaging in earnings management, thus making the published financial reports to have more quality and be reliable.

***Key Words***: Earnings management, Insider, institutional, blockholding, foreign, oil marketing companies, Nigeria.

## INTRODUCTION

The issue of Earnings Management has been debated and researched for a reasonable period of time, commencing with Watts and Zimmerman (1986) where they came out with a positive accounting theory behind choices of accounting methods. This perspective splits accounting choices into two categories: the efficiency perspective and the opportunity perspective (Deegan, 2011). An efficiency perspective assumes that accounting choices are made before the fact with the aim of representing the true economic performance of the firm (Deegan, 2011). On the other hand, an opportunistic perspective assumes that accounting choices are made ex post, and that managers use their discretion to transfer wealth effects to themselves and thus do not increase aggregate wealth for the firm's stakeholders. Noticeably, ownership structure is a subset of corporate governance that relates to the nature of ownership of the equity shareholding of a firm who acquires the firm's equity shares and to an extent which the interest can either align with or entrench the minority shareholders' objective of value maximization (Shehu & Abubakar, 2012).

The decision to focus on the oil and gas industry in Nigeria comes from the fact that these companies are the major source of energy, provider of foreign exchange earnings to nation endowed with the resources and also at the time when the Nigerian National Petroleum Corporation (NNPC) that coordinates the operations of the oil and gas sector of the economy are making plans to unbundle the NNPC due to dwindling activities, mismanagement, fraud and unremitted funds of the oil and gas sector to the Nigerian government treasury (Adeyemo & Adeleke, 2016).

Several studies on the effects of ownership structure on earnings management have been empirically done in Nigeria such as Shehu & Jibril (2012), Usman & Yaro (2012), Hassan & Ahmed (2012), among others. Most of these studies used few ownership proxies (Usman & Yaro, 2012; Hassan & Ahmed, 2012; Isenmila & Elijah, 2012; among others). Also, hosts of others studies in this area were conducted in either conglomerate sector, food and beverage firms or banking sector (Shehu & Jibril, 2012; Hassan & Ahmed, 2012; Isenmila & Elijah, 2012), and none to the best of our knowledge, have specifically covered the listed oil marketing companies in Nigeria. Adding to the foregoing, these available studies also used Ordinary Least Square (OLS). Thus this present study inculcates more ownership proxies such as insider, institutional, block-holding and foreign ownerships, using a sample of nine out of ten listed oil marketing companies covering the period of seven years from 2009 to 2015 as well as the use of multiple regression analysis using statistical software EVIEWS version 8.

**Objectives of the study**

The specific objectives of the study are:

i. determine the effect of insider ownership on earnings management of listed oil marketing companies in Nigeria;

ii. examine the effect of institutional ownership on earnings management of listed oil marketing companies in Nigeria;

iii. ascertain the influence of block-holding ownership on earnings management of listed oil marketing companies in Nigeria; and

iv. determine the effect of foreign ownership on earnings management of listed oil marketing companies in Nigeria.

**Research Questions**

In line with the specific objectives as enumerated above, the following research questions were raised:

i. To what extent does insider ownership significantly affect earnings management of listed oil marketing companies in Nigeria?

ii. To what extent does institutional ownership influence earnings management of listed oil marketing companies in Nigeria?

iii. To what extent does blockholding significantly affect earnings management of listed oil marketing companies in Nigeria?

iv. To what extent does foreign ownership influence earnings management of listed oil marketing companies in Nigeria?

**Hypotheses**

The study hypotheses that there is no significant relationship between insider ownership, institutional ownership, block-holding ownership as well as foreign ownership on earnings management of listed oil marketing companies in Nigeria, including some control variables that may have effects on earnings management such as firm performance, firm size, firm growth and leverage.

The remaining part of the paper is prearranged as follows: Section 2 presents review of related

literature, section 3 Methodology, section 4 Discussion of findings and section 5 Conclusion and Recommendations.

## Literature Review

### Theoretical Framework

There are theories guiding ownership structure and earnings management which include among others: stewardship theory, stakeholder theory, agency theory and signaling theory. This section therefore reviews these theories as it relates to the study under discussion.

Stewardship Theory

This theory suggests that managers (agents) are trustworthy and good stewards of resources entrusted to them and therefore need no monitoring (Donaldson & Davis, 1994; Davis, Schoorman, & Donaldson, 1997). Thus, they should be given autonomy based on trust as this will reduce the cost of monitoring and controlling their behavior. The stewardship theory further argues that the interests of corporate executives (stewards) are aligned with those of the organization and its owners (Wali, 2013).The theory also assumes that directors and managers**,** alike, act in the best interest of the firm since not all agents seek personal gain (Nordberg, 2011; Jalil & Rahman, 2010).

However, the stewardship theory is criticized as shareholders especially external blockholders perceive this theory as beneficial thus may not prevent the practice of earnings management. As such, there is a need for monitoring mechanisms to prevent earnings management (Limanto & Fanani, 2014). This implies that the relationship between principals (owners) and their agents (managers) based on stewardship theory could rather provide opportunities for management to commit fraud, if not properly monitored.

Stakeholder Theory

Clarke (2004) defines stakeholder theory as multilateral agreements between the enterprise and its multiple stakeholders. The relationship between the company and its internal stakeholders (such as employees, managers and owners) is framed by formal and informal rules developed through the history of the relationship. While management may receive finance from shareholders, they depend upon employees to accomplish the productive purpose of the company (Nouri & Abaoub, 2014). Impliedly, this suggests that external stakeholders (customers, institutions, suppliers, community, employees, banks, governance, and relevant stakeholders) are equally important, and also constrained by formal and informal rules that business must respect.

In the same vein, a study on institutional ownership as a determinant of earnings quality documents that larger institutional shareholding is associated with lesser earnings management (Ewert & Wagenhofer, 2005). Corporate monitoring especially by institutional investors can constrain managers' behaviour. Large institutional investors have the opportunity, resources, ability to monitor, discipline and influence managers either positively or negatively. Thus the stakeholders' theory documents that institutional ownership enhances monitoring which may be associated with lower use of discretionary accruals.

### Signaling Theory

This theory came to limelight after the seminar presented by Spence (1973) when he provided a hypothetical example of how signaling affects job choice in the market. Spence (1973) describes the hiring process as an investment and likens it to playing the lottery of hiring. Here, a job seeker must signals his/her quality to a prospective employer before he/she is being hired.

**In relation to investment and earnings**

management, Liu, Ning, & Davidson (2010) suggest that bondholders do not perceive earnings management as opportunistic but simply reflect the management's view on future operating performance. As such, managers may manage earnings to signal value relevant information about the firm's future performance and thereby improve the ability of earnings to reflect underlying economic value (Gul, Chen & Tsui, 2013; Bouwman, 2014).

**Agency Theory**

The agency theory has its roots in economic theory propounded by Alchian and Demsetz (1972) and further developed by Jensen and Meckling (1976). The theory emphasizes on the relationship between owners or principals (shareholders) and the agent (managers). The shareholders hire agents to perform work, but the principals delegate the running of the business to directors or managers (who are the shareholder's agents), thus there exist conflict of interest especially in companies with low level of monitoring and few discipline instruments on management decisions (Jensen & Meckling, 1976; Clarke, 2004).

Relating this theory to this study, firm's ownership structure are best explained by the agency theory. Despite the enactment of corporate governance whose aim is ideally to control the behaviour of top corporate executives and also to protect the interest of company owners (Shareholders), problem still arises as a result of the separation between ownership and company management (Koh & Hsu, 2007; Sandra, 2012). Therefore, the study adopts the agency theory to underpin ownership structure due to its importance in resolving conflicts that may arise between manager (agent) and shareholders (principal) of the companies.

**Conceptual Framework**

This section explains the operational concepts used in the study. The ownership structure proxies which include Insider Ownership, Institutional Ownership, Block-Holdings and Foreign Ownership are discussed as well as the concept of earnings management.

**Ownership structure**

The concept of ownership structure has been defined in different ways by different researchers. According to Usman (2012), Ownership structure is one of the dimensions of corporate governance that plays a central role in determining the extent to which the interests of owners and managers are aligned in any firm. This therefore entails that an ownership structure of a company is the distribution of control and ownership in the company.

Jensen & Meckling (1976) also define ownership structure as the distribution of equity with regard to votes and capital as well as by the identity of the equity owners. This study therefore suggests that ownership structure is the distribution of both share and control in a given firm in terms of the worth of shares evident in the firm control as well as those that have major influence in the firm's decisions.

Moreso, to proxy for ownership structure, several studies have used one or two combinations of the proxy such as insider, institutional and external block ownership (Isenmila & Elijah, 2012; Alves. 2012), and/or institutional and managerial ownership (Kamran & Shah, 2014). In this study, we specifically use insider (managerial), blockholdings, institutional and foreign ownership structure to measure ownership structure.

a. **Insider Ownership**

Insider ownership also known as managerial ownership is a governance problem arising from

variance in the cash flow and control rights (Spinos, 2013). But Hassan & Ahmed (2012) defined insider ownership as a situation where the manager has shares in the firm. Therefore, insider ownership is the shares held by those at the helm of affairs, that is, the managers as well as Chief Executive Officers (CEO) of the company as they act as agents to the shareholders.

b. **Institutional Ownership**

Institutional investors are also found in the ownership composition of a firm. According to McNichols & Stubben (1998), institutional investors are large investors, other than individuals, who exercise discretion over the investment of others. Bartov, Radhakrishnan & Krinsky (2000) posited that institutional ownerships are professional investors who have long-term focus. This focus is based on the amount of their investments and their know-how which are used to control the management. Chi-keung (2013) views the institutional shareholders to include holders of investment trusts, pension funds and insurance companies that are more powerful; they invest large amount of money into a firm and may have greater incentive to monitor their interest in the firms.

c. **Blockholding ownership**

Block Holdings or blockholders also known as ownership concentration is an internal governance device that allows the largest shareholders to gain control over management behaviour and decision (Sandra, 2012). Under the corporate governance code released by the Nigerian Securities and Exchange Commission (SEC) in 2011, the SEC defined block-holding as any investor with more than a 5% equity stake in the firm. This shareholding can either be held by small block-holders who own a small fraction of the share ownership and cannot assert control on the managers, or large block-holders, who have a strong desire to actively monitor the performance of the managers of firms.

d. **Foreign ownership**

Foreign investment involves the transfer of financial capital and a set of skills including managerial and accounting from one country to another. This entails that foreign investors are well equipped in choosing a firm with good corporate governance as they are often more sophisticated than domestic investors in terms of their investment criteria and finances. Given these characteristics, Kamran & Shah (2014) consider foreign ownership as an effective mechanism that could complement current governance structure because its role resembles that of institutional investors.

**Earnings Management**

**The definition of earnings management has been inconsistent in the literature too. Different accounting scholars have divergent views about the subject matter. Healy & Wahlen (1999) define earnings management as the altering of financial statements through the use of judgment in financial reporting and 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 numbers. In other words,** Sellami & Fakhfakh (2013) point two ways through which executives can manage earnings, one being manipulation of accounting decisions through accruals such as **netting an unusual gain with recurring expenses** (accounting earnings management) or manipulation of real business decisions via cash-flows such as **disclosure of operating losses as extraordinary** (real earnings management). This implies that earnings management occurs when management uses either its reporting discretion

(accruals) or its influence over operating, investing or financing decisions (real activities) to achieve a desired reporting outcome. In fact the choices of particular accounting methods could be driven by opportunistic behaviors of managers or firm value maximizing motive.

**Empirical studies**

In this section, prior literature, which has produced inconclusive findings are examined on the effect of ownership structure on earnings management.

The analysis of Ali, Salleh and Hassan (2009) shows that managerial ownership is negatively associated with the magnitude of accounting accruals after examining the association between the level of managerial ownership and earnings management activities. The research was conducted in Malaysia though using a reasonable sample size of 1,001 out of 1484 firms listed, the period is considered too short as it only investigated two years between 2002 and 2003. Sandra (2012) in her research which was conducted in Portugal documents that, in all models, the managerial ownership is significantly negatively related with earnings management, which is consistent with the alignment of interest hypothesis. The negative relationship suggests that the higher the managerial ownership, the lower the magnitude of discretionary accounting accruals. Hassan and Ahmed (2012) and Alves (2012) provide an evidence that firms with a higher share ownership by management report earnings numbers of higher quality, which support the agency theory and the alignment hypothesis contentions that both managers and shareholders' interests will be converged when management own a higher stock of shares.

The level of managerial ownership affects both the informativeness of earnings and the magnitude of discretionary accounting accruals. Results from other empirical works show that managerial ownership is positively associated with earning management due to entrenchment or expropriation effects (Cheng and Warfield, 2005). Also, Isenmila and Elijah (2012) in their research observe that the relationship between managerial ownership and earnings management is positive and statistically significant at 5% level. Data of thirty-one (31) firms was gotten from the Tehran stock exchange for the period of 5 years (2005-2009). The results indicate that when there is little separation between owners and managers, management face less pressure from capital market to signal the firm value to the market and they pay less attention to the short-term financing report (Jensen, 1986 and Klassen, 1997). Therefore, highly invested managers are more likely to manipulate earnings, since this lack of market discipline may lead insiders to make accounting choices that reflect personal motives rather than firm economies.

Another positive relationship between insider ownership and earnings management was reported by Al-Fayoumi *et al.* (2010). Data was gotten from Jordanian industrial firms during the period 2001-2005. Using the Generalized Method of Moment (GMM), the results indicate that insider ownership is significant and positively affect earnings management. The results of this study need validations as period covered is not current inasmuch as the study is in a developing country. Similarly, Kamran and Shah (2014), Aygun *et al.* (2014) and Hsu (2015) report a positive significant relationship between insider ownership and earnings management.

Al-Naseer (2012) in his study, found a significant negative relationship between institutional investors' ownership and the likelihood of earnings management. The study used 91 firms listed on the London stock exchange in 2005. This research,

however did not mention the techniques and tools adopted for the research to ascertain the appropriateness of the findings. The active monitoring hypothesis views institutional investors as long-term investors with raving incentives and motivations to closely monitor management action (Poli, 2015). This idea is consistent with that of Velury and Jenkins (2006) whose study provides evidence that firms with high stock ownership by institutions experience earnings numbers of high quality. Hadi (2012) findings suggest that the proportion of institutional investor's ownership negatively affect the magnitude of earnings management while Poli (2015), Shaikh *et al.* (2012), Park and Shin (2004), Koh and Hsu (2007), document similar findings and concluded that active institutional investors play important roles of constraining earnings management, thereby enhancing the credibility and reliability of financial reporting. Lakhal (2015) found that institutional shareholding has a negative coefficient and it is significantly related with the positive discretionary accruals. The study uses 170- French listed firms. The data from 2008 to 2009 were used and was analysed using ordinary least square (OLS). The result therefore implies that institutional investors are more effective in reducing positive discretionary accruals.

Hassan and Ahmed (2012) empirically reveal that a positive relationship exist between institutional shareholdings and earnings management. The study uses 20 quoted manufacturing firms on the Nigerian Stock Exchange for the period between 2008 and 2010. It is important to note here that since the study uses the manufacturing companies, its findings may not be applicable to other sector such as the oil and gas due to sectorial difference. In the same vein, Sandra (2012) investigation suggests that the coefficient of institutional ownership variable is positive and significant, consistent with hands-off hypothesis which suggests that institutional investors may increase managerial incentives to engage in earnings management. Similar findings are reported by Isenmila and Elijah (2012) who investigate earnings management and ownership structure using 10 selected Nigerian banks as at 2012. Secondary data retrieved from the audited financial statements of the banks for 2006-2010 were used for the study. The method of data analysis used was the multivariate regression technique based on the ordinary least squares assumptions. The finding of the study reveals the existence of a positive relationship between institutional investors' ownership and earnings management, but was statistically insignificant. It is essential to note that there was no justification as to why only 10 sampled banks were used in the study.

Hong-Bok (2009) investigates the percentage of shareholdings by institutional investors to test whether this factor has a monitoring effect on opportunistic behaviour by CEOs. The result shows no significant relationship between the percentages of shares held by institutional investors and earnings management. Monitoring variable (institutional investors' shareholding) is not linearly related to opportunistic behaviour. In addition, existing studies on the relationship between institutional ownership and financial reporting quality have reported insignificant results. This is evidenced in the research conducted by Yang, Chun and Ramadili (2009), which examine the role of institutional shareholders in constraining the earnings management activities in Malaysian listed firms. A sample of 613 firms from construction, industrial products and consumer products sectors were selected from the main board spanning from 2001

to 2003. Modified Jones Model with cross sectional approach was employed in the study and analyzed using the ordinary least square (OLS). The result documents no relationship between the degree of earnings manipulation and the proportion of institutional shareholders. Siregar and Utama (2008) and Liu *et al.* (2010) document similar findings in which they provide no empirical support of the high equity holdings by institutions in enhancing the reliability of financial information. Similar findings of no relationship between institutional ownership and earnings management were documented by Mutschmann and Hasso (2016). This implies that having institutional ownership may not necessary mean that institutional ownership has higher flexibility to use accruals to manage earnings.

Shehu and Yero (2012) conclude in their research that blockholding ownership indeed moderates the practice of earnings management as their result shows a significant negative relationship between blockholding ownership and earnings management. Sandra (2012) found in all models, a negative relationship between blockholding ownership and earnings management, suggesting that earnings management is significantly lower for firms with higher blockholding ownership. The period of the two studies above are not too current as events after their study period must have overtaken their research. In the same vein, Usman and Yero (2012) examine the relationship between ownership concentration and earnings management practice of the listed conglomerates in Nigeria for a period of 6 years (2004-2010). The study proxies for earnings management using the modified Jones model by Dechow et. al. (1995). Using 30 firm-year observations, the study estimates panel OLS and fixed/random effects. The result shows a significant negative relationship between ownership concentration and earnings management. This similar result was reported by Alves (2012) and Lakhal (2015) in which they provide a significant negative relationship between blockholding and earnings management.

Also, Isenmila and Elijah (2012) find a significant positive relationship between blockholding ownership and earnings management. The study employs the simple random sampling technique in selecting 10 Nigerian commercial banks as at 2012. Secondary data retrieved from the audited financial statements of the banks for 2006-2010 was used for the study. The method of data analysis used was the multivariate regression technique based on the ordinary least squares assumptions. Also, prior literature found a strong link between blockholding ownership and earnings management. Bolton *et al.* (2006) found that higher ownership concentration is associated with higher earnings management. Roodposhti and Chasmi (2011) examined the impact of corporate governance mechanisms on earnings management using sample of 196 listed firms of Tehran stock exchange in Iran. Their findings reveal that firms with higher ownership concentration engage in less earnings management. Yeo *et al.* (2002), Zhong *et al.* (2007), Choi *et al.* (2004) and Kim and Yoon (2008) document that earnings management is positively related with ownership concentration. Poli (2015) reports that interest held by foreign investors, which have incentives to manage the activities of managers in an organization, has a significant negative influence on earnings management. This connotes that the presence of foreign ownership reduces managers' tendencies to manage earnings. The study uses 27,448 firm year observation in the period 2010-2013 and tests variables by logit analysis models. The study also uses the earnings frequency distribution approach suggested by Burgstahler and Dichev (1997) for

*earnings minimization and earnings change minimization. The results shows foreign ownership has a significant negative influence on both practices of earnings. This study is rather foreign oriented and findings may not be applicable to firms in Nigeria.* Again, Guo *et al.* (2014) wrote on foreign ownership and real earnings management: evidence from Japan spanning the period of 2004 to 2008, using a sample size of 15,212 firm-year observations. The Roychowdhury (2006) and Cohen *et al.* (2008) methods are used as proxies for real earnings management, while univariate and multivariate analyses are used. The study found that firms with greater foreign ownership engage in less real earnings management, which is in line with the knowledge spillover hypothesis which predicts that the superior knowledge of foreign investors can curtail real earnings management.

On the other hand, Choi *et al.* (2004) found a significant positive association between foreign ownership and the earnings response coefficient, suggesting that foreign shareholders consider earnings quality (measured as discretionary accruals) in their investment decisions. The role of foreign investors as external monitors of corporate activities may even be bigger because foreign investors are less likely to be related to controlling shareholders. Also, foreign investors are saddled with higher liability of monitoring costs as a result of greater information asymmetry (Roodposhti and Chashmi, 2011); and as a result, the foreign investors positively strengthen their monitoring role to resolve information asymmetry. Aggarwal *et al.* (2015) found that foreign investors prefer firms with lower discretionary accruals and forecast errors and larger analyst coverage. In order to protect their wealth and to reduce monitoring costs, foreign shareholders have stronger incentives and expertise to independently monitor firms. Thus, higher proportions of foreign ownership induce firms to improve transparency and to decrease opportunistic managerial accounting choices and decisions.

## METHODOLOGY

This study was limited to listed oil marketing companies in Nigeria and comprised the entire 10 oil marketing firms listed in the Nigerian stock exchange as at 31st December, 2015. A Sample of nine (9) companies was selected based on filtering criteria where companies that have been delisted and/or nonoperational as well as do not have complete records of all the data needed for measuring the variables are eliminated.

The study adopted ex post facto research design and the source of data for the study is secondary data which is collected from the published annual reports of oil marketing companies over the relevant years (2009-2015) retrieved from their websites and the Nigerian Stock Exchange Fact Book.

The study uses multiple regression analysis because it seeks to carry out a multivariate analysis using statistical software EVIEWS version 8.

The study is also guided by a multiple linear regression model in order to establish the relationship between the independent variables (insider ownership, institutional ownership, block-holding and foreign ownership) and the dependent variable, earnings management (proxied by the modified Jones model)

## Measurement of Variables
## Table 3.1 Variables Measurement

| Variable | Nature of Variable | Proxy | Measurement | Expected Sign |
|---|---|---|---|---|
| Earnings management | Dependent | Modified Jones Model | Measured by Total accruals minus non discretionary accruals | - |
| Ownership structure | Independent | Insider ownership (INO) | Measured by the ratio of share owned by managers to total number of shares issued, expressed in percentage. | - |
| | Independent | Institutional ownership (INSO) | Measured using proportion of shares owned by institutional investors to total number of shares issued, expressed in percentage. | - |
| | Independent | Blockholder ownership (BLOCK) | Percentage of Total Shares held by High Blockholdings | - |
| | | Foreign ownership (FRO) | Percentage of Total Shares held by Foreigners | - |
| Control variable | | Firm performance (ROA) | Measured by profit after tax divided by total assets | - |
| | | Firm size (FSIZE) | Measured as natural log of total assets | + |
| | | Firm growth (FG) | Measured as changes in sales figures | - |
| | | Leverage (LEV) | Measured as total debt to total assets | - |

**Source: Author's compilation, 2017**

**Model Specification**

The model for this study was as follows:

$DAC_{it} = \beta_{0it} + \beta_1 INO_{it} + \beta_2 INSO_{it} + \beta_3 BLOCK_{it} + \beta_4 FRO_{it} + \varepsilon_{it}$

Control variables were therefore introduced into the model as given below:

$DAC_{it} = \beta_{0it} + \beta_1 INO_{it} + \beta_2 INSO_{it} + \beta_3 BLOCK_{it} + \beta_4 FRO_{it} + \beta_5 PROF_{it} + \beta_6 FSIZE_{it} + \beta_7 FGROWTH_{it} + \beta_8 LEV_{it} + \varepsilon_{it}$

where:

DAC = Discretionary Accruals
INO = Insider Ownership
INSO = Institutional Ownership
BLOCK = Block-Holder Ownership
FRO = Foreign Ownership
PROF = Firm Performance
FSIZE = Firm Size
FGROWTH = Firm Growth
LEV = Leverage
$\beta_1 - \beta_8$ = Coefficient of explanatory variables
$\beta o$ = Constant or Intercept **(constant value of earnings management in the presence of ownership structure)**
**$e_{it}$ = the residual or error term**

**RESULTS DISCUSSION**

This chapter contained data presentation, analysis, and discussion of results in line with the study objectives. It therefore revolves around analysis of descriptive statistics, correlation matrix and regression results. These are presented below:

**Table 4.1: Descriptive Statistics**

| Variable | Min | Max | Mean | Std Dev | Observation |
|---|---|---|---|---|---|
| DA | -0.718 | 0.412 | -0.055 | 0.235 | 63 |
| INO | 0.004 | 0.788 | 0.181 | 0.238 | 63 |
| INSO | 0.003 | 0.416 | 0.376 | 0.153 | 63 |
| BLOCK | 0.056 | 0.967 | 0.508 | 0.260 | 63 |
| FRO | 0.000 | 0.743 | 0.272 | 0.261 | 63 |
| ROA | -0.776 | 0.462 | 0.150 | 0.174 | 63 |
| FSIZE | 6.947 | 9.586 | 7.899 | 0.649 | 63 |
| FGROWTH | -0.890 | 1.783 | 0.081 | 0.435 | 63 |
| LEV | 0.058 | 1.657 | 0.782 | 0.843 | 63 |

**Source: Output from EViews 8**

Table 2 shows a detailed result of the descriptive statistics for both the dependent and independent variables respectively (DA = Discretionary Accruals, INO = Insider Ownership, INSO = Institutional Ownership, BLOCK = Block-holders' Ownership, FRO = Foreign Ownership, ROA = Firm Performance, FSIZE = Firm Size, FGROWTH = Firm Growth, LEV = Leverage). The above descriptive statistics results show that discretionary accruals (DA) have a mean value of -0.055 and a variation of **0.235**. This suggests a very minimal DA for the sample companies under the study period as shown by the low magnitude of earnings management.

The ownership variable of INO has a minimum value of 0.004, while the maximum value is 0.788, which indicates that for every earning manipulation, there is at least one manager on the team. The mean value is 0.181 with a deviation of 0.238. This indicates that, on the average 18.1% of the sampled companies engaged in earnings management activities, which are explained by the INO. The variation of 23.8% from the mean indicates the cluster nature of the sampled companies.

The minimum value of INSO is 0.003, while the maximum value is 0.416. The average value of the institutional ownership is 0.376 with a variation of 0.530. This indicates that, on average, there is 37.6% prevalence of earnings management among the companies under investigation. The variation from this mean further implies that only 15.3% of the sampled population differs from the entire population in earnings management with little or no minimum occurrences and the highest prevalence of earnings management at 41.6%.

Another ownership variable, BLOCK, shows a minimum value of 0.056 and a maximum value of 0.967, which implies that the maximum disposition of blockholding to earnings management of listed oil marketing companies in Nigeria is 96.7%. The mean value is 0.508 with a variation of 0.260. This indicates that BLOCK variable has an average occurrence of 50.8% among the sampled companies with a variability of 26.0%. This high variation from the mean indicates that there are differences in earnings management approaches affected by blockholding ownership of oil marketing companies in Nigeria.

Foreign ownership (FRO) has a minimum value of 0.000 and a maximum value of 0.743. The mean value is 0.272 with standard deviation of 0.261, which is below the mean reflecting low level of variability in the foreign ownership of the companies under study.

The minimum value of ROA for the companies is -0.776. The maximum value of ROA is 0.462, representing the maximum rate of return realised from assets utilized by the listed oil marketing companies in Nigeria. The mean value of 0.150 suggests that on average, the studied companies realize about 0.15 from utilization of their assets. The standard deviation of ROA is 0.174 which is far from the mean, denoting variability in the return on assets of the companies under study.

The minimum value of firm size (FSIZE) is 6.947, while its maximum value is 9.586. Average size of the firm is 7.899 as represented by the mean. The standard deviation for FSIZE is 0.649, which is far below the mean, indicating very low level of variability in the size of the companies under study.

FGROWTH has a minimum value of -0.890 which represents instances of decline in company growth caused by decrease in sales while the highest level of growth reported by the companies is 1.783. On average, the companies under study grow by 0.081 (that is 8.1%) with variability rate of 0.435 which is below the mean, signifying low level of variability in the pattern of the companies under study.

The minimum value of LEV is 0.058, while the maximum value is 1.657, which is an instance of high leverage. The mean value is 0.482 with standard deviation of 0.782, which is above the mean reflecting high level of variability in the leverage of the companies under study.

In addition to the nature of data analysed above, it is essential that the correlation among variables of the study be analysed as presented in table 4.2 below.

**Correlation Matrix**

Table 4.2 below contains correlation values between dependent and independent variables as well as between independent variables themselves. The values are obtained from Pearson Correlation as presented below.

**Table 4.2: Correlation Matrix of the Dependent and Independent Variables**

| Correlation | DA | INO | INSO | BLOCK | FRO | ROA | FSIZE | FGROWTH | LEV |
|---|---|---|---|---|---|---|---|---|---|
| DA | 1.000 | | | | | | | | |
| INO | 0.193 | 1.000 | | | | | | | |
| INSO | -0.065 | 0.135 | 1.000 | | | | | | |
| BLOCK | -0.038 | 0.802 | -0.067 | 1.000 | | | | | |
| FRO | -0.176 | -0.520 | 0.292 | 0.261 | 1.000 | | | | |
| ROA | 0.297 | 0.126 | -0.003 | 0.088 | 0.078 | 1.000 | | | |
| FSIZE | 0.060 | -0.199 | 0.161 | -0.053 | -0.069 | -0.199 | 1.000 | | |
| FGROWTH | 0.285 | 0.062 | -0.136 | -0.013 | -0.081 | 0.358 | -0.313 | 1.000 | |
| LEV | -0.121 | 0.215 | 0.063 | 0.115 | 0.186 | -0.184 | -0.159 | 0.015 | 1.000 |

***Source: Eview Output Result***

Again, in terms of the association among the independent variables, the table indicates variables with higher correlation above 0.50, which are BLOCK and INO (0.8021), FRO and INO (-0.5208), which suggest the presence of multicollinearity. However, the correlation among the other variables is relatively low, which suggests that there is no presence of multicollinearity. Despite this result, the threat is considered not too grievous because the correlations between the independent variables were mostly positive.

**Regression Results**

This section presented the regression result of the dependent variable (Earnings Management (DA)) and the independent variables of the study (insider ownership, institutional ownership, block holdings and foreign ownership and also the control variables which are firm size, firm performance, firm growth and leverage). It follows with analysis of the association between dependent variable and each independent variable. The summary of the regression result obtained from the model of the study ($DAC_{it} = \beta_{0it} + \beta_1 INO_{it} + \beta_2 INSO_{it} + \beta_3 BLOCK_{it} + \beta_4 FRO_{it} + \beta_5 PROF_{it} + \beta_6 FSIZE_{it} + \beta_7 FGROWTH_{it} + \beta_8 LEV_{it} + \varepsilon_{it}$) is presented in Table 4.3 below.

**Table 4.3Regression Results (Fixed Effect Model)**

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|---|---|---|---|---|
| C | -1.528 | 1.365 | -1.119 | 0.269 |
| INO | 0.649 | 0.262 | 2.471 | 0.017 |
| INSO | -0.037 | 0.060 | -0.620 | 0.539 |
| BLOCK | -0.312 | 0.122 | -2.565 | 0.012 |
| FRO | -0.238 | 0.107 | -2.228 | 0.023 |
| ROA | 0.134 | 0.205 | 0.652 | 0.518 |
| FSIZE | 0.198 | 0.092 | 2.150 | 0.027 |
| FGROWTH | 0.117 | 0.045 | 2.629 | 0.011 |
| LEV | -0.012 | 0.006 | -2.163 | 0.031 |
| R-squared | 0.446 | | | |
| Adjusted R-squared | 0.254 | | | |
| F-statistic | 2.316 | | | |
| Prob(F-statistic) | 0.013 | | | |
| Durbin-Watson stat | 2.546 | | | |

***Source: Eview 8 output result***

Table 5 shows the overall adjusted coefficient of multiple determination ($R^2$) of 0.254 gives the proportion of the total variation in the dependent variable explained by the explanatory variables. Hence, it signified that more than 25% of the total variation in earnings management of listed oil marketing companies in Nigeria was caused by the proportions of insider ownership, institutional ownership, block-holder ownership, foreign ownership, total asset, performance, changes in sales and the level of leverage. This can be confirmed by the value of F-statistics of 2.32 (p=0.01) significant at 5% level of significance. This implies that the explanatory variables included in the model of the study are sufficient to explain the relationship between ownership structure and earnings management of listed oil marketing companies in Nigeria. The Durbin-Watson statistics of 2.55 implies absence of auto-correlation problem within the study period.

Also, the table shows the coefficients of all the

variables captured in the model. The coefficients signify the linear relationship between each independent variable and the dependent variable. Based on the result shown in the table, the coefficient of insider ownership (INO) is .649 which implies that INO has positive relationship with earnings management. This also implies that for every one point increase in insider ownership will bring about .649 increase in earnings management of the listed oil marketing companies in Nigeria. This is reaffirmed by the t-statistic of 2.47 and p-value of .017 which is significant at 5%. This signifies that there is a positive and significant relationship between insider ownership and earnings management of listed oil marketing companies in Nigeria during the study period.

The coefficient value of institutional ownership (INSO) is -0.037 which indicates that there is a negative relationship between INSO and earnings management of listed oil marketing companies in Nigeria. This also implies that for every one point increase in the institutional ownership of the firms, earnings management will mildly decrease by .037. This relationship is however not significant as the t-statistic is -0.620 with p-value of .539, which is insignificant. This implies that institutional ownership has negative and insignificant influence on earnings management of listed oil marketing companies in Nigeria.

Block-holding ownership (BLOCK) has coefficient of -0.312 which indicates that there is a negative relationship between BLOCK and earnings management of listed oil marketing companies in Nigeria. This also implies that when there is a one point increase in blockholding ownership, the earnings management of listed oil marketing companies will decrease by .312. The level of significance of this relationship can be ascertained from the t-statistic of -2.565 whose p-value is 0.012 is significant at 5%. Based on this evidence, it can be concluded that there is a significant relationship between BLOCK and earnings management of listed oil marketing companies in Nigeria.

The coefficient of foreign ownership (FRO) is -0.238 which indicates that there is a negative relationship between FRO and earnings management of listed oil marketing companies in Nigeria. This also implies that for every one point increase in the FRO of the firms, the earnings management of the listed oil marketing companies in Nigeria will decrease by 0.24. This relationship is affirmed by the t-value of -2.228 with p-value of 0.02 which is significant at 5%. This suggests that there is a significant relationship between foreign ownership and earnings management of listed oil marketing companies in Nigeria.

The coefficient value of firm performance (ROA) is .133 which indicates that there is a positive relationship between ROA and earnings management of listed oil marketing companies in Nigeria. This also implies that for every one point increase in the performance of the firms, earnings management will increase by .133. This relationship is however insignificant as the t-statistic is .652 with p-value of .518, which is insignificant. This implies that firm performance has positive and insignificant influence on earnings management of listed oil marketing companies in Nigeria.

Firm size (FSIZE) has coefficient of .198 which indicates that there is a positive relationship between FSIZE and earnings management of listed oil marketing companies in Nigeria. This also implies that when there is a one point increase

in firm size, the earnings management of listed oil marketing companies will increase by .198. The level of significance of this relationship can be ascertained from the t-statistic of 2.150 whose p-value is .027 is significant at 5%. Based on this evidence, it can be concluded that there is a significant relationship between FSIZE and earnings management of listed oil marketing companies in Nigeria.

The coefficient value of firm growth (FGROWTH) is .117 which indicates that there is a positive relationship between FGROWTH and earnings management of listed oil marketing companies in Nigeria. This also implies that for every one point increase in the performance of the firms, earnings management will increase by .117. The level of significance of this relationship can be ascertained from the t-statistic of 2.629 whose p-value is .011 is significant. Based on this evidence, it can be concluded that there is a significant relationship between FGROWTH and earnings management of listed oil marketing companies in Nigeria.

The coefficient of leverage (LEV) is -0.012 which implies that LEV has negative relationship with earnings management. This also implies that for every one point increase in leverage will bring about .012 decrease in earnings management of the listed oil marketing companies in Nigeria. This is reaffirmed by the t-statistic of -2.163 and p-value of .030 which is significant at 5%. This signifies that there is a negative and significant relationship between leverage and earnings management of listed oil marketing companies in Nigeria during the study period.

**Summary Findings**

From the findings and results, it shows that insider ownership, block-holding and foreign ownership have a significant relationship with earnings management of listed oil marketing companies in Nigeria, while institutional ownership have no significant relationship with earnings management of listed oil marketing companies in Nigeria.

## CONCLUSION AND RECOMMENDATIONS

**Conclusion**

The following conclusions can be drawn from findings of the study:

The positive influence of insider ownership on earnings management which may increase earnings management of listed oil marketing companies in Nigeria is supported by the entrenchment hypothesis. Therefore, the study concluded that insider ownership has effect on earnings management of listed Oil marketing companies in Nigeria. Also, the negative effects of institutional ownership, blockholding ownership and foreign ownership on earnings management proved that these investors have superior knowledge, expertise and experience to monitor the management.

Overall, the results showed that ownership structure influences earnings management of listed Oil marketing companies except for Institutional ownership found to have no significant effect on earnings management. On the whole, the study concludes that Ownership structure has significantly reduced the opportunistic behaviours of managers except for Insider and Institutional ownership that were found to be significantly positive and insignificant respectively.

**Recommendations**

The following recommendations are proffered for consideration by stakeholders:

i. From the findings of this study, the following recommendations were deemed necessary for

consideration by the Nigerian Securities and Exchange Commission (SEC):

i. The managers in companies should not control up to 50% or more in shares allotment as it gives them a great deal of power and control over other shareholders, which may be responsible for the opportunistic behaviours exhibited by the managers in a bid to get short-term private gains.

ii. The institutional ownership has been identified to be an important monitoring mechanism in developed economies, but lack such prowess in a developing country like Nigeria as proven by the findings in this study that institutional investors in Oil marketing companies have no significant influence on earnings management. Thus, the premise for this should be improved so as to be found in their traditional role of monitoring earnings management.

iii. Firms should be encouraged to maintain a high number of block-holders' ownership as the blockholding ownership is a powerful and the most reliable ownership structure in preventing management's tendencies for opportunistic behaviour (earnings management).

Foreign ownership is another ownership structure that has been found to decrease earnings manipulation by management. Therefore, more of the foreigners should be allowed to have more investment interest especially in the listed oil marketing companies.

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