OWNERSHIP STRUCTURE AND OPPURTUNISTIC ACCOUNTING: A CASE OF LISTED FOOD AND BEVERAGE FIRMS IN NIGERIA

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Abstract

Earnings management has been identified by regulators and practitioners as a tool used by managers to mislead investors about the underlying economic conditions of their firms. Although, the relationship between ownership structure and the discretionery behaviour of managers has been considerably discussed in developed countries, an examination into this relationship has only recently attracted the attention of researchers in the developing economies such as Nigeria. This paper examines the impact of ownership structure on earnings management in quoted food and beverage firms in Nigeria. Secondary data were extracted from the annual reports of our sample firms for the period between 2006 to 2010 and OLS multiple regression is used as a tool for data analysis. The result indicates that ownership structure affects earnings management in divergent ways. Specifically, the study documents an inverse relationship between institutional sherholding and discretionery accruals. While ownership concentration and family ownership positively impact on earnings manipulation.

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1. Introduction

The concern for the investigation into the practice of earnings manipulation through discretionery accruals becomes even more pertinent following global corporate scandals that plagued big companies such as Enron, Worldcom and Tyco. This event has led to heated debate among regulators, practitioners and researchers to find a solution to the unprecedented corporate failures. The central theme that resonates within these scandals is lack of good corporate governance structure that is capable of checking the excesses of managers. As such, new codes of best governance practices was introduced in the U.S. in 2002 by the Serbanese-Oxley Act with a view to imrove monitoring of managers and protect shareholders' investments. Consequently, like most countries accross the globe, the code for best governance practices was introduced in Nigeria in 2003. In spite of the various governance structures introduced by the Central Bank of Nigeria (CBN), there are cases of corporate maplratices that raise fresh and legitimate concerns about the agent-principal relationship that exists between shareholders and managers.

Ownership structure is a subset of corporate governance that relates to the nature of ownership of the equity shareholding of a firm. Who acquires the firm's equity shares and to what extend is the interest can either allign with or entrench the minority shareholders' objective of value maximization. Prior literature has documented that ownership structure influences managerial incentives (Jensen and Meckling, 1976) and frim performance (Klein, 2002). Similarly, corporate governance has been identified to have an impact on discretionery accruals (Klein, 2002: Warfield, Wild and Wild, 1995). The need for an effective ownership structure arises because of the seperation of firm's ownership from its control that is made even more complex by the level of growth and size of today businesses. This, theoretically, necessitates the managers to act in such a manner that is consistent with owners' interest. However, this not always the case as managers are tempted to use their position to pursue their own personal interest at the expense of the shareholders.

Financial reports serve as a yardstick by which managerial performance is assessed by various stakeholders of the firm. It is therefore quite safe to assume that managers will manipulate these reports to earn them the prestige of good managers and their firms to be considered as prosperous. In fact, it has long been recognized by researchers that managers use accounting choices and methods to serve their own interests or that of their firms in a wide ranging contexts (Cornet,

Markus and Tehranian, 2007: Zhu and Tian, 2009). The integrity of financial reports, which is the focal point of regulators and practitioners, depends largely on the reliability of reported earnings. Manipulation of earnings, for whatever reason, reduces the quality of financial reports and reduces investors confidence in their decision making process.

Earnings management is the deliberate altering of financial information to either mislead investors on the underlying economic status of a firm or to gain some contractual benefits that depend largely on accounting numbers (Watts and Zimmerman, 1986: Healy and Wahlen, 1999). One of such accounting choices is the accrual-based accounting. Although, it is argued to provide most relevant measure of economic performance and firm financial standing, You, Tsai and Lin (2003) observe that the judgement and discretion involved offers managers variety of choices to manipulate earnings. The incentives to deliberately alter financial reports are largely discussed in the literature. They involve income smoothing to enhance shareholders' value, earnings management to maximize executive compensation (Bhat, 1996), Signalling effects (Ahmed, Takeda and Thomas, 1999: Wahlen, 1994), income smoothing, occassional big bath, live for today and maximize variability (Koch and Wall, 2000). Other incentives for managers' oppotunistic behaviour that are established in the literature include "bonus plans, debt contracts, meeting analyst's expectations or raising funds on more favourable terms" (Shah, Zafar and Durrani, 2009, p29).

Moreso, the relationship between ownership structure and earnings management has been discussed in the literature- using the variables of managerial ownership (Yeo, Tan, Ho and Chen, 2002: You, Tsai and Lin, 2003), institutional shareholding (Dabo and Adeyemi, 2009: Klai and Omri, 2011: Shehu, 2011), ownership concentration (Klai and Omri, 2011: Farooq and Eljai, 2012) and family ownership (Hashim and Devi, 2008: Klai and Omri, 2011). The evidences from these previous studies have yielded inconsistent results. For example, while Yeo et al. (2002) find that managerial ownership can be an effective mechanism within an ownership range of 25%, Johari, Saleh, Jaffar and Shehu (2008) conclude that managerial shareholding has a positive impact on discretionery accruals. Institutional shareholding has also been a central issue in the emperical discussions on the interaction between corporate governance and financial reporting quality. Perhap, the predominant view is that institutions have the required resources and financial expertise to monitor and discipline managers and thereby reducing agency problems. In this light,

Beasley (1996) observe that as institutional investment increases, financial fraud decreases in U.S. firms.

Emperical discussions on the association between ownership concentration and discretionery accruals has also documented contradictory results. Two conflicting arguments seem to dominate these discussions. Some researchers are of the opinion that large shareholding by few individuals induce them to monitor and discipline managers, because the cost implication of their monitoring is less than the expected benefit from their huge investments (Klein, 2002). On the contrary, it has also been documented that concentrated equity ownership in the hands in few investors can lead to abuse of power by the lion shareholders as they have the tendency to allign with managers to expropriate minority shareholders' wealth (Farooq and Eljai, 2012).

Although, some considerable amount of literature exists on the interaction between corporate governance mechanisms and earnings management (such as Dabo and Adeyemi, 2009 and Shehu 2011), few concentrated on the impact of ownership structure on discretionery accruals. While the few that exist are discussed in the light of other countries, the result of which are questionable in the Nigerian context given the differences in the nature of economies and level of sophistication of governance structures. Also, the results that are obtained from aggregate samples drawn from various sectors of the economy to examine phenomena underscore the possible implication of such phenomena on specific industries within the sample. Hence the decision to focus on the quoted food and beverage firms in Nigeria.

This work examines the relationship between ownership structure and earnings management in quoted food and beverage firms in Nigeria. To achieve this objective, it is therefore hypothesized that ownership structure does not significantly impact on earnings management in quoted food and beverage firms in Nigeria. The choice for the food and beverage firms is informed by the fact that these firms have been neglected in similar studies despite the role that the industry plays in economic development. Specifically, this study concentrates on ownership structure variables of managerial ownership, institutional shareholding, ownership concentration (blockholders) and family ownership. The contibution of this work is apparent in two ways. Firstly, it adds to the extant literature that examines the interaction between ownership structure and the discretionery behaviour of managers, especially in the developing economies such as Nigeria. Secondly, it

examines this interaction specifically to Nigerian food and beverage firms which has been neglected in similar in studies of this nature both in Nigeria and abroad.

The remaining of this paper is organized as follows. Section two reviews related literature that borders on the interaction between ownership structure and discretionery accruals and presents the theoretical framework. In section three methodolgical issues are discussed and our model specified. In section four, the result of our imperical work is presented and discussed. Finally, section five deals with conclusion and recommendations from the research findings.

2. Theory and Evidence

In this section, related literature on corporate governance and earnings management are reviewed and the theoretical framework for the study is presented. Specifically, attention is focused on the relationship between ownership structure variables of managerial ownership, institutional shareholding, ownership concentration and family ownership and earnings manipulation.

Healy and Wahlen (1999) define earnings management as the altering of financial statements through the use of judgement in structuring transactions to either mislead the firm's stakeholders about the true economic picture of the firm or to achieve some contractual benefit that is based on accounting numbers. In the words of Schipper (1989), earnings mangement is the deliberate intervention in financial reporting process to achieve personal goals. This means that earnings mangement is the manipulation of financial statement by managers, using accounting choices, estimates and methods, to achieve some objectives that are largely in conflict with the underlying economic status of the firm.

Various methods for the detection of earnings management have been documented. "Empirical studies have found managers engage in earnings management through changing accounting choice, real transactions, total accruals/discretionary accruals, specific accruals, earnings distributions approach and income smoothing" (Sun and Rath, 2010, p122). Of all these methods, the total accruals approach seems to be the one that has caught the attention of researchers the most. This is because, Al-Fayoumi, Abuzayed and Alexander (2010) note that it is the most damaging to the usefulness of accounting information because investors are wary of such accruals. Total accruals, which is the difference between net income and cash flow from operating activities, is further divided into two; non-discretionery and discretionery accruals. Non-discretionery accruals are those adjustments to the firm's cash flows that reflect the underlying

economic conditions of the firm and is required by the accounting standard-setting bodies. While discretionery accruals are those adjustment to the cash flow that largely depend on managers' judgement of furure uncertain events.

Chang et al. (2008) note three incetives to manage earnings. Firstly, because of capital market motivation, which includes initial public offerings, seasoned equity offerings, management buoyant plans and plans for mergers to meet earnings forecast, to smooth earnings, etc. Secondly, contracts motivation such as management compensation, debt agreement or job security also constitute the incentive for earnings management. Thirdly, laws and regulations such as import regulation, industrial regulation, antitrust laws, e.t.c., also can serve as an incentives. Cornet et al. (2009), note that managers use discretionery accruals for opportunistic earnings mangement. This includes options (the incentive for bonus income by attaining some level of performance) and affecting stock prices to enhance managers'wealth through restricted stock compensation.

2.1 Managerial Ownership and Earnings Management

Managerial ownership represents the interest of managers in the equity shareholding of a firm. The reason behind the rise of this corporate governance variable is rooted in the agency theory, which assumes that managers' equity holdings encourages them to act in a way that maximizes the value of the firm. Warfield et al. (1995) suggest that the interest of both shareholders and management starts to converge as the management holds a portion of the firms equity ownership. This implies that the need for intense monitoring by the board should decrease (Jensen and Meckling, 1976).

Studies on the interaction between managerial shareholding and earnings management have revealed inconclusive results. Yeo et al. (2003) examined the relationship between managerial ownership, audit quality and earnings managent, using a sample consisting of 490 firm-year observations drawn from the firms listed on the the Stock Exchange of Singapore for the period between 1990-1992 . Their findings suggest that when management ownership is less than or equal to 25%, managers' oppotunistic behaviour is reduced. However, as it crosses 25%, management ownership is positively related with aggressive income-increasing discretionery accruals. Similarly, Johari et al. (2008) investigates the impact of board indepence, competency and ownership on earnings management. Using a sample of 224 firms listed on Malaysia Stock Exchange and employing different accruals estimation models, they find that management

ownership is positively related with discretionary accruals in all models. This suggests that the higher the ownership of a firm's shares by its managers, the more the presence of earnings manipulation.

Conversely, You, Tsai and Lin (2003) examined the effect of managerial ownership on management adjustment of accounting accruals. With a sample of 393 corporations listed on Taiwan Stock Exchange between 1999 and 2000, the study documents a negative and significant relationship between managerial ownership and discretionery accruals. This study was conducted in China, a country which is inclined to the communist system of government is expected to have a different corporate governance mechanism and economic structure from that of Nigeria. Further, Hashim and Devi (2008) studied the interaction between corporate governance, ownership structure and earnings quality in Malaysia, using a sample of 426 non-financial firms listed on Bursa Malaysia Main Board for the period between 1999 and 2005. The study fails to establish any significant relationship between managerial ownership and the quality of financial reports. The same results are obtained even as they further segregated between inside and outside ownership. The results that could be obtained from similar studies mentioned above could have been different if conducted in Nigeria, given the differences in governance structures and level of economic developments.

2.2 Institutional Shareholding and Earnings Management

Institutional shareholding has emerged as an important exogeneous corporate governance mechanism for protecting minority shareholder's interest. This stems from the fact that institutions have more resources and capabilities to monitor, discipline and influence managers. However, both the incentive and power of the institutions depend on the degree of ownership acquired by the institutions (Roodposhti and Chashmi, 2011: Shehu, 2011). Also, Hartzel and Stark (2003) note that institutions have wealth of financial expertise which gives it a greater latitude to monitor managers. If these argument holds true, we expect institutional shareholding and earnings management to be inversely related, especially that institutions hold a substantial amount of equity shares of alot of quoted manufacturing firms in Nigeria.

Previous studies have documented contradictory results regarding the effect of institutional shareholding on opportunistic behavior of managers. Using a sample of 20 randomly selected quoted and active companies on the Nigerian Stock Exchange, Dabo and Adeyemi (2009)

examined the relationship between institutional investors and opportunistic behaviour of managers. The study fails to establish to any statistical evidence to either accept of fail to accept their hypothesis. This could be due to the use of chi-square, which is a less effective method of data analysis for establishing cause and effect relationship. Similarly, Al-Fayoumi et al. (2010) examine the interaction between ownership structure and managers' discretionery behaviour. Using a sample of 195 firm-year observations, consisting of Jordanian industrial firms for the period between 2001-2005, they fail to find a significant relationship between institutional shareholding and discretionery accruals. Although, this study was carried out in the context of a developing country, the differences of economies and regulatory frameworks call for an investigation into the Nigerian scenario.

While, extending prior research, Shehu (2011) investigate the effect of corporate governance on financial reporting quality with a sample of 63 banks listed on the Nigerian Stock Exchange for the period between 2007-2010. The study finds a positive and significant relationship between institutional shareholding and financial reporting quality. This work focused on the banking industry which has different governance structure from that of the manufacturing firms. In the same vain, using 22 non-financial firms listed on Tunis Stock Exchange for the period between 1997 to 2007, klai and Omri (2011) document a positive relationship between institutional investors, who are the major shareholders of Tunisian firms and who are also of significant presence on the board of directors, and financial repoting quality.

2.3 Ownership Concentration and Earnings Management

The third variable examined in this study is ownership concentration (also known as block holders), which refers to the proportion of shares held by certain number of shareholders, usually above 5%. It is an endogeneous governance mechanism that accords the shareholders more latitude to control management behaviour and decision (Sanda, 2005: Farooq and El Jai, 2012). The argument that usually supports this is that the largest shareholders have more incentive to monitor and discipline managers because monitoring cost is less than the expected benefits from their large investments (Klein, 2002: Schleiffer and Vishney, 1986). If this argument is anything to go by, we expect an inverse relationship between ownership concentration and discretionery accruals. However, Farooq and El Jai (2012) observe that ownership concentration can either have an allignment effect which reduces managers' opportunistic behaviour or have an

entrenchment effect which increases earnings manipulation. To support this observation, previous studies of the relationship between ownership concentration and earnings management have revealed inconclusive findings.

Using a panel of 22 non-financial firms quoted on the Tunis Stock Exchange during the period 1997 to 2007, Klai and Omri (2011) investigate the assocciation between ownership concentration and financial reporting quality. The results indicate that ownership concentration is negatively associated with financial reporting quality, implying that shareholders use their power to expropriate firm resources which increases earnings manipulation and information asymetry. This finding is an extension of Bradbury et al. (2006) and Firth et al. (2007). Conversely, with a sample of 196 firms listed on Tehran Stock exchange for the period between 2004 and 2008, Roodposhti and Chashmi (2010) find a negative relationship between ownership concentration and earnings manipulation. Further, using a sample of all 104 non-financial firms listed on Casablanca Stock Exchange between 2004 and 2007, Farooq and El Jai (2012) fail to establish a significant association between ownership concentration and discretionery accruals. All studies above were conducted in countries outside of Nigeria which have different economic and corporate governance peculiarities. Also, the impact of aggregate samples drawn from various sectors of the economy underscores the impact on governance mechanism on the discretionary accruals of specific sectors such as the food and beverage firms.

2.4 Family Ownership and Earnings Management

An examination of the interaction between famility ownership and earnings management is imperative because a large proportion of equity shares of a good number of Nigerian firms are concentrated in the hands of the same family members. This concentrated ownership may either enhance or temper with the value maximization objective of the firm because of the influence that the larger shareholders garner. Hashim and Devi (2008) note that the controlling shareholders participate significantly in the management process and have the power to expropriate the minority shareholders wealth thereby raising valid questions bordering on the minority shareholders' protection.

Evidences documented by prior studies have revealed that concentrated family ownership have the tendency to either allay or exacerbate agency problem. In this light, Hashim and Devi (2008) investigate the impact of ownership structure on earnings quality. With a sample consisting of 426

non-financial firms listed on Malaysia Main Board for the period 1999-2005, they document a positive and significant association between family ownership and financial reporting quality. This finding is consistent with the argument that family ownership is an effective mechanism in reducing agency cost. The study measures family ownership as the ratio of family members on the board to the total number of directors. This approach may not yield a good result as the proportion of equity shares held by family members is more important in influencing managerial decision making than the family's mere presence on the board. On the contrary, using a panel of 22 non-financial firm listed on Tunis Stock Exchange, Klai and Omri (2011) perceive that the power of families reduces the quality of financial information. They observe that family owners have the tendency to develop a network of relationship that allign them with managers in order to pursue their personal goals to the detriment of minority shareholders' interest. This finding is an extension of Wang (2006) who used U.S. sample to document a positive relationship between family ownership and discretionery accruals.

Agency theory provides a natural backdrop upon which this research is based. The theory states that the seperation of ownership from control of the modern day business has turned the relationship between the owners (shareholders) and controllers (managers) to that of an agent and a principal. As such the managers are supposed to treat this fiduciary relationship with utmost sense of transparency and accountability. This means that they are expected to act in such a manner that benefits the shareholders rather than pursuing their own selfish interest. However, in practice, the existence of information asymetry that gives the managers a privilege information may lead to the breach of the agency arrangement as the managers are tempted to use their positions for self enhancement, hence the agency problem. Ownership structure involves a variety of both endogeneous and exogeneous corporate governance mechanism that are put in place to mitigate this agency problem by effective monitoring of managers and consequently reduce the agency cost.

Three theoretical explanations have been advocated in literature to establish the relationship between earnings management and ownership structure. Bowen, Rajagopal and Venkatachalam (2008) find that the efficient contracting theory associates managers to exercising accounting discretion in an efficient manner such that in the long run firm value is maximized. The opportunist theory, assumes that managers have a short-term self interest as an incentive to form

poor firm structure to manage earnings for their own benefit (Klein (2002). While the agency theory advocates that the owners/shareholders are separate from managers in such a way that directors and institutional shareholders acts as monitoring tool of checkmating opportunistic behaviour of managers in preparing financial statement. The efficient contracting theory suggests a positive association between accounting discretion and long term firm performance and quality of financial information. Therefore, in this study the agency and opportunist theories are used to link ownership structure with earnings management.

3. Methodology, Model Specification and Robustness Tests

This work is a correlational research that links proxies ownership structure and discretionery accruals. The study's population consists of all 15 food and beverage firms quoted on the Nigerian Stock Exchange as at 31st December, 2011. To obtain the sample, attention was focused on firms that were quoted on the NSE for the period of this study (2006 to 2010) and whose data for the study period is available. Thus, 8 firms were selected to make 40 firm-year observations. Further, we use the variance inflation factor and tolerance values to avoid making wrong conclusions that may arise from multicollinearity. The result indicate the absence of excessive correlation between pairs of independent variables as all factors and their respective tolerance values are below 1 and 10 respectively.

Consistent with prior studies (such as Dechow et al., 1995 and Jaggi and Leung, 2007), a cross-sectional regression of the modified Jones Model (1991) to obtain the discretionery component of accruals. The choice of the modifies Jones model (1991) was informed by Dechow et al. (1995) who argue that the model is more powerful in detecting earnings management among the existing models. Total accruals ($TACC$) is defined as the difference between net income (NI), which is the earnings before taxation and extraordinary item and cash flow from operating activities (OCF).

$$TACC_i = NI_i - OCF_i \dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots.(i)$$

$$TACC_{it}/A_{it-1} = \alpha_t[1/A_{it-1}] + \alpha_{1i}[(\Delta REV - \Delta REC)/A_{it-1}] + \alpha_{2i}[PPE_{it}/A_{it-1}] + \varepsilon_{it} \dots(ii)$$

Where $TACC$ is the total accruals ($NI - OCF$), ΔREV is change in revenue, ΔREC is change in receivables, PPE is property, plant and equpment and ε is the residual. To control for heteroskedasticity, all variables are scaled by previous years total assets. Al-Fayoumi et al. (2010)

note that change in revenue is included to control for economic circumstances of each firm in the sample, while gross plant, property and equipment are included to control for the total proportion of accruals relating to non-discretionery expenses.

Earnings management is measured by the discretionery accruals, which is obtained by making the error term from equation (ii) the subject of the formula. Consitent with You et al. (2003), the study uses aboslute abnormal accruals to proxy for earnings management as adopted from. Thus discretionery accruals (DA) is estimated as:

$$DA_{it} = TACC_{it}/A_{it-1} - \alpha_t[1/A_{it-1}] + \alpha_{1i}[(\Delta REV - \Delta REC)/A_{it-1}] + \alpha_{2i}[PPE_{it}/A_{it-1}]..(iii)$$

The larger the value of the discretionery accruals, the higher the presence of earnings manipulation and vice-versa.

Next, the ownership structure variables of managerial ownership, institutional shareholding, ownership concentration and family ownersship are presented. All variables are expressed as a percentage which is consistent with prior studies such as Chehaat (2006) and Shehu (2011). Moreso, Zhu and Tian (2009) expressed discretionery accruals as a percentage.

Managerial Ownership (X_1) is measured as the proportion of the management interest in the equity shareholding of the firm.

Institutional Shareholding (X_2) is the ratio of equity shares of the firm held by institutional investors to the total shares outstanding.

Ownership Concentration (X_3) is the proportion of shares held by certain number of block holders, exceeding 5%.

Family Ownership (X_4) is the ratio of shares held by members of the same family to the total equity shares outstanding.

Firm Size (D_1) is used in this study to control for the likely impact of bank size on the discretionery accruals of the sample firms. It is defined as the natural log (ln) of total asset. It is argued that the larger the firm size the higher the expected agency problem that the firm is likely to experience. Also, given the fact that large firms have more resources and earn higher profit, Grey and Clarke (2004) note that they are more likely to avoid managing earnings through

discretionery accruals. Quite a number of studies control for firm size including Shah Yuan and Zafar (2010), Roodposhti and Chashmi (2011) and Shehu (2011).

The study's regression model is therefore:

$$DA_{it} = \alpha_0 + \alpha_1 X_{1it} + a_2 X_{2it} + \alpha_3 X_{3it} + a_4 X_{4it} + D_1 + \varepsilon_{it} \dots \dots \dots \dots \dots \dots \dots (iv)$$

Whereα_0 is the intercept, a_{1-4} is the coefficient of the independent variables, X_1, X_2, X_3, and X_4 are the independent variables of managerial ownership, institutional shareholding, ownership concentration and family ownership respectively, D_1 is the control variable (firm size) and ε is the regression residual.

4. Results and Discussion

In this section results are presented and discussed in the light of the research findings. First, a set of discriptive statistics are presented, then followed by the regression results.

Table 1: Descriptive Statistics

	MO	IS	OC	FO	FS
$Mean$	.2342287	36.14813	45.33498	18.86275	17.22311
$Std. Dev.$	.316104	20.19802	22.01615	21.95526	.3749142
$Minimum$	.00165	5.08	8.13	0.00	16.45356
$Maximum$	.89	73.55	89.80	71.00	17.88948
$Observation$	40	40	40	40	40

Source: Output of data analysis using Stata 9

From Table 1 above, the average managerial ownership of the quoted food and beverage firms that constitute the study sample is 0.23%, institutional shareholding accounts for 36%, while ownership concentration and family ownership acoount for 45% and 19% respectively. The proportion of managerial ownership represents a relatively negligible amount of the total shares outstanding (less than 1%). However, a large amount of equity ownership is concentrated in the hands of both institutional investors and individuals that have the same family affilliations, both accounting for as high as 89% and 71% respectively. The average firm size (control variable) is 1.7 billion Naira, which is a wide disparity from the standard deviation of 0.37 billion Naira. This

indicates that the food and beverage firms in Nigeria vary significantly among each other in terms of size and growth. Overall, the standard deviations of all variables do not differ greatly from their respective means, which indicates that the data are normally distributed and are fit to produce a result that is reliable.

Table 2: Correlation Matrix Table

	DA	MO	IS	OC	FO	FS
DA	1.0000					
MO	−0.2371	1.0000				
IS	−0.22754	0.5899	1.0000			
OC	0.4494	0.4936	0.4669	1.0000		
FO	0.4279	0.1366	0.2007	0.4545	1.0000	
FS	0.5804	−0.4851	−0.5022	0.0361	0.2556	1.0000

Source: Output of data analysis using stata 9

Table 2 above is a correlation matrix table, which shows the relationship between all pairs of variables in the regression model. The result reveals a negative correlation between managerial ownership and institutional shareholding, on the one hand, and earnings management on the other. While ownership concentration, family ownership and firm size are positively correlated with discretionery accruals. There is a positive correlation between all pairs of independent variables, which calls for an investigation of the possibility of multicollinearity. The test for multicollinearity using the variance inflation factor (VIF) reveals the absence of it as all factors are below 10 and tolerance values are above 1.0. The mean VIF is 1.92. Moreso, the diagnostic statistics obtained from White's heteroskedasticity test indicate that the regression model performs properly.

Table 3: Summary of Regression Result

Variables	Coefficient	Std. Error	T − test	Probability
Intercept	-272.3076	98.37649	−2.77	0.006 ***
MO	1.85948	9.354839	0.20	0.842
IS	−.284060	.1050099	−2.71	0.007 ***
OC	.288069	.1046124	2.75	0.006 ***
FO	.133342	.0725212	1.84	0.066 *
FS	16.88263	5.765362	2.93	0.003 ***
R − sq: within	0.6988			
between	0.5001			
overall	0.5914			
Wald chi2	72.36			
Prob chi2	0.0000			

Source: output of data analysis using stata 9. (***, * indicate significant levels at 1 % and 10% respectively).

Table 3 is a summary of the regression result. It indicates that institutional shareholding, ownership concentration and firm size are significant at 1%, while family ownership is significant at 10%. The model is therefore estimated as follows:

$$DA_{it} = -272 + 1.9MO_{it} -.28IS_{it} +.29OC_{it} +.13FO_{it} + 16.9FS_{it}$$

The result indicates an inverse relationship between institutional investors and earnings management, while a positive and significant impact of ownership concentration and family ownership on managers provision of discretionery of accruals has emerged. A positive association between managerial ownership and earnings manipulation perceived, but this finding is not statistically supported. Also, a positive and significant relationship has been established between firm size, which is proxy by natural log of total asset, and opportunistic behaviour of managers.

Further, of all the variables in this study, it is only institutional shareholding that documents an inverse relationship with discretionery accruals. This seems to support the view that institutions

have more resources to monitor and discipline managers to act in such a manner that is in tandem with minority shareholders' interest (Shehu, 2011: Roodposhti and Chashmi, 2011) and they also have financial expertise that enables them to detect the opportunistic behaviour of managers (Grey and Clarke, 2004). Interestingly, our finding extends that of Shehu, (2011) who used a sample of quoted Nigerian banks to establish a positive relationship between institutional investors and financial reporting quality. However, it contradicts that of Dabo and Adeyemi (2009) who fail to establish a statistically significant association between institutional shareholding managers' opportunistic behaviour using 20 most active quoted firms in the Nigerian Stock Exchange. Moreso, it conflicts the finding of Al-Fayoum (2010) in their sample of Jordanian industrial firms. It can therefore be concluded that large institutional presence in the Nigerian food and beverage firms helps to allay the agency problem and leads to the protection of minority shareholders' interest which reduces drastically the level of managing earnings and improves financial information quality.

Considering the relationship between ownership concentration and discretionery accruals, the result reveals that ownership concentration is positively and significantly associated with discretionery accruals of listed food and beverages firms in Nigeria. This finding supports that of Klai and Omri (2011) in their sample of 22 non-financial firms quoted on the Tunisian Stock Exchange. It also extends the findings of Bradbury et al. (2006) and Firth et al. (2007), that large shareholders have the tendency to use their power to expropriate firms' resources, which increases earnings manipulation and information asymetry. However, the result contradicts that of Roodposhti and Chashmi (2010) who use a sample of Iran firms to document a positive and significant interaction between ownership concentration and financial reporting quality. Similarly, it also contradicts Farooq and Eljai (2012) who fail to document a statistically significant impact of concentrated equity shareholding on earnings management. This study outcome, therefore, objects to the argument of Yeo et al. (2003) that large shareholders play an active role in curbing the agency problem because they have a general interest in profit maximization and enough control over the asset of the firm. In fact, large acquisition of equity shares by few individuals in Nigerian food and beverage firms that form this study sample leads to abuse of power which could jeopardize the value maximization of the firm. Thus, in our own case, ownership concentration has an entrenchment effect which increases the earnings manipulation tendency of managers.

Regarding the family ownership, which is the fourth ownership structure of this study, a positive and significant relationship has emerged between it discretionery accruals. This is hardly surprising because of the fact that there is large concentration of equity shareholding of the sampled firms owned by individuals with the same family affilliations. The implication of this finding is that concentrated family ownership is synonymous to ownership concentration, which can also lead to the abuse of power and consequently thwart the value maximization objective of the firm. Hashim and Devi (2008) observe that the large concentration of ownership with family members engender these families to even participate in the management process and allign with managers to expropriate the minority shareholders' interest. The study result is consistent with the findings of Wang (2006) who used U.S. sample to document a positive interaction between family ownership and earnings management. It also conforms with the conclusion of Klai and Omri (2011) who establish a negative impact of family ownership and financial reporting quality in their study of Malaysian sample. However, this finding is in conflict with that of Hashim and Devi (2008) who studied Iranian sample firms.

Finally, a positive and significant relationship is established between the control variable (firm size) and earning management in the Nigerian food and beverage firms. This implies that large firms control abusive accounting than small ones. This maybe because of their reputation and big audit firms auditing them. This finding contradicts the argument that because larger firms are more closely monitored than their smaller counterparts (Hashim and Devi, 2008) they have more incentive to produce better financial reporting quality (Shehu, 2011).

Overall, the coefficient of determination R-square suggests that the ownership structure variables are able to explain earnings management to the extend of 59%, while the remaining 41% are explained by other factors that are not captured in the model. Wald chi2 of 72.36 indicate that the model is fitted and that the findings can be relied upon. Based on this we, therefore, reject the null hypothesis that ownership structure does not have a significant impact on earnings management on quoted food and beverage firms in Nigeria.

5. Conclusion and Recommendation

Agency theory demands that managers should act in a manner that is consistent with the value maximization objective of the firm. However, in practice, the positions that they hold triggers information asymetry which induces the managers to pursue their own interest at the expense of

the firms that they manage. One of the strategies through which managers seek selfish gains is through the exploitation of accounting methods and choices within the regulatory framework. Researchers, practitioners and regulators have identified that ownership structure has the tendency to either allign with or entrench minority shareholders interest. In this paper, it has been statistically revealed that ownership struture has a significant impact on earnings management in quoted food and beverage firms in Nigeria. Based on the findings, it is therefore recommended that institutional shareholding should be encouraged by the government because of the role that it plays in constraining managers to act in a manner that favors the firm. It is also recommended that there should be a sparse distribution of equity shareholding among available investors in order to preclude the likely expropriation of minority interest by the lion shareholders.

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