

**Ownership Structure and Real Earnings Management:  
Evidence from Listed Consumer Goods Companies in Nigeria**

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P-ISSN: 2315-9391 AJAF September

2025, 9(2) 43-63

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**Abstract**

*This study investigates the effect of ownership structure on earnings management among listed consumer goods companies in Nigeria, with firm size included as a control variable. Data were obtained from annual reports of 16 firms listed on the Nigerian Stock Exchange between 2004 and 2022. Using descriptive statistics, Pearson correlation, and panel corrected standard errors (PCSEs) regression, ownership structure was proxied by managerial, institutional, foreign, concentrated, and diversified ownership. The findings show that diversified ownership significantly constrains earnings management, indicating that dispersed shareholding enhances monitoring and limits opportunistic financial reporting. In contrast, managerial ownership, institutional ownership, foreign ownership, and concentrated ownership had no significant effect on earnings management practices. Firm size was incorporated as a control variable to account for scale-related variations in financial reporting behavior, thereby strengthening the robustness of the results. Overall, the study underscores the importance of diversified ownership in promoting financial reporting quality and reducing the likelihood of earnings manipulation in Nigeria's consumer goods companies.*

**Keywords:** Ownership structure, Earnings management, Diversified ownership, Firm size, Nigeria

## 1.0 Introduction

According to Healy and Wahlen (1999), earnings management is an activity whereby management use judgement in the preparation of financial statements and in structuring transactions in those statements that either mislead stakeholders about the underlying economic performance of the company or influences contractual outcomes that are dependent on reported accounting numbers (Mansor, et al, 2013). Muhammed (2014) posited that earnings management is the manipulation of incomes by firms using financial statement elements that are largely at the discretion of the managers to achieve personal or firm's goals. Put differently, earnings management is the use of managerial discretion in the preparation of financial statements that alters the underlying economic reality so as to deceive parties relaying on the information content to act in ways favourable to the interest of the preparers (managers) or their company (shareholders). These views clearly show that earnings management is the manipulation of financial reports by corporate management to exploit benefits at the detriment of unsuspecting parties.

There are evidences indicating that earnings management is prevalent and common among publically listed companies (Uadiale, 2012). Sehrawat, et al. (2019) also noted that earnings management practices are prevalent in companies all over the world. This means that companies in both the developed and developing countries indulge in earnings management. However, Bhattacharya, et al. (2003) as cited in Sehrawat, et al. (2019) indicated that earnings management practices are more prevalent in developing economies compare with their developed counterparts. It is to be noted that the weak regulatory environment in the developing countries may make the phenomenon more prevalent. Strong regulatory environment in terms of high quality accounting standards, regulatory frameworks, investor protection and sanctions better mitigates unwholesome practices including earnings management (Ormin & Shadrach, 2020).

Companies often indulge in earnings management through adopting flexible accounting policies. For

instance; rather than recognizing costs as expenses in the statement of financial position, such costs are capitalized as assets, therefore, deferring the recognition of expenses hence inflating profits in the current accounting period. Also, companies may simply not recognize expenses when incurred or income when earned in an accounting period, deferring to subsequent accounting periods where huge profits are made or loses are sustained respectively. Firms can also create large reserves in accounting periods in which high profit is achieve, then, transfer the profits to periods losses are incurred. In another strategy, companies may engage in understatement of bad debts in a particular year so as to show that its operations are profitable in that year. These and several other techniques can be employed by managers to manage earnings.

Earnings management activities by companies give less than the true financial performance and position of a company in the financial statements as at the reporting date to users, therefore, mislead users. It is on this same line of thought that Uadiale (2012) submitted that earnings management deceives investors and reduces the dependability on financial reports by users generally. Man (2013) also observed that earnings management in companies could affect the credibility of financial information disclosed and cause major financial scandals as well as capital market crashes. Earnings management, particularly, aggressive earnings management practices that are considered unethical and abusive, has the consequence of harming corporate value, hence, and is detrimental to shareholders.

## 2.0 Literature Review

### 2.1 Ownership Structure

Ownership structure is concerned with the spread of equity holding of a company. It relates to the different rights of ownership of a company. Wati and Gultom (2022) defined ownership structure to concern the manner in which representative rights reallocate company equity in one individual, group of individuals or legal entities. According to Essays (2019) as cited in Omondi (2020), ownership structure is the composition of the various owners of a company.

Ownership structure has been considered diversely in the literature. Yang, et al (2009) classified ownership structure into two main groups of the proportion of shares owned by insider and outsiders, and proportion of shares owned by institutional versus individual shareholders. Farouk and Bashir (2017) considered ownership structure from the dimensions of managerial ownership, institutional ownership, block ownership and foreign ownership. Omondi (2020) identified three main classification of ownership structure to include block holder ownership, managerial ownership and institutional ownership. On his part, Adeboye (2021) considered ownership structure more diversely into insider/managerial ownership, institutional ownership, foreign ownership, monotonicity ownership and concentrated ownership. Similarly, Wati and Gultom (2022) considered ownership structure based on its categorization of family ownership, institutional ownership, block holder ownership, foreign ownership, managerial ownership, individual ownership, and government ownership.

For the purpose of this study, ownership structure was examined from its dimensions of managerial ownership, institutional ownership, foreign ownership, concentrated ownership and diversified ownership.

Managerial ownership is defined by Jerry, et al. (2018) to refer to managerial equity holding in a company. Similarly, Meilita and Rokhmawati (2017) stated managerial ownership as the proportion of shares of a company owned by the management of the company. Managerial ownership is otherwise described as insider ownership. This is usually expressed as the sum of shares owned by the management divided by the total outstanding shares of a company.

Latif and Abdullah (2015) explained institutional ownership as the proportion of a company equity controlled by financial and non-financial institutions (Omondi, 2020). Paramitha and Firnanti (2018) as cited in Wati and Gultom (2022) defined institutional ownership to mean the sum total of shares held by companies and financial institutions in a company. It has also been viewed as the amount of stock of a company owned by the

government, financial institutions, other companies, foreign institutions, trust funds and other institutions (Alves, 2012 cited in Pramithasari & Yasa, 2016). As indicated in this conception, institutional shareholders are identified to include banks, pension funds, investment trusts and insurance companies (Man, 2013; Omondi, 2020). Meilita and Rokhmawati (2017) cited in Wati and Gultom (2022) stated foreign ownership as representing the proportion of a company equity that is held by foreign individuals, foreign legal entities and foreign government. Put differently, foreign ownership represents the portion of equity holding of a company that is controlled by investors outside the home country which a company is incorporated. Foreign ownership is determined as the total number of shares owned by foreign investors divided by the total outstanding shares of a company.

Concentrated ownership is defined as a situation where a few shareholders own the bulk of equity of a company such that control over the company management and decisions is vested in them. Madhani (2019) stated concentrated ownership to mean that owners have control and influence over the management of the company to protect or project their interest. It is usually taken to be 5% shareholding and above by an individual or group of individual investors or institutional investor. This is often measured in the literature either as the total of shares held by the largest shareholder or combination of shares held by a number of the largest shareholders (Yasser & Al Mamun, 2017). Diversified ownership is used to mean where the shares of a company are not concentrated in the hands of a few shareholders. That is, a situation where none of the shareholders own shares to the extent that they can exert significant control over the management of the company. In this case, none of the shareholders controls 5% and above equity capital of a company.

## 2.2 Concept of Earnings Management

Gordon (1964) defined earnings management as manager's act of adjusting earnings through flexibility in the choice of accounting policies and estimates while ensuring compliance with accounting regulations. This shows that earnings

management is ethical since it does not violate accounting regulations. Chen (2010) also sees earnings management as a reasonable and legal management decision regarding the making and reporting directed to achieve and disclosing stable and predictable financial performance. This view like that of Gordon (1964) consider earnings management as a legal activity of management than an unethical practice.

However, Healy and Wahlen (1999) view earnings management to involve manager's 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 figures. Earnings management from this perspective is opportunistic because it is an act that corporate managers perpetrate using accounting rules and principles by choosing to apply these rules and principles in a manner that help achieve predetermined objectives. This view reveals earnings management as an unethical practice as it results to deception of stakeholders who rely on accounting information for decision making. Most definitions of earnings management in the accounting and finance literature consider the concept from the unethical dimension.

Man (2013) indicates that though managers as agents of shareholders are duty bound to prepare financial statements to provide stewardship, for their personal interest, they may choose to manipulate financial statements numbers using accounting estimates and standards. This manipulation which is usually in form of overstatement is what earnings management is about. Specifically, Man (2013) opined earnings management as manager's choice of accounting policies or use of other actions such as voluntary earnings forecasting, voluntary disclosure and estimation of accruals to intentionally affect earnings.

Ronen and Yaari (2011) is cited in Lopes (2018) to have defined earnings management as a set of managerial decisions that leads to inaccurate or correct reporting of the true state of current and value maximizing earnings in the financial

statements. Putra and Mela (2019) stated earnings management as alternative adopted by companies to manipulate reported earnings to fulfil certain purposes. Karina (2021) viewed earnings management as a practice whereby companies increase or decrease reported profits in the income statement intentionally so as to match expectations. These views reveal that earnings management may be of the income increasing or income decreasing nature and that it is deliberate and motivated to meet certain targets.

Gadhoun (2021) documented earnings management as the act of distorting the underlying accounting performance of companies. Though this view is salient on the perpetrator of earnings management, it does reveal it affects the reported performance and that it is an unethical practice. Biswas, et al. (2022) quoted Schipper (1989) as defining earnings management as managers' disclosure management in form of purposeful intervention in the external financial reporting process with the aim of obtaining some private gain. This clearly show that earnings management is targeted at deceiving parties outside the company by insiders for their self-interest.

In another conception, Khan, et al. (2019) documented earnings management as the alteration of a company reported economic performance by managers either for the purpose of misleading some stakeholders by presenting desired level of profits or to influence contractual outcomes. This indicates that managers are not only responsible for earnings management but that the motive for engaging in earnings management is to satisfy forecasted profits or have better terms of contracts.

Most of these definitions highlighted so far failed to clearly describe how earnings management is achieved. Some authors' conception of the concept attempt to address this shortcoming. Obigbemi, et al. (2016) sees earnings management as an act of utilizing the loopholes in financial reporting laws to maximize personal, group or organizational objectives at the detriment of other stakeholders who may be directly or indirectly affected by such acts. Onwuchekwa and Madumere (2019) posited earnings as the adoption of deliberate measures within the confines of GAAP to bring about desired

level of reporting performance. The conceptualization of Obigbemi, et al. (2016) and Onwuchekwa and Madumere (2019) depicts earnings as either an ethical or an unethical practice but show clearly that it relies on the use of loopholes (flexibility) in accounting standards and principles to achieve. More perfectly, Smith (1993) described earnings management based on channels utilized by contending earnings management as a practice that involves the use of financial reporting decisions like the selection of accounting methods, and timing of expense and revenue recognition to achieve certain goals which may be at the detriment of other stakeholders. Within the context of this study earnings management is taken to be the deliberate manipulation in financial statements using flexibility allowed in accounting standards by managers of companies for their self-interest or that of shareholders which have some detrimental effect.

### **2.3 Measurement of Earnings Management**

Multiple directorship has been explained by other literature as interlocking directorship. Directors sitting on the board of more than one company are believe to possess experience that they can bring to bear on the performance of the board. In other words, the board policies introduced in the other company that are effective in mitigating earnings management activities could be imported on the other board. This is especially true where the companies are in the same industry. Jamaludin, et al. (2015) documented that a director sitting on the board of more than one company are noted to create a link or interlock between the companies. They have specific knowledge and management experience such that they are able to provide better services and contribute better toward board monitoring role. Da Cunha and Piccoli (2017) observed that where companies share board members, there could be information sharing between the companies and possibility to adopt similar organizational practices including those that address earnings management activities. Studies by Chtouron, et al. (2001) as cited in Jamaludin, et al. (2015) found an inverse

relationship between multiple directorship and earnings management.

Though multiple directorship is considered to ensure better monitoring thereby constrains earnings management, it is also documented that where a director occupy board seat on too many companies at a time, commitment and performance is affected. In fact, it is shown that a director holding too many board seats is an indication of the directors rent seeking behaviour (Jamaludin, et al., 2015), implying that such directors can become connected to the company management.

#### **2.3.1 Ownership Structure and Earnings Management**

The literature show that ownership structure of a firm is a key corporate governance mechanism that could help mitigate unethical practices. El Moslemany and Nathan (2019) stated that ownership structure is considered as one of the corporate governance instrument that could reduce agency costs arising from the agency problem in firms. Reyna (2012) cited in Rafique, et al. (2018) documented that agency theory advocates that ownership structure plays an active role in monitoring managerial activities. Grimaldi and Muserra (2017) indicated that recent economic and managerial literature hold that ownership structure is a more useful tool than any other corporate governance mechanism in determining the degree of effectiveness and efficiency of corporate governance system in monitoring and controlling managers' behaviour. Also, Farouk and Bashir (2017) postulated that ownership structure is identified in the extant literature as a useful mechanism by which manager's excesses in reporting accounting numbers in the financial statements could be kept in check.

Contributing to the debate of the association between ownership structure and earnings management, Grimaldi and Muserra (2017) documented that ownership structure impact on earnings management could be either positively or negatively. Negatively, it is argued that ownership structure decreases the incentive for managers to manage earnings while positively, it is also held that it could provide strong incentive and opportunity for earnings management.

### 2.3.2 Managerial Ownership and Earnings Management

Managerial ownership is considered in the literature to refer either to the proportion of shares owned by the CEO/managing director and the Chief Financial Officer (CFO) or by board of directors or both these two group of managers. Farouk and Bashir (2017) argued that the extent of managerial shareholding could determine managers' level of management of the organization because it is a variable that could reduce agency costs by balancing the objective of them (managers) with that of other shareholders. Commenting on the relationship between ownership structure (managerial ownership) and earnings management, Kazemian and Sanusi (2015) stated that ownership structure is considered an important corporate governance mechanism that influences earnings management because the agency theory indicates that the separation of ownership and control of firms provides incentives for managers to select and apply accounting estimates and techniques in ways that increases their wealth. Thus, if managers are part of the owners of a company, their self-interest activities will be aligned with other shareholders. Man (2013) opined that when managers are owners, there is alignment of interest so that manipulative practices like earnings management are reduced. But when managers hold little or has no ownership, there is greater freedom to pursue their own objective through managing earnings.

Sehrawat, et al. (2019) stated that there are two perspectives to the effect of managerial ownership on earnings management, namely, the incentive alignment effect and the entrenchment effect. The incentive alignment effect holds that when managers are stockholders, their stock makes them to adjust their interest to align with other shareholders such that they are less motivated to engage in earnings management activities. On the other hand, the entrenchment effect holds that when managers are owners, they are more likely to exploit their position for personal gain hence may engage actively in earnings management. These perspectives are described as the alignment of

interest hypothesis and the entrenchment hypothesis.

Farouk and Isa (2018) stated that the proportion of shares owned by board of directors is expected to have a significant effect on earnings management because, holding higher shares, makes board members to align their interest with other owners which not only reduces agency problem but makes them entrenched. There is expected to be better monitoring that restrains earnings management where board of directors hold a significant percentage of company shares. Alves (2012) indicated that high managerial ownership is associated with lower earnings management. This current study assumed that if managers/board of directors hold shares, their interest will be aligned with that of other shareholders, hence mitigate earnings management. In particular, the higher the number of shares hold by management, the lesser the earnings management.

### 2.3.3 Institutional Ownership and Earnings Management

Chung, et al. (2002) cited in Rafique, et al. (2018) opined that institutional investors unlike individual investors are more resourceful in detecting earnings management. Institutional shareholders are argued to be more informed than individual shareholders. They tend to dedicate time to research on the firm and industry. This is beside the fact that they invest large sum to acquire shares thus have more incentives to monitor management behaviour (Man, 2013). When managers engage in unethical practices such as earnings management, they may threaten to even divest which may also compel managers to avoid such practices. Monks and Minow (1995) cited in Farouk and Bashir (2017) maintained that institutional investors have the opportunity, resources and ability not only to monitor and discipline but also to influence the decision taken by firm managers.

El Moslemany and Nathan (2019) documented several literature positing that institutional shareholders play a significant role in monitoring manager's activities and specifically in reducing earnings management. This category of investors are stated to hold high proportion of shares and as having more understanding of corporate activities

and implications thus could pressure managers not to engage in earnings management. This view favours high institutional ownership as a tool to constrain earnings management as it makes them to be concerned about long term value of the firm. However, it is also debated that if institutional investors own small proportion of shares, they tend to be more concerned about short term earnings (firm value), therefore, may pressure managers to engage in earnings management so as to realize their objective. Notwithstanding, Rafique, et al. (2018) stated that higher percentage of institutional ownership reduces earnings management.

#### **2.3.4 Foreign Ownership and Earnings Management**

Rafique, et al. (2018) indicated that previous studies have not given much attention on foreign ownership as a corporate governance mechanism by examining its influence on earnings management. This is in spite of a recognition in the literature that foreign ownership impacts unethical practices such as earnings management. Wati and Gultom (2022) observed that foreign investment is an important mechanism that is expected to curb any form of earnings manipulation activities in companies. Farouk and Bashir (2017) argued that foreign investment is associated with better monitoring, thus, it is expected to reduce private benefits of control. Foreign ownership constraining effect on earnings management activities is further shown to be particularly valid for foreign institutional ownership (foreign legal entities and governments) than individual foreign ownership because foreign institutional ownership tends to have more capital, know-how and expertise in monitoring insider activities. In a similar vein, Chung, et al. (2004) cited in Wati and Gultom (2022) indicated that foreign ownership act to constrained earnings management because this type of owners participates less in cutting discretionary costs but play an active role in deterring opportunistic behaviour of managers. Studies like Alzoubi (2016) revealed that companies with the supervision of foreign ownership are associated with lesser incidence of earnings management.

#### **2.3.5 Concentrated Ownership and Earnings Management**

When few individuals own a large percentage of company shares they have incentives to protect their shareholding. Grimaldi and Muserra (2017) opined that concentrated ownership gives dominance to shareholders to directly or indirectly exercise significant influence over managerial decisions. Farouk and Bashir (2017) contended that few individuals with higher proportion of shares in a company have more reason to be worried about their investment, thus, greater incentives to monitor the activities of managers not to engage in unethical practices like earnings management so as to protect their shareholding.

On the contrary, it is also argued that concentrated shareholding could encourage earnings management. Florencea and Sustanto (2018) show that concentrated shareholders tend to promote conflict of interest between majority and minority shareholder groups because of their having more controlling power over the company. Farouk and Bashir (2017) also pointed out that concentrated ownership may induce earnings management as these investors may pressure managers to enhance earnings so that their market value improves. Due to this pressure, managers may tend to engage in earnings management to see that the objective is achieved. Concentrated ownership compared to diversified ownership according to Berle and Means (1932) cited in Man (2013) is also argued could promote earnings management practices. The authors argued that where a single investor hold over 20% of the company shareholding, such can pursue personal interest gains hence in such instance, diversified shareholders can better exercise control over managerial opportunistic activities. Notwithstanding the debate as to whether concentration of ownership reduce or encourage earnings management, studies by Grimaldi and Muserra (2017) found that concentrated ownership improves the quality of earnings by reducing the extent of earnings management.

### 2.3.6 Diversified Ownership and Earnings Management

Man (2013) submitted that diversified shareholding could improve corporate governance because managers will align their interest with that of shareholders. This is described as the alignment effect. However, in an environment of concentrated ownership, managers are noted may be more likely to act contrarily to the interest of shareholders. This is described as the entrenchment effect. Farouk and Bashir (2017) indicated that small shareholders have no motivation to monitor because of the high cost they may bear from monitoring which may not be commiserate with their interest in the firm. Siregar and Utama (2008) cited in Maswadeh (2018) also argued that in companies where there is dispersed ownership structure, managers are in a position to engage in self-interest activities like earnings management because there is no incentive for shareholders to monitor activities. It is obvious from the literature as reviewed above that diversified ownership may have little effect in reducing earnings management in companies.

### 2.4 Empirical Review

Alzoubi (2016) examined the relationship between internal corporate governance mechanism of ownership structure and earnings management of 62 listed Jordan companies. Earnings management was measured by discretionary accruals using the modified Jones model. The techniques of analysis adopted were OLS and generalized least square regression analysis. The study found that insider managerial ownership, institutional ownership, external block holder, family ownership and foreign ownership all have significant effect on earnings management.

Parveen et al. (2016) studied the impact of ownership structure on earnings management of 20 banks in Pakistan during the period 2005 to 2012. Ownership structure was examined using its components of major shareholders ownership, director's ownership, government ownership, financial institutions ownership, local ownership, foreign ownership and associate organization ownership. The modified Jones model was used to estimate earnings management. Utilizing multiple regression for analysis, the study found that

majority shareholder ownership, board of directors ownership, government ownership, and financial institutions ownership has negative effect on earnings management while local investors ownership, foreign investors (company and individuals) ownership and associated organizations' ownership has positive effect on earnings management.

Grimaldi and Muserra (2017) investigated the effect of ownership concentration on earnings management using data of 300 non-financial Italian companies during the period 2011 to 2013. Ownership structure was represented by concentrated ownership, first largest shareholder and second largest shareholder with earnings management measured using discretionary accruals. Adopting descriptive statistics, correlation and multivariate regression analysis, the study found that ownership concentration and the second largest shareholder is negatively associated with earnings management while the first largest shareholder is positively associated with earnings management. Overall, the study showed that ownership concentration improves the quality of reported earnings in the financial statement. That is, concentrated ownership reduces the degree of earnings manipulation by managers. In a Nigerian study, Farouk and Bashir (2017) examined the relation between ownership structure and earnings management of 6 listed conglomerate companies during the period 2008 to 2014. Ownership structure was proxy by managerial ownership, institutional ownership, block ownership, and foreign ownership with earnings management measured using the modified Jones model. The robust OLS regression technique was used to analyse the data. The study found that managerial ownership and ownership concentration (block ownership) has a negative and significant relationship with earnings management, institutional ownership has negative but not significant association with earnings management while foreign ownership has positive and significant association with earnings management. This study shows that managerial ownership and concentrated ownership are key mechanisms in mitigating earnings management. The study model

reveal an explanatory power of 39% after controlling for firm size and share price. This study apart from being conducted over 6 years ago and covered only 6 companies, did not investigate the influence of the diversified type of ownership.

Maswadeh (2018) examined the effect of ownership structure focusing on concentrated ownership, institutional ownership and foreign ownership on earnings management activities of 55 Jordanian industrial companies during the period 2012 to 2016. Earnings management was estimated using the modified Jones model by Dechow et al. (1995). The study controlled for leverage, and company size. Multiple regression analysis was employed for data analysis. The results of the study revealed that concentrated ownership is a significant mechanism that constrains earnings management while institutional ownership and foreign ownership has no significant effect on earnings management activities of the companies investigated. The model explained about 38% of the variation in the dependent variable.

Rafique et al (2018) examined the impact of ownership structure focusing on managerial ownership, institutional ownership and foreign ownership on earnings management involving 427 firm-year observation of non-financial companies listed on the Pakistan stock exchange during the period 2009 to 2015. The modified Jones model was used to estimate earnings management. The study adopted the fixed effect regression for analysis of the data. The results revealed that companies with high managerial ownership and foreign ownership were engaged more in earnings management, meaning that these types of ownership increase the likelihood of earnings management than reduce it. The study found that institutional ownership is not significantly associated with earnings management. Specifically, managerial ownership and foreign ownership were found to have a positive and significant association with earnings management while institutional ownership has positive and not significant impact on earnings management. The study controlled for the firm characteristics of leverage, growth, and ROA as a measure of profitability. The explanatory power of the study

model was 31.06% with an overall coefficient of - 0.098942 with a p-value of 0.0002 which is significant at the 0.05 level of significance. The results of this study clearly show that ownership structure, at least for the three types investigated, do not matter in mitigating earnings management but rather the firm specific characteristics do.

El Moslemany and Nathan (2019) examined the relationship between ownership structure and earnings management of 50 listed Egyptian companies during the period 2004 to 2015. Ownership structure was proxy by block holder ownership, managerial ownership and public ownership. Earnings management was measured by discretionary accruals using the modified Jones model. The study employed descriptive statistics, correlation and multiple regression analysis for the analysis of the data. The results revealed that block holder ownership has a positive relationship with earnings management while no relationship was found between managerial and public ownerships and earnings management. In particular, for both the OLS and GLS models, managerial and public ownerships were found to be positively but not significantly associated with earnings management while block holder ownership for the OLS and GLS regression was found to be positive and significantly associated with earnings management. It is clear from the results that all the three ownership mechanisms investigated do not act to reduce earnings management. The explanatory power of the study model controlling for firm size, firm age, ROA, leverage and market-to-book value was 0.036390 for the OLS model and 0.009909 for the GLS model.

Siraji and Nazar (2021) study examined the effect of ownership structure focusing on family and managerial types of ownerships on real earnings management of 206 listed non-financial Sri Lanka companies for the period 2015 to 2020. The study utilized multiple regression analysis following the OLS approach. The results indicated that family and managerial ownership both play an important role in monitoring earnings management as the mechanisms were found to be negatively associated with real earnings management activity of the companies studied. The study controlled for

firm size, firm growth, ROA, leverage, and audit quality (BIG-4) and reported model explanatory power of 28.9%.

In a more recent study, Wati and Gultom (2022) examined the impact of ownership structure on earnings management of 391 listed Indonesian non-financial companies for the period 2016 to 2019. Ownership structure was represented by family ownership, institutional ownership, block ownership, managerial ownership, foreign ownership, individual ownership and government ownership. The modified Jones model was used to estimate earnings management. The study controlled for leverage, company size, profitability, and company growth. The fixed effect regression analysis model was used to interpret the study results. The overall finding was that ownership structure has no significant effect on earnings management. In particular, family ownership, institutional ownership, foreign ownership, and individual ownership were found to have a positive but not significant effect on earnings management while block holder ownership, managerial ownership and government ownership has negative but not significant effect on earnings management (Thomas & Danjuma, 2011). All the control variables except ROE (profitability) were found to have positive and significant effect on earnings management, meaning that they induce earnings management.

## 2.5 Theoretical Review

There are several theories that have been used in the literature such as stakeholder theory, signalling theory, information asymmetry theory, institutional theory, and policeman theory. This study finds the agency theory, as relevant theoretical basis.

### 2.5.1 Agency Theory

The agency theory has its roots in economic theory expounded by Alchian and Demsetz (1972) with further development made by Jensen and Meckling (1976). The accounting literature largely attributes the agency theory to Jensen and Meckling (1976). The agency theory is grounded on the relationship between two parties under contract and is promoted by the growth and complexity of modern corporations whereby ownership is separated from management. The two parties under contract are

the owners (shareholders) who are described technically as the 'principal' and the managers who are described as the 'agents'. The theory holds that the managers as agents are contracted to manage the company on behalf of the principals and are expected to take decisions that are in the best interest of the shareholders or that maximizes their interest. However, Saiful (2018) indicated that contrary to this expectation, each of these parties want to maximize their interests such that a conflict of interest always exists in this relationship. Siyanbola et al. (2019) stated that in the agency relationship, managers may act in ways including engaging in earnings management so as to obtained personal gain which may be detrimental to the business and shareholders. Managers may be tempted to engage in practices such as earnings management especially where their pay (compensation) is based on performance or performance targets are established.

The agency theory in several ways provides good theoretical basis for studies examining the relationship between corporate governance and earnings management. Olaoye and Adewumi (2018) stated that the agency theory provides an exposition of managers' actions when not in tandem with expected action which is directed towards the maximization of shareholder's wealth. It illustrates what motivates managers of companies to manage earnings. It explains why managers as agents may not always act in the best interest of shareholders as owners and why they behaviour in unethical ways like engaging in earnings management. Because managers are self-interest seeking in their contractual relationship with shareholders as owners (Tran et al., 2021), corporate governance mechanisms are necessary to monitor managerial activities by either protecting shareholders interest or aligning the interest of managers and that of the shareholders. Generally, corporate governance mechanisms like board structure, board committee structure (audit committee and remuneration committee) and audit quality provide effective monitoring in protecting shareholders interest by mitigating opportunistic behaviour of managers in form of earnings management. Similarly, the corporate governance

mechanism of ownership structure particularly managerial ownership and concentrated ownership may be useful in aligning manager's interest with that of shareholders.

Several studies including but not limited to Olaoye and Adewumi (2018), Saiful (2018), Siyanbola et al. (2019), Tran et al. (2021) adopted the agency theory as the theoretical basis of their study of the impact or effect of corporate governance on earnings management in different context. The main criticism of the agency theory is that it emphasis the interest of only shareholders as against other stakeholders. Indeed, earnings management may be perpetrated by managers not just for their personal gain but also for the benefit of the company and shareholders but at the detriment of other stakeholders.

### 3.0 Methodology

The study adopted an ex-post facto research design. This research design was appropriate for the study because it involve the examination of past events which is the impact of corporate governance on earnings management of consumer goods companies in Nigeria. The data for the study is collected from annual reports and accounts of the sampled companies. The population of the study comprise of all the 21 consumer goods companies listed on the Nigerian Exchange Group as at 31<sup>st</sup> December, 2022 for convenience sixteen companies were used as sample.

### 3.1 Model Specification

The model is developed to test the impact of ownership structure on earnings management of consumer goods companies in Nigeria.

$$EMG_{it} = \alpha + \beta_1 MOW_{it} + \beta_2 IOW_{it} + \beta_3 FOW_{it} + \beta_4 COW_{it} + \beta_5 DOW_{it} + \beta_6 FSZ_{it} + e_{it}$$

Where:

EMG = Earnings Management

MOW = Managerial Ownership

IOW = Institutional Ownership

FOW = Foreign Ownership

COW = Concentrated Ownership

DOW = Diversified Ownership

AFZ = Audit Firm Size

FSZ = Firm Size

$\alpha$  = Intercept

$\beta_1, \beta_2$  = Coefficients

It = Company and Time

$e$  = Error Term

## 4.0 Result and Discussion

### 4.1 Descriptive Statistics of Ownership Structure

**Table 1: Descriptive Statistics of Ownership Structure**

| Variables  | Mean   | Std. Dev. | Variance | Min.   | Max.   | Skewness | Kurtosis | Coef. of Var.(CV) |
|------------|--------|-----------|----------|--------|--------|----------|----------|-------------------|
| <b>MON</b> | 0.0272 | 0.0583    | 0.0034   | 0.0000 | 0.3541 | 3.0468   | 10.0916  | 214.38%           |
| <b>IOW</b> | 0.1124 | 0.4606    | 0.2122   | 0.0000 | 5.1800 | 8.6043   | 85.3182  | 409.73%           |
| <b>FOW</b> | 0.2397 | 0.3104    | 0.0964   | 0.0000 | 0.8793 | 0.6701   | -1.3199  | 129.51%           |
| <b>COW</b> | 0.4082 | 0.5775    | 0.3335   | 0.0000 | 5.8418 | 5.3887   | 45.4055  | 141.47%           |
| <b>DOW</b> | 0.2325 | 0.4448    | 0.1978   | 0.0000 | 4.8418 | 6.9812   | 64.6790  | 191.32%           |

Note: MOW = Managerial Ownership, IOW = Institutional Ownership, FOW = Foreign Ownership, COW = Concentrated Ownership, and DOW = Diversified Ownership.

Table 1 shows that the mean of 0.0272) of Managerial Ownership (MOW) clearly indicates low level of managerial ownership due to the very small proportion of the shares that are held by managers. This type of condition especially where managers have fewer and low incentives to align their goals with shareholder interests is likely to lead to higher earnings management practices as a trade-off for low incentives. The SD of 0.4606 also shows significant variations in the ownership distribution across consumer goods companies. This practice is further demonstrated by the skewness value of 3.04683 that is high and positively skewed (long right tail), reflecting that most consumer goods companies have low managerial ownership, with only a handful of them having significantly higher ownership status. The kurtosis value of MOW of 10.0916, indicates a sharp peak (leptokurtic) distribution, which implies that managerial ownership cluster around low values with only few extreme cases in the ownership. The CV of 214.38% shows that MOW does vary significantly across companies, which implies that there is extreme variability in terms of the MOW, which is further attributed to the standard deviation that is twice the mean.

The descriptive statistics of the institutional ownership reveals that the mean of 0.1124 shows moderate institutional involvement in companies. This implies that institutional investors only hold about 11.24% ownership, which is a small fraction of the total value ownership as a whole. The

standard deviation of 0.4606 shows that the proportion of institutional ownership is relatively wide across consumer goods companies indicating that some of the companies are characterised with high institutional ownership, while others are low and some have none. This resulted in the wide variations. The result also shows that the skewness (8.6043) value is highly positive suggesting that most of the companies with have very low institutional ownership while few ones have high institutional ownership resulting in a positive high skew. The extreme value of kurtosis (85.3182) largely above the threshold value of 3 is evidence of leptokurtic distribution with clustered low values of institutional ownership. The value of the CV of 409.73% also demonstrates an extremely high variability across companies as a result of the overblown standard deviation, which is 4 times the mean value.

The descriptive statistics in Table 1 further shows the proportion of foreign ownership in the companies and the mean (0.2397) proportion of the FOW indicates a noticeable presence of foreign investors in the ownership structure across consumer goods companies by 23.97%. The variability of the proportion explained by standard deviation of 0.31 is a considerable variation in the FOW from the mean. The skewness of 0.6701 shows that the distribution is moderate and positive characterized with few companies that have FOW close to the mean. The kurtosis of -1.3199 suggests a flatter distribution that is platykurtic implying a balanced FOW across the listed companies. The CV (129.32%) shows a high degree of variability FOW across companies. This certainly implies that some companies have less or high FOW above the proportion of the mean making the variation not to extreme.

The analysis of Table 1 shows the proportion of the concentrated ownership defined by the investors with share more than 5% across the listed consumer goods companies. The Mean of 0.4082 indicates that the average proportion of COW is only 40.82%. This indicates that the ownership is highly concentrated in some companies in the hands of the minority of the shareholders saddle with the responsibility of controlling large segment of

ownership. The standard deviation of 0.5775, which is larger than to the mean clearly exhibits that some of the companies have very much higher or lower concentration of ownership. The skewness of 5.3887, exhibits a right skewness, which indicates that most companies across the group have lower concentration of ownership below the mean forcing the distribution to the right. However, the kurtosis of 45.4055 indicates a distribution that is extremely high above the threshold value and the CV of 141.47% clearly shows the proportion of the concentration of ownership widely varies across consumer goods companies significantly.

The analysis of the diversified ownership shows that the ownership structure has a moderate mean of 0.23.25, which is equal to 23.25% of ownership that is diversified across the companies. The standard deviation of 0.4448, which virtually doubles the mean proportion reflects a wide level of variation in the DOW falling between 0 to 5 shareholders on average. The skewness 6.9812 of the DOW indicates a very high skewness value as result of the low level of DOW dominating the few numbers of companies with high level of DOW. The Kurtosis of 64.6790 that is leptokurtic in nature suggests that only small companies have very high level of DOW across listed consumer goods companies in Nigeria. The CV of 191.32% indicates that the DOW varies highly relative to the mean with standard deviation about 1.9 times the mean indicating a wider variability across the companies.

## 4.2 Pearson Correlation of Ownership Structure and Control Variables

**Table 2: Result of Pearson Correlation**

| VAR.       | MON      | IOW    | FOW     | CO<br>W | DOW   | FSZ |
|------------|----------|--------|---------|---------|-------|-----|
| <b>MON</b> | -        |        |         |         |       |     |
| <b>IOW</b> | -0.086   | -      |         |         |       |     |
| <b>FOW</b> | -.272**  | 0.044  | -       |         |       |     |
| <b>COW</b> |          | 0.791* |         |         |       |     |
|            | 0.026    | *      | 0.243** | -       |       |     |
| <b>DOW</b> |          | 0.798* |         | 0.762   |       |     |
|            | 0.032    | *      | 0.198** | **      | -     |     |
| <b>FSZ</b> |          |        |         |         |       |     |
|            | -0.408** | 0.129* | 0.210** | 0.087   | 0.057 | -   |

Table 2 shows ownership structure and control variable bivariate correlation analysis. MON has a significant negative correlation with FOW (-0.272,

$p < 0.01$ ) and FSZ (-0.408,  $p < 0.01$ ). Due to their control over all decision-making processes, including earnings management and manipulation, firms with significant managerial ownership have lower foreign ownership, especially when smaller. Furthermore, IOW is positively correlated with COW (0.791,  $p < 0.01$ ) and DOW (0.798,  $p < 0.01$ ), indicating that institutional investors are more prevalent in companies with high levels of concentrated and diversified ownership. Institutional and foreign investors rarely coexist in these companies because foreign ownership is uncorrelated with IOW ( $p = 0.497$ ). The FOW variable has a positive correlation with COW (0.243,  $p < 0.01$ ) and DOW (0.198,  $p < 0.01$ ), but a significant negative correlation with FSZ (-0.210,  $p < 0.01$ ).

Strong positive correlations between COW and IOW (0.791,  $p < 0.01$ ), FOW (0.243,  $p < 0.01$ ), and DOW (0.762,  $p < 0.01$ ) indicate that firms with concentrated ownership attract institutional and foreign investors, in addition to diversified ownership. Certain institutional owners value transparency, while concentrated owners value control, which may conflict with earnings management incentives. DOW is positively correlated with IOW (0.798,  $P < 0.01$ ), FOW (0.198,  $P < 0.01$ ), and COW (0.762,  $P < 0.01$ ). As mentioned, this relational state may result in a more complex ownership structure that may affect earnings management differently depending on the type of ownership. FSZ has a significant negative correlation with MON (-0.408,  $p < 0.01$ ) and FOW (-0.210,  $p < 0.01$ ). Foreign ownership and IOW have a significant positive correlation (0.129,  $p < 0.05$ ).

### 4.3 Panel Corrected Standard Errors Regression Results for Ownership Structure and Earnings Management

The result of Panel Corrected Standard Errors (PCSEs) regression for the third objective was based on the model that assumes panel specific autocorrelation (AR (1)), single lag OLS of residual with the error structure that is independent across panels. This model is considered to the best out of the nine models formulated and the regression output is presented in Table.

**Table 3:** Panel Corrected Standard (PCSEs) Regression of the effect of Ownership Structure on EMG

| Variable                  | Coefficient ( $\beta$ ) | Standard Error (SE) |
|---------------------------|-------------------------|---------------------|
| Constant                  | 0.580                   | 0.448               |
| MOW                       | -0.089                  | 0.941               |
| IOW                       | 0.200                   | 0.296               |
| FOW                       | 0.018                   | 0.172               |
| COW                       | 0.047                   | 0.160               |
| DOW                       | -0.490                  | 0.228               |
| FSZ                       | 0.010                   | 0.004               |
| Observations              |                         | 242                 |
| No. of groups             |                         | 17                  |
| R <sup>2</sup>            |                         | 0.2160              |
| Wald chi <sup>2</sup> (9) |                         | 16.49*              |
| Prob > chi <sup>2</sup>   |                         | 0.0574              |

**Notes::\*\*\*, \*\*, and \* represent significant at 1%, 5%, and 10% levels respectively**

**Source: Researcher's Computation 2025.**

Table 3 shows that the model has an R<sup>2</sup> value of 0.2160, indicating that the study's model explained 21.60% of the variability in earnings management of listed consumer goods companies in Nigeria, while the remaining 78.40% was attributed to variables not included in the model. Table 3 reveals that the Board structure variables (MOW, IOW, FOW, COW, DOW, and FSZ) significantly affect earnings management of listed consumer goods companies in Nigeria, as indicated by Wald Chi-squared ( $\chi^2$ ) = 16.49 and p-value of 0.054 at 10% significance level. This shows that the model is statistically significant and that ownership structure affects earnings management of listed consumer goods companies in Nigeria.

A negative and statistically insignificant impact of managerial ownership structure on earnings management of listed consumer goods companies in Nigeria ( $\beta = -0.089$ ,  $p > 0.05$ ). Earnings management decreases by 0.089 per unit increase in MOW, according to the beta coefficient. This result did not contradict the study's a-priori expectation because it is negatively signed, indicating that managerial ownership does not affect earnings management of listed Consumer Goods Companies in Nigeria. Table 3 shows that IOW positively affects EM, but not significantly ( $\beta$

= 0.200,  $p > 0.05$ ). This coefficient suggests that earnings management will rise by 0.200 units per unit of IOW. Since institutional ownership does not strongly affect earnings management, we conclude that listed consumer goods companies in Nigeria do not benefit from institutional ownership. Foreign ownership does not significantly affect earnings management of listed consumer goods companies in Nigeria ( $\beta = 0.018$ ,  $p > 0.05$ ). The coefficient shows that earnings management rises by 0.018 units at 5% as FOW increases by a unit. The positive coefficient contradicts the null hypothesis and suggests foreign ownership does not affect earnings management. Thus, listed consumer goods companies in Nigeria report no significant earnings management impact from foreign ownership. Table 3 shows that the COW has a positive and statistically insignificant impact on earnings management of listed consumer goods companies in Nigeria ( $\beta = 0.047$ ,  $p > 0.05$ ). The coefficient shows that earnings management increases by 0.047 units per unit of COW, all other factors being constant. The study concludes that concentrated ownership does not affect earnings management of listed Nigerian consumer goods companies. The analysis indicates a significant negative impact of the DOW on earnings management of listed Consumer Goods Companies in Nigeria ( $\beta = -0.490$ ,  $p < 0.05$ ). The coefficients show that EMG decreases by 0.490 units per unit of DOW. The study concludes that diversified ownership negatively impacts earnings management of listed Nigerian consumer goods companies.

## 5.0 Conclusion and Recommendations

### 5.1 Conclusion

In the analysis of the third objective, this study found that managerial ownership impacted earnings management negatively and insignificantly. This result agrees with some preceding research indicating that while managerial ownership may not always significantly impact earnings management (Jensen & Meckling, 1976). Insignificant results in other studies suggest that ownership alone may not be enough to affect managerial decisions on financial reporting unless ownership stakes and proportions are substantial

(Warfield, Wild, & Wild, 1995). Thus, it is noteworthy to conclude that this finding aligns with the literature, which suggests that the impact of managerial ownership on earnings management may vary based on the percentage of ownership.

The study also observed that institutional ownership has a positive but statistically insignificant effect on earnings management. This finding is somewhat consistent with mixed results in the literature. While some studies argue that institutional investors, as experienced stakeholders, may discourage earnings management by closely monitoring management (Chung et al., 2002), others suggest that institutional investors may focus more on short-term gains, which could inadvertently encourage earnings manipulation (Bushee, 1998). The insignificance of the effect found in this study may suggest that, in the Nigerian context, institutional ownership does not exert enough pressure on management to curb earnings manipulation effectively.

The study found small positive and statistically insignificant impact of foreign ownership on earnings management of listed consumer goods companies in Nigeria. This result is in divergence with literature that suggests foreign ownership often brings stricter governance practices that can reduce earnings management due to foreign investors' higher standards and reputational concerns (Douma, George, & Kabir, 2006). However, the insignificant effect in this study could imply that foreign ownership levels in Nigerian consumer goods companies are not substantial enough to influence managerial behaviour and actions or that foreign owners lack the local influence to enact governance changes effectively. These findings suggest that foreign ownership might not always result into reduced earnings management without adequate control or influence.

The finding of this study revealed that concentrated ownership has a positive but insignificant impact with earnings management, which implies that concentrated ownership has the potential drive at focusing on the interests of majority shareholders, resulting in earnings management to meet their expectations (Fan & Wong, 2002). However, the

insignificant relationship found herein aligns with research that suggests concentrated ownership's impact on earnings management is context-oriented, with some owners perhaps focusing on long-term stability over short-term financial reporting adjustments (Claessens & Fan, 2002). This further implies that previous studies show that the impact of concentrated ownership on earnings management are influenced by the governance environment and ownership thresholds and standards.

This study also posited that there exists a statistically significant negative impact of diversified ownership on earnings management because a more diversified ownership structures are characterised with reduced earnings manipulation. This result is in consonance with existing literature who pointed that diversified ownership can promote stronger governance by distributing power and minimizing the risk of any one group stakeholders exerting undue influence on managerial decisions (Shleifer & Vishny, 1997). This certainly implies that with diversified ownership, there is often increased oversight and a stronger incentive to maintain transparency, which reduces opportunities for earnings management. This agreement in findings supports the notion that diversified ownership structures encourage more accountability and reduce the likelihood of earnings manipulation.

## 5.2 Recommendation

The analysis of the impact of ownership structure also emphasises on the need for the management to focus on enhancing the diversity of ownership as a critical strategy to mitigate earnings management in consumer goods companies in Nigeria. The negative and statistically significant relationship between diversified ownership and EM suggests that consumer goods companies with a good score of shareholders are likely to benefit from more rigorous scrutiny to minimise possibility of earnings management. Based on the finding of this study, it is recommended that:

1. Consumer goods companies in Nigeria should prioritize diversified ownership structure in their decision making as against other ownership structure.

2. Boards of directors should adopt policies that promote shareholder inclusiveness and transparency in ownership distribution to reduce managerial discretion.
3. Management should also strengthen internal control systems and reporting practices to complement the monitoring role of diversified ownership.

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