Journal of Internet Banking and Commerce

An open access Internet journal (http://www.icommercecentral.com)

Journal of Internet Banking and Commerce, May 2017, vol. 22, no. S8

Special Issue: Mobile banking: A service provider perspective
Edited By: Mihail N. Dudin

OWNERSHIP STRUCTURE AND EARNINGS MANAGEMENT PRACTICES OF NIGERIAN COMPANIES

OBIGBEMI IMOLEAYO F

Department of Accounting, Covenant University, Canaanland, Ota, Ogun State, Nigeria

Tel: 08035939951;

Email: **imole.obigbemi@covenantuniversity.edu.ng**

OMOLEHINWA EDDY O

Department of Accounting, University of Lagos, Akoka, Yaba, Nigeria

MUKORO DICK OLUKU

Department of Accounting, Covenant University, Ota, Ogun State, Nigeria

Abstract

The ownership of a business is a major factor in its survival and progress rate. It is assumed that the going concern nature of a business depends solely on its ownership structure which may also be determined by its size and capital base. Reviewing the financial reports of 137 sampled companies, this study examined the role of ownership structure on earnings management practices of Nigerian companies. Earnings management was measured using the magnitude of the discretionary accruals. The study tested the effect of ownership structure on earnings management. The OLS

regression technique was used to measure the research model as well as the Pearson Moment Correlation Coefficient. The study shows that ownership structure has a significant relationship with earnings management practices in Nigeria. It further revealed that there is a positive significant relationship between management ownership and family ownership with earnings management. Also, there is a negative significant relationship between block ownership with earnings management practices in Nigeria. This study recommends that business regulators at all levels should monitor the ownership structure of companies operating in Nigeria.

Keywords: **Earnings Management; Management Ownership; Family Business; Block Ownership**

© Obigbemi Imoleayo F, 2017

INTRODUCTION

Diverse studies have considered the role of ownership structure on firm performance both in developed and developing economies [1-5], with most of the studies identifying ownership structure as a factor influencing the performance of companies. However company performance as reported in the published financial reports can also be affected by other factors such as environmental, managerial efficiency as well as institutional framework. These other factors affect performance, What are the factors responsible for the accuracy and credibility of financial reports and what is the role of ownership structure on the earnings management practices of companies in Nigeria? Earnings management as defined is the act of identifying the gaps in the financial laws and the usage of such to the advantage of a selected group of financial report users and not to the benefit of all the users [6]. It is the process of presenting the financial reports of companies as expected and not as it is. It is the use of devious actions by those saddled with the responsibility of preparing the financial reports which may be at the expense of the other stakeholders [7]. One example of management's deviation from shareholders' interests is the management of earnings with the use of accounting accruals [7-9]. The Nigerian code of corporate governance was published in 2003, with the assumption that adherence to the contents of the code will increase the confidence placed on the economy by both local and foreign investors [10]. It was also assumed that an increase the credibility of the financial reports of Nigerian companies, which will thereafter translate into increase in foreign investment [11].

The Nigerian code of corporate governance in an attempt to reduce the power the board of directors has on the company states that all stakeholders should have equal information about the financial wellbeing of the company they have interest in. It was also stated that the shareholdings of the members of the board should be adequately disclosed in the published financial reports [12]. The code further stated that there must be a representative of the minority shareholders on the board, which is to ensure that the operations of the board and the decision making process is not left in the hands of few individuals. However, studies have identified that ownership structure of companies is a major tool in ensuring good corporate governance [7,13].

Corporate governance has been attributed as a tool for reducing earnings management practices in Nigeria [6], then what is the effect of ownership structure, which is a component of corporate governance on earnings management practices of Nigerian companies?

REVIEW OF LITERATURE

Ownership Structure and Good Corporate Governance

Concentration of ownership or ownership structure refers to the proportion of share ownership by a certain number of individuals, institutions or families. It is the percentage of a company's shares owned by a certain number of institutions, individuals or families [4]. It explains the type of ownership that exists within an organisation. Ownership of a corporation may be that of family business, which is a situation in which the largest percentage of the shares is owned by individuals who are related by blood. Ownership can also be vested on members of the management team with a high percentage of the shares of the company. This type of ownership is the management ownership. Block ownership is a type of ownership with a large proportion of the shares of a company is held by an individual or an institution. The various forms of ownership have their own merits and demerits and also inform the type of operations that go on within the organisation and performance [4].

Management Ownership

This ownership system is the process by which members of the management of a company hold a large part of the shares of a company. This term is also known as insider ownership. Under this form of ownership, the owners of the company are also the managers of the company. Researchers have argued that this form of ownership has a direct impact on the performance of the company [4,14]. Though it was also noted that the activities of a business enterprise as it relates to high performance requires hard work on the part of owner-managers which in turn requires concerted energy. This therefore means personal characteristics and capacity of the owners-manager will determine the success or failure of the business enterprise. Thus, businesses with management ownership that achieve high performance within the business place greater value on hard work and personality vitality and health than owner-managers who perform low performance [14].

Corporate governance has been identified as the solution to the agency problems, and one of the agency problems has been identified as the short-term targeted profit from the management versus the long-term profit which is required by shareholders. Consequently, the separation of ownership has led to various conflicts and controversies between shareholders, stakeholders and eventually opportunistic managerial behaviour [15].

Block Ownership

Block holders are those individuals who have large proportion of a company's shares per time. The block holders have the largest proportion of the shares of a company. Research has it that block holders use accounting information for their own personal benefit [7]. Concentrated ownership, which is the act of having more than 10 percent of a company's shares in the hands of an individuals or institutions have been acknowledged to provide incentives for large shareholders to monitor management. As the ownership stake of large block holders increases, there is the incentive to increase firm performance and monitor management than other shareholders [16]. The block holders due to their interest and investment in the company are more active than other shareholders in the company, which is aimed at achieving the objective of maximizing return on investment.

Earnings Management and Ownership Structure

A look at the role of ownership structure on earnings management practices gives an insight into the expectation theory, which is what drives decisions made by individuals per time. Every investor at the point of making an investment decision has an investment objective at heart, which is principally to maximize return on investment. Return on investment can only be maximized when profit is made. However, deviation from the expected return makes the investors agitate, in a bid to protect their interest. A greater concentration of ownership in hands of major shareholders who are interested in maximizing returns on investment can lead to greater incentives for them to obtain private benefits through any means available [4]. One of the ways through which the value of a firm is maximized is through well designed ownership structure of the firm's shares. Literature has it that ownership in the hands of few can be bad for the governance of the firm since it gives the largest shareholders discretionary powers of using the firm resources to serve their own interest at the expense of other stakeholders, which is earnings management [17]. Earnings management reduces the informative value of financial statement, which is highly dependent on the incentives and motives managers have to manipulate earnings for their own personal gain [15].

METHODOLOGY

This study adopts the empirical, quantitative and analytical form of research. Earnings management was measured using the magnitude of discretionary accruals as estimated by the performance matched modified Jones model [7,9]. Performance-matched discretionary accrual measure was adopted for measuring the level of earnings management, as it is noted that it enables researchers draw more reliable inferences [7,18], while the contents of the financial reports were used to determine the ownership structure of the 137 selected companies.

With the research hypothesis as stated below:

H0: Ownership Structure of Companies does not have a significant effect on earnings management practices in Nigeria.

Using the model below:

$$EEM_{it}=\beta_0 + \beta_1 MOP_{it} + \beta_2 BlockOwn_{it} + \beta_3 FamBiz_{it} + e_i$$

Where:

EEM: Earnings Management proxied by the absolute value of the residual from the performance matched modified Jones model.
MOP: Management Ownership Percentage
BlockOwn: Block Ownership
FamBiz: Family Business
e: residual
Expected Apriori: β1, β2, β3>0.

Thus:

β1>0; implying that the higher the percentage of Management Ownership, the higher the earnings management practice,
β2>0; implying that the higher the availability of Block Ownership, the higher the earnings management practice,
β3>0; implying that the higher the percentage of Family Ownership, the higher the earnings management practice,

This expectation is based on past findings that corporate governance mechanisms should deter earnings management practices in organisations when effectively followed and strictly monitored by the regulators [7,9,19].

The frequency weight was applied using the company weight outlier as a result of varying company size, samples and characteristics. The model is significant at 1% level of significance, the regression therefore gives the result as presented [20,21].

RESULTS/FINDINGS

The result of the analyses for 137 sampled companies is as presented in Tables 1 and 2.

Table 1: Correlation Matrix.

	Dac	**Mgtown**	**blockown**	**famibiz**	**ROA**
Dac	1.0000				
Mgtown	0.0855	1.0000			
Blockown	0.0191	.01190	1.0000		
Famibiz	-0.0255	0.4845	0.0749	1.0000	
ROA	0.0339	0.0575	-0.1221	0.0947	1.0000

The correlation matrix as presented above shows that there is no high correlation between the dependent variable (Earnings Management), the independent variables and the control variable. There is low correlation between the independent variables and the control variable. Thus this is an indication that the regression for the dependent variable and the independent variables can be done. It further shows that the control variables are of good fit.

H0: Ownership Structure of Companies does not have a significant effect on earnings management practices in Nigeria

$$EEM_{it}=\beta_0 + \beta_1 MOP_{it} + \beta_2 BlockOwn_{it} + \beta_3 FamBiz_{it} + e_i$$

The model is significant at 1% level of significance, the regression therefore gives the result presented.

Table 2: Tabular Presentation of Results for Ownership Structure. Source: Research (2013).

Variables	**t-value**	**P>[t] Sig**	**Coef**	**Std. Error**
MgtOwn	55.44	0.000*	5.78e-06	1.04e-07
BlockOwn	-5.12	0.000*	-.0000315	6.14e-06
FamiBiz	1.68	0.092***	.000018	.0000107
ROA	25.48	0.000	.000865	3.39e-06
Constant	-3.16	0.002	-.0000187	5.92e-06
*Significant at 1% significant level, ***Significant at 10% significant level				

Table 2 shows that there is a positive significant relationship between percentage of Management Ownership and earnings management practices of Nigerian companies at 1% significance level. This shows that the higher the percentage of management ownership, the higher the earnings management practices of Nigerian companies.

The test also shows that there is a negative significant relationship between Block Ownership and earnings management practices of Nigerian companies at 1% significant level. This shows that the higher the block ownership, the lower the earnings management practices of Nigerian companies.

The test further shows that there is a positive significant relationship between family business and earnings management practices of Nigerian companies. This result therefore shows that family owned companies are likely to engage in earnings management practices than companies that are not family owned.

Decision: With reference to the result of the test as presented above, the null hypothesis is rejected and the alternate hypothesis accepted, to conclude that Ownership Structure of Nigerian Companies have a significant effect on earnings management practices.

There is a positive significant relationship between management ownership and earnings management in Nigerian companies, which shows that companies with high

management ownership percentage have high earnings management in Nigeria. Showing that the higher the management ownership, the higher the earnings management. This can therefore be as a result of managements' strive to get more returns from their savings, which will ultimately affect the survival of the business. Family business has a positive and significant relationship with earnings management practices in Nigeria, thus the involvement of family members in a company will result in an increase in the earnings management practices of companies in Nigeria. Furthermore, there is a negative and significant relationship between block ownership and earnings management in Nigeria, therefore, the higher the block ownership, the lower the earnings management practice.

CONCLUSIONS

From the results, there is a significant relationship between management ownership of companies in Nigeria and their earnings management practices. It further concludes that there is a significant relationship between block ownership and earnings management practices of companies in Nigeria and family ownership has a significant impact of the earnings management practices of companies in Nigeria.

REFERENCES

1. Lauterbach B, Vaninsky A (1999) Ownership Structure and Firm Performance: Evidence from Israel. Journal of Management and Governance 3.
2. Demsetz H, Villalonga B (2001) Ownership structure and corporate performance. Journal of Corporate Finance 7: 209-233
3. Lee S (2008) Ownership Structure and Financial Performance: Evidence from Panel Data of South Korea. Working Paper No: 2008-17. University of Utah. Salt Lake City.
4. Meysam F, Masood F (2011) Corporate Ownership Structure and Firm Performance: Evidence from Listed Firms in Iran. International Conference on Humanities, Society and Culture (ICHSC) Kuala Lumpur, Malaysia, Available at SSRN: http://ssrn.com/abstract=2259555
5. Wahla K, Shah S, Hussain Z (2012) Impact of Ownership Structure on Firm Performance Evidence from Non-Financial Listed Companies at Karachi Stock Exchange. International Research Journal of Finance and Economics.
6. Obigbemi IF, Omolehinwa EO, Mukoro DO, Obamiro JK (2016) Corporate Governance a Tool for Curbing Earnings Management Practices in Nigeria: Preparers Perspective. Mediterranean Journal of Social Sciences 7: 34-242.
7. Murya H (2010) The Effectiveness of Corporate Governance and External Audit on Constraining Earnings Management Practice in the UK. Durham: Durham University.
8. Beaudoin CA (2008). Earnings Management: The Role of the Agency Problem and Corporate Social Responsibility. Drexel University.

9. Bugshan T (2005) Corporate governance, earnings management, and the information content of accounting earnings: Theoretical model and empirical tests. Queensland: Bond University.
10. Adegbite E (2012) Corporate governance regulation in Nigeria. Corporate Governance 12: 257-276.
11. Samaha K, Dahawy K, Hussainey K, Stapleton P (2012) The extent of corporate governance disclosure and its determinants in a developing market: The case of Egypt. Advances in Accounting, incorporating Advances in International Accounting 28: 168-178.
12. Security and Exchange Commission (2003) Code of Corporate Governance in Nigeria. Lagos: Corporate Affairs Commission.
13. OECD (2004) Principles of Corporate Governance. Paris Cedex 16, France: Organisation for Economic Co-operation and Development.
14. Simoneti M, Gregoric A (2004) Managerial ownership and corporate performance in Slovenian post-privatisation period. The European Journal of Comparative Economics 1: 217-241 .
15. Spinos E (2013) Managerial Ownership and Earnings management in times of financial Crisis: Evidence from the USA. MSc. Thesis submitted to the School of Economics, Erasmus University.
16. Lee S (2008) Ownership Structure and Financial Performance: Evidence from Panel Data of South Korea. Department of Economics working paper series. Working Paper No: 2008-17.
17. Long J, Li Y, Xu X, Fu L (2011) Does Ownership Structure Affect the Motivation of Compensation Contract of Earnings Management? From China's Data. Journal of Service Science and Management 2011: 351-356.
18. Kothari S, Leone JA, Wasley EC (2005) Performance matched discretionary accrual measures. Journal of Accounting and Economics 39: 163-197.
19. Bello A (2011) Corporate governance and accounting ethics in Nigeria. International Conference on Management (ICM 2011) Proceeding. pp: 1591-1608.
20. Chen L (2012) The Effect of Ownership Structure on Firm Performance Evidence from Non-financial Listed Companies in Scandinavia. Thesis Aarhus School of Business. Aarhus University.
21. Panayotis K, Sophia L (2006) Corporate ownership structure and firm performance: Evidence from Greekfirms. Bank of Greece Economic Research Department – Special Studies Division. Working Paper.