



# OWNERSHIP STRUCTURE AND EARNINGS MANAGEMENT OF QUOTED MANUFACTURING COMPANIES IN NIGERIA

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## -----ABSTRACT-----

The purpose of this research was to interrogate the association among ownership framework and earnings management of manufacturing firms in Nigeria. This research used panel data regression to evaluate two hypotheses on how block holder ownership and controlling ownership affect earnings management. Using ex-post facto research, data were obtained from the financial statements of sampled 11 household goods manufacturing enterprises quoted on the Nigerian Exchange Group from 2013 and 2022. Findings from the study indicated that both block holder ownership and controlling ownership will decrease the incidence of earnings management activities between Nigerian manufacturing companies. The report therefore, recommended that companies should endeavour to improve block holder ownership and controlling ownership structure in order to strengthen the monitoring system that might impose restrictions on the administration of profits.

**KEYWORDS:** Ownership structure, Block holder ownership, Controlling ownership, Earnings management.

## 1. INTRODUCTION

The Institute of Chartered Accountants of Nigeria (ICAN, 2014) reports that the aim of general purpose financial reporting (GPFR) is to provide useful, relevant and timely information about a reporting organization to investors, creditors and others so as to enable them make informed decisions (Ekpulu & Omoye, 2018). However in recent times, according to Farouk and Bashir (2017), the objective of the (GPFR) has been defeated, as there are now doubts about the reliability and relevance of this objective due to the activities of the agents of the reporting organizations (that is, directors and managers) who tend to distort the true content of the financial statements by exercising judgment when it pertains to financial reporting and manipulating financial activities to make them appear as though the company is performing better economically than it actually is, or by trying to sway contractual agreements that might be based on the reported accounting data. Needless to say that this activity of agents, which is referred to as earnings management, has an effect (which could be positive or negative, depending on the side of the coin one may be considering it from) on the information contents of such reported financial statements, and this has put earnings management in the eye of the storm among academic scholars and researchers. Although it is not an entirely new concept, as it was a notable subjects in corporate finance and governance in early 1980s, earnings management became a truly recognized concept both nationally and internationally as a foremost obstacle bedeviling financial reporting by the early 1990s (Ekpulu & Omoye, 2018).

On one hand, earnings management is considered to be legal if an entity makes adjustments in earnings disclosed according to generally acceptable accounting principles (GAAP) guidelines and standards. Nevertheless, earnings management may be considered to be fraudulent and illegal if adjustments are made without complying with GAAP guidelines and accounting standards (Aygun et al., 2014). Although, manipulation of an entity's disclosed financial statement can be done through earnings management so as to give shareholders a wrong impression of the financial position and state of affairs of the organization and to impact contractual incentive that is dependent on accounting profits, a way to control the endeavours of managing earnings is through ownership structure. It has therefore become expedient for managers/ directors of companies to ensure that they increase shareholders' value through the disclosure



of accurate, transparent and reliable financial statements (Aygün, et al., 2014). This goes without saying that well-established corporate ownership structures have the tendency to decrease earnings manipulations.

Considering the relative importance of ownership framework of an enterprise in effectively reducing the probability of managing earnings. It has been contended that developing an appropriate ownership structure is an effective way of reducing fraudulent financial reporting. Similarly, there are suggestions from available literature that ownership structure has the dual effect of reducing the motivation to manage earnings and creating possibilities and rewards for earnings manipulation (Bawa & Isah, 2018). Hence, if earnings are to remain important, then it would be imperative to put in place measures that can enhance the act of reporting quality earnings, of which ownership structure as a governance mechanism appears as a means of enhancing the quality of accounting information (Ali-Momoh & Ahmed, 2022).

The intricate interplay between the configuration of ownership and the practice of earnings management has persistently engendered a discourse of considerable magnitude. The Nigerian corporate sector, specifically the banking industry, has witnessed a multitude of occurrences pertaining to earnings management. The aforementioned instances have given rise to apprehensions surrounding the moral comportment of managerial personnel and the veracity of financial statements formulated by proficient accountants (Ali-Momoh & Ahmed, 2022). Despite the extensive body of research conducted on the intricate interplay among ownership arrangement and the practice of earnings management, a definitive consensus regarding the nature of this relationship and the consequent outcome of ownership arrangement on how earnings are managed remains elusive. Despite the seemingly daunting threat posed by earnings management, especially in relation to quality of financial reporting in Nigerian companies, a permanent solution to this menace still seems to be elusive as earnings management has been a recurring unpleasant decimal in the academic world. It is in view of this that this study intends to interrogate how ownership structure can help to nip in the bud the issue of earnings management in Nigerian companies. Needless to say that quite a good number of researchers have conducted research on the outcome of ownership arrangement on the management of earnings both within and outside Nigeria. However, only a few researchers have carried out studies using variables of ownership framework such as block holder ownership and controlling ownership ((Wati & Gultom, 2022; Alexander, 2019; Racha & Demyana, 2019; Isenmila & Elijah, 2018). In addition, only a few have equally conducted studies on this issue with respect to the manufacturing sector of the Nigerian economy (Bingilar & Bariweni, 2020; Ali-momoh & Ahmed, 2022). Therefore, interrogating the outcome of block holder ownership and controlling ownership on management of earnings of registered Nigerian industrial companies is the focus of this study. It is on this basis that hypotheses are expressed and interrogated.

The subsequent segments of this composition encompass the following: an extensive examination of existing literature; a meticulous exposition of the chosen methodology; a comprehensive analysis and discourse of the obtained results; and a succinct synthesis of the findings culminating in insightful recommendations.

## 2. LITERATURE REVIEW

### Concept of Ownership Structure

Wati and Gultom (2022) note that ownership framework can be regarded as a crucial aspect of internal control that deals with how a company's capital is reallocated in several entities. To Shittu et al. (2022), ownership structure is seen as a part of the ordinary shares of a company held by different parties such as promoters of a business, private corporations, public corporations, individual and foreign investors. In a similar vein, Farouk and Bashir (2017) views ownership framework as a fraction of the ordinary shares of a company held by diverse individuals. The aforementioned entities are commonly referred to as the proprietors of the corporate entity, also known as shareholders. Consequently, the configuration of ownership within a given organisation varies from that of another organisation due to disparities in legal frameworks, environmental stability, regulatory frameworks, and economies of scale, among other factors. According to the scholarly perspective put forth by Ganiyu and Araoye (2022), the concept of ownership framework pertains to the proportional distribution of a firm's shares among various entities, including institutional bodies, individuals, or familial units. According to the research conducted by Racha and Demyana (2019), it has been suggested that the mechanism of a firm's ownership framework may play a noteworthy part in mitigating the probability of engaging in management of earnings. The authors express their viewpoint on the significance of ownership structure, asserting that it holds a pivotal position in shaping corporate dividend policies



and mitigating agency conflicts. As per the findings of Osemene et al. (2018), it has been observed that the ownership structure of diverse forms and magnitudes possesses a discernible capacity to exert influence on the practice of earnings management, albeit in varying manners. In Nigeria, it is pertinent to note that the ownership structure of a firm encompasses various forms, namely private (family), institutional, block, free float, managerial, controlling, and foreign. Nevertheless, according to the scholarly work conducted by Ekpulu and Omoye (2018), it is posited that the ownership framework of a corporation can be grouped into two discernible forms. These forms encompass the allocation of shares held by individuals within the organisation and those held by external entities. Additionally, the ownership framework can also be delineated by the distribution of shares between institutional shareholders and individual shareholders. Likewise, there are two prevailing schools of thought pertaining to the establishment of an efficacious ownership framework. The initial category comprises individuals occupying managerial or directorial positions within the organisation who concurrently assume the role of shareholders, provided they possess a substantial stake in the company's shares. The second scenario arises when non-managerial shareholders amass a substantial portion of the company's shares, thereby granting them increased influence and motivation to scrutinise managerial actions. This dynamic serves to diminish the likelihood of earnings manipulation.

A further analysis of the opinion of Ekpulu and Omoye (2018) relating to the types of ownership structure reveals that ownership structure can be further categorized into the following: family ownership, institutional ownership, blockholder ownership, foreign ownership, managerial ownership, individual ownership, government ownership and controlling ownership (Wati & Gultom, 2022). In essence, these particular forms of ownership structure exhibit a proclivity towards overseeing managerial endeavours, including the intricate task of formulating financial statements, thereby causing in a discernible decrease in the activity of managing earnings. However, the focus of this study is on block holder ownership and controlling ownership as the variables of ownership structure to be discussed.

#### ***Block holder Ownership***

Nguyen et al. (2020) define block holder ownership as the number of shares owned by individuals who are not family members. Its measurement is the sum of ownership shares by block holders divided by the total outstanding shares. To Racha and Demyana (2019), block holder ownership can be described as the type of ownership structure where outsiders (external shareholders) own a considerable number of shares. To them, block holder ownership is ascertained by counting owners/investors with the large block of shares (5%) in an organization.

#### ***Controlling Ownership***

According to Alexander (2019), the concept of controlling ownership pertains to those stakeholders who possess the predominant proportion of shares within a given company. Controlling shareholders adeptly leverage financial information to their advantage, exhibiting heightened involvement in the company's affairs, all in pursuit of their overarching goal of optimising their investment returns. Controlling shareholders adeptly leverage their substantial sway over management to cunningly modify the accounting information (Alexander, 2019).

#### **Earnings Management**

Numerous elucidations have been proffered pertaining to the concept of earnings management. One of the delineations posits that it constitutes a deliberate intercession in the extrinsic fiscal disclosure procedure with the aim of procuring personal advantage (Racha & Demyana, 2019). An alternative interpretation posited by Saleem (2016) posits that earnings management entails the exercise of managerial discretion in the realm of financial reporting and transaction structuring. This exercise is undertaken with the aim of altering financial statements in a manner that either deceives stakeholders regarding the fundamental economic viability of the organisation or exerts effect over contractual consequences contingent upon reported accounting figures. As posited by Farouk and Bashir (2017), the concept of earnings management can be elucidated as a deliberate endeavour undertaken by managers to exert influence over the disclosed earnings through the strategic utilisation of particular accounting techniques, thereby effectuating alterations that align with their individual interests. Alexander (2019) states that earnings management can be regarded as a practice in which managers/ directors of an organization compile transactions in financial statements in such a way as to misguide stakeholders, thereby bringing about nonconformities from the corporation's actual financial performance. Nevertheless, it is imperative to acknowledge that earnings management can also be delineated as a deliberate undertaking, executed within the confines of GAAPs, with the intention of attaining a predetermined magnitude of disclosed income (Parveen et al., 2016).



Wati and Gultom (2022) elucidate that a multitude of factors may precipitate the adoption of earnings management practices, encompassing the circumvention of debt obligations, manipulation of stock valuations, and the fulfilment of analysts' prognostications. The prevalent *modus operandi* of earnings management nonetheless resides in the alteration of accounting methodologies and policies. According to the scholarly work of Ekpulu and Omoye (2018), the concept of earnings management encompasses two distinct components, namely accounting earnings management and real earnings management. Accounting earnings management (AEM) encompasses the strategic application of accounting standards to accurately document and capture various transactions and events, while real earnings management (REM) pertains to the deliberate manipulation of the timing or structure of tangible transactions in order to influence financial outcomes. Accounting decisions have a discernible impact on the realm of asset efficiency management (AEM), whereas the realm of revenue efficiency management (REM) is subject to the influence of choices pertaining to cash flow.

## **THEORETICAL FRAMEWORK**

### **Agency Theory**

The foundation of this study is firmly rooted in the esteemed agency theory, a widely recognised and frequently cited framework within the realm of management science. The concept of agency theory was initially posited by Ross in 1973 and afterward stretched upon by Jensen and Meckling in 1976. The concept of agency theory posits that an organisation can be perceived as a complex web of contractual agreements, both explicit and implicit, involving multiple stakeholders. The occurrence of agency problems is a direct consequence of the misalignment between the objectives of agents and their principals, stemming from the inherent division between management and ownership. Hence, the act of earnings management can be interpreted as a manifestation of the presence of agency dilemmas. In accordance with the tenets of agency theory, it is posited that the agent, in their capacity as a manager, consistently endeavours to pursue their individual objectives to the detriment of the principal. This implies that managers are primarily driven by their personal motivations and gains, prioritising the maximisation of their own advantages over the consideration of shareholders' interests and the optimisation of shareholders' wealth. Henceforth, it is imperative to establish more robust systems of surveillance and regulation that facilitate the alignment of managerial conduct with the welfare of shareholders, rather than solely prioritising their own self-interests. This measure is essential in mitigating the inherent challenges posed by the agency problem.

There exist two distinct forms of ownership structures. In addition to their roles as insiders or managers, individuals who possess shares in a company may also assume the position of shareholder. Furthermore, it is imperative to acknowledge that external entities, such as the principal stakeholders who possess a significant proportion of the company's shares, wield a greater degree of influence and possess a heightened incentive to diligently monitor the activities of the management, particularly with regards to the intricate domain of financial reporting. This phenomenon engenders a diminished probability of earnings manipulation and, concomitantly, enhances the calibre of earnings. The postulation regarding self-interest inherently predisposes agency theory to inescapable internal conflicts. Hence, given the underlying motivation of self-interest driving both parties, it is highly likely that agents will pursue targets aligned with their own self-interested pursuits, often deviating from and even conflicting with the objectives set forth by the principal. Consequently, this gives rise to the need for effective management of agency costs. Therefore, it can be postulated that the ownership structure is anticipated to exhibit a favourable correlation with the implementation of earnings management practices. Numerous scholarly investigations posit that the configuration of corporate ownership holds considerable potential as a monitoring mechanism for managerial activities. Consequently, it assumes a pivotal position in curbing the pervasiveness of earnings management practices within organisations.

### **Entrenchment /Expropriation Theory**

The entrenchment theory emerges as a derivative of the agency theory, albeit with a notable distinction. While the agency theory posits that the agent, operating within a confrontational dynamic with the shareholder, tends to engage in opportunistic conduct, the entrenchment theory perceives the agent as an individual who actively demonstrates behavioural tendencies. This theoretical framework, as posited by Kouaib and Jarboui (2014), commences by acknowledging the insufficiency of control mechanisms and incentives in effectively constraining managers to align their actions with the interests of shareholders. According to the aforementioned theory, the fundamental aims of managers revolve around rendering their potential replacement within the organisation a financially burdensome endeavour. This strategic approach enables them to augment their level of control and expand the scope of their



discretionary decision-making capabilities (Kouaib & Jarboui, 2014). The utilisation of the entrenchment sense by managers is directed towards the preservation and augmentation of managerial discretion, which may serve as evidence of their opportunistic conduct. According to the expropriation theory, the divergence of interests among managing owners and external shareholders becomes more pronounced in instances where director ownership is elevated. Increased ownership by top-level executives fosters a situation wherein these managers are inclined to prioritise their own personal interests over the objective of maximising the firm's income. Consequently, the pursuit of enhancing the company's value takes a backseat, thereby posing a threat to the long-term viability of the organisation. This observation posits the notion that corporations characterised by greater director ownership may engage in the practice of earnings management as a means to obfuscate the disclosed earnings, thereby concealing the act of expropriation from external shareholders (Ekpulu & Omoye, 2018).

### Empirical Review

The scholarly inquiry conducted by Ekpulu and Omoye (2018) sought to look at the outcome of ownership arrangement on the practice of earnings management in the Nigerian context. To achieve this goal, the researchers gathered data from secondary sources and employed a longitudinal panel design. The sample consisted of 75 publicly traded companies, and the study encompassed a time frame spanning from 2009 to 2014. Furthermore, the empirical investigation encompassed the utilisation of descriptive statistics and the application of Pearson correlation analysis. Additionally, pertinent residual diagnostic tests were also performed. The findings have revealed that there exists an unfavourable and statistically substantial association among managerial ownership and the practice of managing earnings. Also, institutional ownership and foreign ownership display a positive correlation, albeit one that lacks statistical significance. The study thus proposes that firms ought to contemplate enhancing managerial ownership through the implementation of a policy statement mandating managers and executive directors to possess a greater proportion of equity shares.

The primary objective of the research undertaken by Alexander (2019) was to comprehensively survey the outcome of ownership arrangement on the practice of managing earnings. The research encompassed a cohort of manufacturing enterprises that were duly registered on the Indonesian Stock Exchange (IDX) during the period spanning from 2014 to 2016. The study employed a triennial timeframe encompassing three consecutive years while incorporating novel variables that had not been previously utilised in existing study. The selection of the research sample was conducted using a purposive sampling technique. The hypothesis was subjected to rigorous examination through the utilisation of multiple regression analyses employing the esteemed E-View software programme. This analytical approach was employed to explore and ascertain the potential influence of each independent variable on the intricate phenomenon of earnings management. The empirical findings have elucidated that earnings management is significantly influenced by institutional ownership, controlling ownership, and foreign ownership. However, it has been observed that managerial ownership does not exert any discernible impact on earnings management. Henceforth, it has been posited that corporations ought to embrace the concept of foreign ownership, as it would serve to mitigate the prevalence of earnings management practices within said corporations.

The primary aim of the research carried out by Racha and Demyana (2019) was to delve into the intricate interconnections among ownership arrangement and the practice of managing earnings within the context of Egyptian companies. The evaluation of discretionary accruals utilising the modified Jones model was undertaken in order to ascertain the degree of earnings management. The study utilised a representative sample of 50 companies that were publicly traded on the Egyptian stock market over a span of twelve years, specifically from 2004 to 2015. The financial statements of these companies during the aforementioned period were the primary source of data for the study. The measurement of ownership structure in terms of concentration involves the consideration of three key indicators: blockholder ownership, managerial ownership, and public ownership. Additionally, a range of control variables, including return on assets, firm size, firm age, debt ratio, and market to book value, were taken into account. The empirical findings suggest a significant correlation between blockholder ownership and the extent of earnings management. Nevertheless, a lack of correlation was observed between the degree of managerial ownership and public ownership in relation to the extent of earnings management. Hence, it has been proposed that the organisational framework for company ownership in Egypt ought to be oriented towards block ownership as a means to mitigate the prevalence of earnings management practices.



The scholarly inquiry conducted by Bingilar and Bariweni (2020) delved into the intricate dynamics surrounding the impact of company control mechanisms and ownership arrangement on the practice of earnings management within the realm of industrial firms situated in Nigeria. The research used an ex-post facto design, wherein data was obtained from the annual accounts of 15 industrial corporations quoted on the Nigeria Stock Exchange from 2009 to 2019. The (OLS) regression methodology was used for the purpose of conducting data analyses. The research findings have elucidated a discernible inverse correlation among board composition (BCOM) and discretionary accruals (DSAC) within the context of manufacturing enterprises operating in Nigeria. The audit committee (AUDC) exhibited an inverse correlation with discretionary accruals (DSAC) as well. Nevertheless, it is worth noting that there exists a positive correlation between discretionary accruals (DSAC) and ownership concentration (OWNC). It was therefore deduced that the establishment of a board of directors comprising a substantial proportion of independent members would effectively mitigate the occurrence of earnings manipulation. In light of the prevailing circumstances, it is imperative to acknowledge that the implementation of dispersed ownership, as a countermeasure to the concentration of firm ownership in the hands of a select few individuals, would undeniably enhance the efficacy of earnings management activities. Henceforth, it is imperative to enact regulations that possess the capacity to foster enhanced corporate governance mechanisms.

In their empirical investigation, Wati and Gultom (2022) sought to ascertain the potential impact of ownership arrangement on earnings management. To realize this goal, the researchers incorporated a range of control variables, namely leverage, company size, profitability, and company growth. Notably, all forms of company ownership were considered independent variables in their analysis. The study employed a research design characterised as comparative causal research, a methodological approach aimed at discerning a causal connection among the independent variables denoted by the ownership framework and the dependent variable denoted by earnings management. The purposive sampling technique was employed to facilitate the meticulous selection of research samples. The research subjects, in this case, were limited to non-financial entities that were publicly listed on the esteemed Indonesia Stock Exchange during the period spanning from 2016 to 2019. The quantification of earnings management was conducted through the utilisation of discretionary accruals, employing the esteemed Modified Jones Model. Furthermore, the assessment of the ownership structure was executed by determining the proportionate ownership of shares held by each individual or entity within the organisation. The findings derived from the conducted research have revealed that the ownership structure in Indonesia does not exert a substantial influence on the practice of earnings management. However, it is worth noting that factors such as leverage, company size, and company growth demonstrate a noteworthy and positive impact on the aforementioned practice. Henceforth, it has been proposed that enterprises ought to strive towards enhancing and fortifying the prominence of the ownership framework, thereby rendering it more lucid and advantageous for the organisation.

The research carried out by Shittu et al. (2022) delved into the intricate link among ownership arrangement and real earnings management within the context of non-financial quoted businesses in Nigeria. A total of 76 non-financial registered companies were meticulously chosen from a diverse range of ten (10) sectors, spanning an extensive period of eleven years (11) commencing in 2010 and culminating in 2020. The representation of the ownership arrangement encompassed institutional, managerial, and ownership concentration, whereas the measurement of REM was conducted utilising the model proposed by Rowchowdhury (2006). The Generalised Method of Moments estimator was employed to scrutinise the data acquired from the annual reports of specifically chosen enterprises. The empirical results indicate that there exists a discernible and noteworthy correlation between ownership concentration, institutional ownership, and the variable of interest, namely REM. Nevertheless, it is worth noting that the presence of managerial ownership does not exhibit a substantial impact during the observed timeframe. However, it does demonstrate a positive influence on REM. Therefore, the study proposes that it would be prudent to incentivize companies to uphold a substantial level of institutional and concentrated ownership. This particular ownership structure has been found to be robust and influential in deterring any proclivity towards opportunistic conduct by management.

The scholarly investigation conducted by Ganiyu and Araoye (2022) delved into the intricate association among ownership framework and the practice of earnings management within the context of publicly traded oil and gas enterprises in Nigeria. The investigation utilised the ex-post facto research methodology. The data were acquired from the annual financial reports and accounts of a carefully chosen group of eight petroleum companies that are listed on



the Nigerian Stock Exchange Market, specifically as of December 31, 2020. These records encompass the time span from 2011 to 2020. The data collected was subjected to rigorous analysis using both descriptive statistics and pooled regression. The empirical results have unveiled that the ownership structure exerts a favourable and noteworthy influence on the practice of earnings management within the realm of the publicly traded oil and gas enterprises in Nigeria. The Ordinary Least Squares (robust) analysis has demonstrated that, with the exception of the controlled variable pertaining to the size of the firm, the explanatory variables under investigation exhibit a noteworthy and positive impact on the practice of earnings management. The study's results show that the ownership framework exerts a discernible effect on the practice of earnings management. Consequently, it is advised that management be cognizant of the ownership framework when formulating policies related to earnings management, with the aim of mitigating instances of overly aggressive earnings management.

The scholarly work conducted by Ali-Momoh and Ahmed (2022) delved into the intricate association among ownership arrangement and the practice of earnings management within the context of listed firms in Nigeria. The study conducted a comprehensive analysis to investigate the intricate ramifications of foreign ownership, institutional ownership, and managerial ownership on the practice of earnings management within the Nigerian context. In addition to embracing a cross-sectional research design, the study employed panel data regression analysis, drawing extensively from secondary data. The data utilised in this analysis was derived from the yearly accounts of 30 selected corporations registered on the Nigerian Stock Exchange, spanning the period from 2001 to 2021. The analysis incorporated a variety of statistical and econometric methodologies, including the use of ordinary least squares regression. The study's findings unveiled a favourable and statistically substantial link among managerial ownership and earnings management, while foreign ownership exhibited a negative relationship with earnings management. Ultimately, it was discovered that there exists a negative correlation among institutional ownership and the practice of earnings management. However, it is important to note that this relationship did not reach statistical significance at the conventional threshold of 5%. Consequently, the study has reached the conclusion that the ownership structure of quoted companies in Nigeria exerts a favourable influence on the practice of earnings management. The study posited a recommendation advocating for an expanded scope of foreign investment, potentially accompanied by their inclusion on the board of directors. This proposition is grounded in the notion that the presence of foreign investors could act as a deterrent against managerial misconduct pertaining to the manipulation of reported earnings.

### 3. METHODOLOGY

The chosen research design for this study is ex-post facto research, as it involves the utilisation of data that has already been prepared and published from credible sources. The study encompasses the entirety of the manufacturing companies that have been cited, specifically those operating within the consumer goods sector. Presently, the Nigerian Exchange Group boasts a total of 21 esteemed entities engaged in the production of consumer goods ([www.nxggroup.com](http://www.nxggroup.com)). However, 11 of such manufacturing companies were chosen to be included in our final sample due to availability of the necessary information which can only be extracted from the annual financial statements of the companies. Period of coverage is ten years (2013-2022) for which information are available. The dependent variable is earnings management, measured using the discretionary accruals developed by Dechow et. al. (1995), while the independent variable, ownership structure, is measured by block holder ownership and controlling ownership.

The panel regression model is as follows:

$$DACC_{it} = f(\beta_1BHOS_{it} + \beta_2COS_{it}) \dots\dots\dots 1$$

Fitted into the OLS regression model, we have that:

$$DAAC = a + \beta_1BHOS + \beta_2COS + \mu_t \dots\dots\dots 2$$

Discretionary accruals will be determined using the Modified Jones model as depicted in Dechow, Sloan, Sweeney (1995) which is given as:

$$= \Delta CA_t - \Delta Cash_t - \Delta CL_t + \Delta DCL_t - DEP_t \dots\dots\dots 3$$

Where:

- $\Delta CA_t$  = Change in current assets
- $\Delta Cash_t$  = Change in cash and cash equivalents
- $\Delta CL_t$  = Change in current liabilities



$\Delta DCL_t$  = Change in debt included in current liabilities

$DEP_t$  = Depreciation and amortization expense

From the Total Accrual (TA) as shown above, the non-discretionary accrual is calculated thus:

$$NDA_t = \alpha_1(1/A_{t-1}) + \alpha_2[(\Delta REV_t - \Delta REC_t)/A_{t-1}] + \alpha_3(PPE_t/A_{t-1}) \dots 4$$

Where:

$\Delta REC_t$  = Net receivables in year t less net receivables

$\Delta REV_t$  = Revenues in year t less revenues Discretionary accruals are then derived as follows.

$$DSAC_t = TA_t - \dots 5$$

#### 4. RESULTS AND DISCUSSION

Table 1: Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
DACC	108	0.001670	0.621270	0.187152	0.129822
BLOCK HOLDER	108	0.000000	0.739138	0.038964	0.103578
CONTROLLING	108	0.152900	0.894700	0.459593	0.195263

Table 2: Hypothesis Results

	B	t	Variable
(Constant)	0.227443	4.224419 *	
BLOCK HOLDER	-0.074238	-0.503411	
CONTROLLING	-0.199201	-2.747748*	
Adjusted R-squared			
F-statistic		2.700247	
Prob(F-statistic)		0.034638	

Upon careful examination of Table 2, it becomes evident that the presence of controlling ownership and block holder ownership exerts a deleterious impact on the practise of earnings management. The empirical findings implies a negative correlation among controlling ownership and block-holder ownership in a company and the practice of earnings management by management. Consequently, this relationship implies a diminished inclination for management to seek greater financial gains from their investments in said company. Per the "demand" hypothesis posited by Alexander (2019), it is argued that public equity firms exhibit a superior standard of earnings in comparison to private equity firms. This disparity is attributed to the heightened demand from shareholders and creditors for transparent and reliable financial reporting. Therefore, it can be inferred that an increased degree of controlling ownership and block holder ownership would effectively mitigate the occurrence of earnings management practices. Henceforth, one may deduce that the implementation of controlling ownership and block-holder ownership mechanisms holds the potential to mitigate the occurrence of earnings management endeavors within the manufacturing sector of Nigeria. The aforementioned outcome aligns with the conclusions drawn by Alexander (2019) and Wati and Gultom (2022), which indicate that the presence of controlling ownership and block holder ownership, respectively, exerts a detrimental impact on the practice of earnings management. Hence, an elevated degree of these aforementioned manifestations of ownership structure would effectively mitigate the pervasiveness of manipulative financial practices pertaining to earnings.

#### 5. CONCLUSION AND RECOMMENDATIONS

The underlying factors contributing to the widespread adoption of earnings management practices in Nigeria have been extensively documented. Hence, the imperative of monitoring managerial decisions arises in order to safeguard the interests of shareholders and uphold the integrity of financial reporting by guaranteeing its accuracy and comprehensiveness. The valuation of a firm's ownership arrangement is regarded as a substantial mechanism for



managerial monitoring, as it assumes a pivotal role in restraining the incidence of earnings management. The ownership framework of an entity can manifest in various configurations, encompassing block holders and controlling ownership, among other arrangements that possess the capacity for effective monitoring. Nevertheless, it is crucial to acknowledge that diverse ownership structures give rise to distinct motivations for overseeing and regulating a company's administration. Furthermore, the calibre of earnings is intricately linked to the various forms of ownership. Based on an analysis conducted on a selected cohort of ten enterprises operating in the consumer goods sector during the timeframe spanning from 2013 to 2022, it was observed that the presence of block holder ownership as well as controlling ownership exhibited a noteworthy and adverse correlation with earnings management. This correlation was found to be statistically significant at a confidence level of 5%. Consequently, it can be inferred that augmentations in either of these ownership structures.

In light of the study outcomes, the subsequent suggestions are provided:

- i. Companies should endeavour to improve block holder ownership and controlling ownership structure in order to strengthen the monitoring system that might impose restrictions on the administration of profits.
- ii. Standard setters should endeavour to formulate effective accounting standards that will help to reduce discretion in accounting practices, as it will help to control the prevalence of earnings management in companies.
- iii. Companies should ensure that they should strengthen and improve the role of the ownership structure in order to improve clarity and the business's benefit.

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