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Earnings Management and Ownership Structure: Evidence from Nigeria

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Abstract
The objective of the study is to examine the relationship between ownership structure and earnings management in Nigeria. The pooled data design was employed in the study. The study employed the simple random sampling technique in selecting a sample size consisting of 10 commercial banks as at 2012. Secondary data retrieved from the audited financial statements of the banks for 2006-2010 were used for the study. The method of data analysis used was the multivariate regression technique based on the ordinary least squares assumptions. A series of diagnostic tests such as the variance inflation factor test, white heteroskedasticity test and the Breusch -Godfrey LM correlation test were also employed as diagnostic checks for the result. The ownership structure was disaggregated into insider ownership, institutional ownership and external block ownership respectively. The finding of the study revealed the existence of a positive and significant relationship between External block ownership (EXTBLH) and Earnings Management. The relationship between Insider Ownership (INSIDEROWN) and Earnings Management was also observed to be positive and statistically significant at 5% level. A positive relationship was also observed between Institutional Investors Ownership (INSTIIOWN) and Earnings Management However, the relationship is statistically insignificance at 5% level. The recommendation is that there is a need to focus on building effective corporate governance to mitigate the proclivity for earnings management in the banking sector.
Key words; Earnings Management, Managerial Ownership, Institutional Ownership, External Block-Holders.

1.0 Introduction

Earnings management has been at the core of accounting research for the last two and a half decades. However, there has been varied conceptualization of earnings management from different researchers. Schipper (1989, p. 92) defined earnings management as “the process of taking deliberate steps within the constraints of Generally Accepted Accounting Principles to bring about a desired level of reported income”. Healy and Wahlen (1999) state that "earnings management occurs when managers use judgment in financial reporting 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". Earnings management can assume any of the following approaches; (1) via the structuring of certain revenue and/or expense transactions; (2) via changes in accounting procedures; and/or (3) via accruals management (McNichols and Wilson 1988, and Schipper 1989). Of the above mentioned earnings management techniques, accruals management is the most damaging to the usefulness of accounting reports because investors are unaware of the extent of such accruals (Mitra and Rodrigue , 2002). Accrual is defined as the difference between the earnings and cash flow from operating activities. Accruals can be further classified into non-discretionary accruals and discretionary accruals. While non-discretionary accruals are accounting adjustments to the firm’s cash flows mandated by the accounting standard-setting bodies, discretionary accruals are adjustments to cash flows selected by the managers (Rao and Dandale, 2008).

The connection between ownership structure and earnings management has been the subject of an important and ongoing debate. It is believed that diffuseness of a firm’s ownership structure plausibly serves the firm’s shareholders better than would a concentrated ownership structure. There is a public perception that earnings management is utilized opportunistically by firm managers for their own private gain rather than for the benefit of the stockholders. This misalignment of managers' and shareholders' interest have often be cited as basis for suspicion of the occurrence of earnings management as managers could use the flexibility provided by the accounting standards to manage income opportunistically, thereby creating distortions in the reported earnings. However, a number of academic studies have indicated that there could be gains from management of earnings for shareholders as there is the tendency for enhancing the information value of earnings.

In the Nigerian corporate environment, earnings management is posing a serious threat viz-a-viz, the credibility of public financials. There have been several cases of earnings management especially in the banking sector and this has raised many questions about the ethical standards of management and about the integrity of financial reports issued by professional accountants (Bakre, 2007; Ajibolade, 2008; Okike, 2009). This paper

examines the relationship between earnings management and ownership structures in the Nigerian environment using data from the banking sector.

1.1 Statement of research problem

The effect of ownership structure on earnings management has stimulated research attention. Wang (2006) states that ownership structure has important effects on reported earnings. Sanchez-Ballesta and Garsa-Meca (2007) examine the relationship between ownership structure and discretionary accruals for a sample of Spanish non-financial companies. Their results support the hypothesis that insider ownership contributes to the constraining of earnings management when the proportion of shares held by insiders is not too high. When insiders own a large percentage of shares, however, they are entrenched and the relation between insider ownership, discretionary accruals reverses. Conversely, several other studies (e,g Porter 1992 and Bushee, 1998, Grace and Koh. .2005).) allege that frequent trading and fragmented ownership discourage active involvement in the earnings management However, from the preview of prior studies, we identified the following issues. Firstly, it appears that there is no general agreement regarding the effect of ownership structure on earnings management. Secondly, there is also limited research on the association between ownership structure and earnings management as most existing researches, usually study just one aspect of ownership structure and their findings tend not to be sufficient for ascertaining the true relationship between ownership structure and earnings management. Thirdly, the researcher is unaware of any study in the Nigerian corporate environment that has disaggregated ownership structure into insider ownership, institutional ownership and external block ownership respectively and examines the relationship with earnings management beyond anecdotal assertion especially in the Nigerian Banking sector. It is in the light of these inadequacies that this study's contribution provides the relevance.

1.2 Objective of the study

On the basis of the above research problem, the broad objective of this study is to examine the relationship and impact of ownership structure and earnings management in commercial banks in Nigeria. The specific objectives include:

To ascertain if there is any significant relationship between earnings management and insiders' ownership.

To find out if there is any significant relationship between earnings management and external block-holders.

To determine if there is any significant relationship between earnings management and institutional investors.

2.0 Literature review and hypotheses statement

2.1 Concept of earnings management

Earnings management is recognized as attempts by management to influence or manipulate reported earnings by using specific accounting methods or accelerating expense or revenue transactions, or using other methods designed to influence short-term earnings. The term as generally understood refers to systematic misrepresentation of the true income and assets of corporations or other organizations (Beneish, 2001). Healy and Wahlen (1999) states that earnings management occurs when managers use judgment in financial reporting 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". Growing evidence from prior research supports the argument that earnings management is a common practice in firms (see Dye 1988; Trueman and Titman 1988; Scott 1998). Bakre, (2007) Ajibolade (2008) and Okike (2009) Otusanya and Lauwo (2010) have cited evidences of earnings management in the Nigerian banking sector. Given that managers have flexibility in choosing accounting policies, they choose policies that maximize their own utility. Several studies on earnings management take this opportunistic perspective (Cahan 1992; Sweeney 1994).

2.2 Ownership Structure and Earnings Management

Ownership structure as proposed by the agency theory is one of the most important corporate governance mechanisms to solve agency problems and suggests that concentrated ownership will result in more effective monitoring (Jensen & Meckling, 1976). Whilst researchers in developed countries focus on the conflict of interest among outside shareholders and managers in a diffused ownership, in Asia where ownership concentration structures are more common, the agency problem shifts to conflicts amongst the controlling owners and the minority shareholders (Claessens & Fan, 2002). The concentrated ownership creates agency conflicts between controlling owners and minority shareholders, which are hard to mitigate during the traditional functions of a board of directors. It is argued that an effective mechanism to constrain earnings management is the development of an appropriate ownership structure. It has also been stated that, where there is a separation of ownership from the control of a business, there is a tendency for managers of companies to engage in fraudulent financial reporting in order to maximize their own personal welfare to the detriment of the interests of the users of financial statements, the investing public and bank depositors (Sikka, 2009; Dabor and Adeyemi, 2009). Two schools of thought exist regarding an effective structure of ownership. First, insiders or managers of the firm act

also as shareholders if they acquire a considerable portion of the entity's shares, and this is deemed to be useful in reducing agency conflicts and aligning the interests of management and shareholders. Secondly, outsiders who own a significant number of the firm's shares, have more power and more incentive to monitor management activity, mainly the process of financial reporting, thus reducing the earnings management probability. The following firm ownership structures will be examined and will form the basis for the specification of the hypotheses. They include; managerial ownership, institutional ownership and external block-holders.

2.3 Insider / Managerial Ownership

Koh (2003) investigated Australian firms in relation to the relationship between managerial ownership and aggressive earnings management practice and found a positive association between them. This result is consistent with the view that high managerial ownership encourages managerial accruals discretion. Hsu and Koh (2005) extended Koh's (2003) research by investigating the effect of both short-term and long-term managerial ownership on the extent of earnings management in Australia. They found that managerial ownership is statistically significant for all linear specifications but insignificant for the non-linear models. However, managerial ownership is positively associated with income-decreasing discretionary accruals and negatively associated with income-increasing accruals. Teshima and Shuto (2008) examined the managerial ownership effect on earnings management and found that earnings management is significantly positive within intermediate regions of ownership, which suggested that the entrenchment effect is dominant in these regions. Chung, R., Firth, M., & Kim, J. B. (2002) studied this relationship by hypothesizing that the constraining relationship between earnings management, on the one hand, and an independent board of directors and the audit committee existence, on the other hand, will be more pronounced when the level of managerial share ownership is low. They did not document a direct association between managerial ownership and earnings management. On the other hand, they found little support for these conjectures, suggesting that boards continue to have a constraining influence on earnings management, even when shareholders' and managers' interests are better aligned.

2.4 Institutional Ownership

Previous literature illustrates that institutional investors can be considered as sophisticated investors who typically serve a monitoring role in reducing pressures for myopic behaviour. For instance, Bushee (1998) investigated as to whether institutional investors create or reduce incentives for corporate managers to reduce investment in research and development (R&D) to meet short-term earnings goals. The results indicated that managers were less likely to cut R&D to reverse earning decline when institutional ownership is high. It is a global view that institutional investor involvement in corporate governance is complementary to corporate governance mechanism. Latest studies use the level of institutional ownership and average percent of outstanding shares that are owned by institutional investors (Koh, 2003).

2.5 Block-holders' Ownership

Block-holders' ownership takes various forms including individual investors, pension funds, mutual funds, corporations, private equity firms, fund managers, banks and trusts. Zhong, K., Donald, W. and Zheng, X. (2007) considered two competing views when studying the relationship between block-holders and earnings management. First, consistent with the agency theory perspective, small block-holders can sell their stocks quickly if they are not pleased with the performance of managers, whereas large block-holders found it hard to sell a large block of stock without it having considerable impact on the firm, including lowering its stock price. Thus, large block-holders normally adopt a long-term strategy and thus they need to monitor managers to produce more benefits for their equity ownership. Secondly, unlike small shareholders, large block-holders can put pressure on managers to report a favourable financial performance and create another threat of intervention to perceived underperforming management (Barclay & Holderness, 1991; Shleifer & Vishny, 1997). Consequently, the existence of large block-holders may press firms' managers to engage in income-increasing earnings management to report a favourable financial performance.

HYPOTHESES STATEMENTS

The following hypotheses formulated for the study will thus be tested. They are as follows;

There is no significant relationship between Insider Ownership (INSIDEROWN) and Earnings Management**.**

There is no significant relationship between relationship between External block ownership (EXTBLH) and Earnings Management.

There is no significant relationship between Institutional Investors Ownership (INSTIIOWN) and Earnings Management.

3.0 Methodology and model specification

The study adopts a pooled series research design which includes both cross-sectional and time-series data properties with an extensive reliance on secondary data from the Central Bank of Nigeria (CBN) statistical bulletin and the Nigerian Stock Exchange (NSE) information on annual reports of quoted companies for the

period 2006-2010. A sample size of 10 companies of the twenty –four (24) listed banks as at 2010 was selected using the simple random sampling technique. Krejcie & Morgan (1970) in Amadi (2005) agree with the sample as they proposed the population proportion of 0.05 as adequate to provide the maximum sample size required for generalization. Additionally, banks with insufficient data for ownership and those with inadequate financial data are excluded from the sample. Multiple regression analysis will be utilized as the data analysis method. The regression analysis will be carried out using the Ordinary Least Squares (OLS) estimation technique. The choice of this technique is predicated on the fact that the sample estimates obtained using the technique represent the Best (minimum variance), Linear, Unbiased Estimate of the population parameters. We examine whether each of the ownership structure categories (management, external block-holders, and institutional investors) is associated with earnings management. From the hypotheses the following models are specified.

$EM_{it} = \alpha_1 + \alpha_2 INSI_{it} + \alpha_3 EBH_{it} + \alpha_4 INST_{it} + \varepsilon_{it}$ ---------- (1)

Where,

EM_{it} is earnings management measured by discretionary accruals for firm *i* at time *t*, $INSI_{it}$ is insiders (managerial) ownership variable, $INST_{it}$ is institutional ownership variable for firm *i* at time *t*, and EBH_{it} is external block-holders' ownership variable for firm *i and* time t, and ε_{it} is the error term.

3.1 Variable definition and measurement

Measuring Earnings Management

In this study, we use accounting accruals approach to measure earnings management. Accruals include a wide range of earnings management techniques available to managers when preparing financial statement such as, *inter alia*, accounting policy choices, and accounting estimates (Grace et al., 2005; and Fields et al., 2001) Discretionary accruals are extensively used to demonstrate that managers transfer their accounting earnings from one period to another. In other words, managers exercise their discretion over an opportunity set of accrual choices within GAAP, Following recent literature (see Jaggi and Leung 2007), this study uses the cross sectional variation of the modified Jones model Jones, (1991); and Dechow, P. M., Sloan, R. G. and Sweeney, A. P. (1995) to obtain a proxy for discretionary accruals. Total accruals (TACC) is defined in this study as the difference between net income before extraordinary items (NI) and cash flow from operating activities (OCF):-

$TACC = NI - OCF$..... (1)

The equation below is estimated for each firm and fiscal year combination

$TACC_{it}/A_{it-1} = \alpha_t [1/A_{it-1}] + \alpha_1[\Delta REV_{it} - \Delta REC_{it}/A_{it-1}] + \alpha_{2i}[PPE_{it}/A_{it-1}] + \varepsilon_{it}$ …….. (2)

Where, TACC is the total accrual,

ΔREV is the change in operating revenues,

ΔREC is the change in net receivables,

PPE is gross property, plant and equipment, *t* and *t-1* are time subscripts and *i* is the firm subscript.

Non-discretionary earnings (NDE) are earnings less discretionary accruals (DACC). To estimate the coefficient values, an Ordinary Least Squares (OLS) regression is employed. The Difference between total accruals and the non-discretionary components of accruals is considered as discretionary accruals (DACC) as stated below:

$DACC = TACC_{it}/A_{it-1} - [\hat{\alpha}_t(1/A_{it-1})] + \hat{\alpha}_1[(\Delta REV_{it} - \Delta REC_{it})/A_{it-1}] + \hat{\alpha}_{2i}[PPE_{it}/A_{it-1}]$ .....(3)

All variables are scaled by prior year total assets A_{t-1} .

3.2 Measuring Ownership Structure

Insider ownership (INSI), external block-holders ownership (EBH) and institutional ownership (INST) were collected from the annual reports of the sampled firms in the Nigerian Stock Exchange (NSE) data base. INSI was defined as the percentage of shares held by officers or directors within the bank. EBH was measured as the percentage of shares held by the individual block-holders. For each party, we only consider the ownership percentage that represents 5% or more of bank's equity share capital. INST was measured as the percentage of shares held by institutions, which includes shares owned through social security and other funds. Consistent with Koh (2003), the following organizations are classified as institutional investors: insurance companies (life and non-life), pension funds, investment companies, and financial institutions including banks

4.0 Presentation and analysis of result

The normality and descriptive statistics test, the variance inflation factor result,, the regression result, the Breusch-Godfrey correlation LM, and white Heteroskedasticity Test, were all employed in the study. This section comprises of the presentation and analysis of result and the hypotheses testing.

Table 1 Descriptive statistics

	EARNMGT	EXTBLH (share units in millions)	INSIDEROWN (share units in millions)	INSTIINV (share units in millions)
Mean	28.59	2.56	22.56	7.77
Maximum	47.38	4.00	56.58	18.519
Minimum	16.721	1.86	16.55	2.809.
Std. Dev.	3.129	0.133	7.92	1.301
Jarque-Bera	137.38	72.01	201.5	189.613
Probability	0.000	0.000	0.0000	0.0000
Sum	5821.640	28255.96	3.61E+09	2.96E+08
Sum Sq. Dev.	448812.5	111.7064	1.19E+17	1.76E+15

Table 1 above displays the descriptive statistics for the data. As observed, the value of Total Earnings Management measured using discretionary accruals for the sampled banks for 2005-2010 has a mean value of 28.56 and standard deviation of 3.129. The maximum and minimum amounts for the study period were 47.38 and 16.721 respectively. The Jarque-Bera statistic value of 137.38 and p-value of 0.00 confirms the normality of the data and suitability for generalization. It also indicates the absence of outliers in the data. Ownership by External block holders (EXTBLH) stood at a mean value of 2.56m share units for the period under review while the standard deviation stood at 0.133. The maximum and minimum value of Ownership by External block holders (EXTBLH) for the period under review as seen in table 1 is 4.00m and 1.86m respectively. The Jarque-Bera statistic value of 72.01 and p-value of 0.00 also confirms the normality of the data and suitability for generalization. It also indicates the absence of outliers in the data. Furthermore the mean share units representing the extent of Insider Ownership (INSIDEROWN) for the sampled banks for the study period stood at 22.56m share units while the standard deviation is 7.92. The maximum and minimum unit for the study period is 56.58m and 16.55m respectively. The Jarque-Bera statistic value of 210.5 and p-value of 0.00 also confirms the normality of the data and suitability for generalization. It also indicates the absence of outliers in the data. Finally, mean share units representing the extent of Institutional Investors Ownership (INSTIIOWN) for the sampled banks for the period under review stood at 7.77m share units with a standard deviation value of 1.301. The maximum and minimum share units for the study period were 18.519 and 2.809 respectively. Like in the others, the Jarque-Bera statistic value of 189.6 and p-value of 0.00 also indicates that the data are normal and there are no outliers in the data.

Table 2 Variance Inflation Factors

	Coefficient	Centered
Variable	Variance	VIF
C	16.09477	NA
EXTBLH	0.000227	1.700859
INSIDEROWN	2.88E-14	2.301144
INSTIINV	1.29E-12	1.522571

Table 2 shows the variance inflation factor (VIFs) which measures the level of collinearity between the possible regressors in an equation. The VIFs show how much of the variance of a coefficient estimate of a regressor has been inflated due to collinearity with the other regressors. They can be calculated by simply dividing the variance of a coefficient estimate by the variance of that coefficient had other regressors not been included in the equation. . The VIFs are inversely related to the tolerances with larger values indicating involvement in more severe relationships. Basically, VIFs above 10 are seen as a cause of concern (Landau and Everitt, 2003). Thus with centered VIF values of 1.700 for External block ownership (EXTBLH), 2.03 for Insider Ownership (INSIDEROWN) and 1.522 for Institutional Investors Ownership (INSTIIOWN) respectively, there is no evidence of multicollinearity and hence the variables are suitable for regression analysis which is carried out and presented below.

Table 3 Regression Result

Dependent Variable: EARNMGT				
Method: Least Squares				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	7.945144	4.011829	1.980429	0.0494
EXTBLH	0.107247	0.015061	7.121000	0.0000
INSIDEROWN	4.20E-07	1.70E-07	2.473299	0.0145
INSTIINV	1.94E-08	1.13E-06	0.017111	0.9864
R-squared	0.481905	Mean dependent var		36.38525
Adjusted R-squared	0.471942	S.D. dependent var		53.12928
S.E. of regression	38.60777	Akaike info criterion		10.16947
Sum squared resid	232527.4	Schwarz criterion		10.24635
Log likelihood	-809.5573	F-statistic		48.36775
Durbin-Watson stat	1.698012	Prob(F-statistic)		0.000000

Source: eviews 7.0

Table 3 presents the regression result with earnings management as the dependent variable computed using the Jones (1991) discretionary accruals model while the explanatory variables are External block ownership (EXTBLH), Insider Ownership (INSIDEROWN) and Institutional Investors Ownership (INSTIIOWN) respectively. From the table, it is observed that the coefficient of determination for the regression as depicted by the R^2 value of 0.48 suggests that about 48% of the systematic variation of the dependent variable is accounted for by the explanatory variables. The adjusted R^2 also shows a value of 0.47. The analysis of the slope coefficients of the explanatory variables indicative of the direction of relationship and their respective t-values or p-values indicative of their statistical significance reveal the existence of a positive relationship between External block ownership (EXTBLH) and Earnings Management as shown by the slope coefficient of 0.107. The relationship is observed to be statistically significant at 5% level with a p-value of 0.00 which is less than the critical p-value of 0.05. The relationship between Insider Ownership (INSIDEROWN) and Earnings Management was also observed to be positive and statistically significant at 5% significant level as indicated by the slope coefficient of 4.20E-07 and p-value of 0.01 which is less than the critical p-value of 0.05. A positive relationship was also observed between Institutional Investors Ownership (INSTIIOWN) and Earnings Management as depicted by the slope coefficient of 1.94E-08. However, the relationship is statistically insignificance at 5% level given its p-value of 0.98 which exceeds the critical p-value of 0.05. The f-statistic of 48.36 and with a p-value of 0.000 suggests that the variables considered jointly are all significant determinants of Earnings Management. The Durbin-Watson statistics of 1.7 which examines the presence of serial between in the error term do not provide evidence of stochastic dependence between successive units of the error term. The Breusch-Godfrey Serial Correlation Lm Test presented below also confirms the absence of serial correlation in the error term.

Table 4 Breusch-Godfrey Serial Correlation Lm Test:

F-statistic	2.11394	Probability	0.1008
Obs*R-squared	6.36802	Probability	0.0957

Source: eviews 7.0

The Breusch-Godfrey correlation LM test for the presence of autocorrelation reveals that the p-value of the f-statistics and the observed R-squared is 0.10 and 0.09 respectively using a residual lag length of 3. When compared to the critical value of 0.05, the p-values are noticed to be higher and this shows the non-existence of autocorrelation. Hence the estimates of the regression follow the non-violation of the zero covariance assumption of the ordinary least squares.

Table 5 White heteroskedasticity test:

F-statistic	0.837131	Probability	0.543011
Obs*R-squared	5.085633	Probability	0.532878

Source: eviews 7.0

The table reveals that the p-value s for both the f-statistics and the observed R- squared stood at 0.54 and 0.53 respectively using residual lag length of 2. The values are greater than the critical value of 0.05 at 5% significance level. This shows that there is no evidence for the presence of heteroskedasticity since the p-values of the f-statistic, observed R-squared and the scaled explained sum of squares are considerably in excess of 0.05.

Table 6 RAMSEY RESET TEST:

F-statistic	0.037147	Probability	0.847418
Log likelihood ratio	0.038341	Probability	0.844760

Source: eviews 7.0

The Ramsey Reset Test shows that the p-values for the t-statistic and f-statistic of 0.844 and 0.847 respectively are greater than the critical value of 0.05. This shows that there is no apparent non-linearity in the regression equation and it would be concluded that the linear model is appropriate

HYPOTHESES TESTING

The following hypotheses formulated for the study will thus be tested. They are as follows;

H_0: There is no significant relationship between Insider Ownership (INSIDEROWN) and Earnings Management**.**

From the analysis of the regression result in table 3, a positive relationship exists between Insider Ownership (INSIDEROWN) and Earnings Management. Consequently, the null hypothesis (H0) of no significant relationship between Insider Ownership (INSIDEROWN) and Earnings Management is rejected.

H_0: There is no significant relationship between External block ownership (EXTBLH) and Earnings Management.

From the analysis of the regression result in table 3, a positive relationship was observed to exist between External block ownership (EXTBLH) and Earnings Management. Consequently, the null hypothesis (H_0) of no significant relationship between External block ownership (EXTBLH) and Earnings Management is rejected.

H_0: There is no significant relationship between Institutional Investors Ownership (INSTIIOWN) and Earnings Management. The result in table 3, shows a positive relationship between Institutional Investors Ownership (INSTIIOWN) and Earnings Management. Therefore, the null hypothesis (H_0) of no significant relationship between Institutional Investors Ownership (INSTIIOWN) and Earnings Management is accepted.

5.0 Discussion of findings

From the findings of the study a positive and significant relationship was observed to exist between External block ownership (EXTBLH) and Earnings Management as shown by the slope coefficient of 0.107 with a p-value of 0.00. The finding suggests that increase in External block ownership may create a situation of an increase in management's disposition to earnings management in the Nigerian banking sector. The study's finding is in tandem with the findings of McEachern (1975), Shleifer and Vishny (1986), Holderness and Sheehan (1988), and Barclay and Holderness (1991). However, our finding is in contrast with that of Dechow et al. (1996), Yeo, G., Tan, P. and Chen, S. (2002).

The relationship between Insider Ownership (INSIDEROWN) and Earnings Management was also observed to be positive and statistically significant at 5% significance level as indicated by the slope coefficient of 4.20E-07 and p-value of 0.01 which is less than the critical p-value of 0.05. The study's finding in this regard suggests that Insider Ownership may not after all provide the adequate monitoring needed to make management averse towards the proclivity for earnings management in the banking sector in Nigeria. The study's finding is in line with that of Sanchez-Ballesta and Garsa-Meca (2007); Morck, R., Shleifer, A. and Vishny (1998) ; Gabrielsen, G., Gramlich, J. and Plenborg, T.(2002). However, it contrast with the findings of Warfield, T., Wild, J. and Kenneth, W. (1995) and Dempsey, S., Hunt III, H. And Schroeder, N. (1993)

A positive relationship was also observed between Institutional Investors Ownership (INSTIIOWN) and Earnings Management as depicted by the slope coefficient of1.94E-08. However, the relationship is statistically insignificance at 5% level given its p-value of 0.98 which exceeds the critical p-value of 0.05. The implication therefore is that institutional investor ownership as a proportion of total ownership may not signal a decline in the opportunistic demeanour of management which serves as a breeding ground for earnings management. The finding of this study is in tandem with those of Porter (1992), Bushee, (1998) and Grace, H. and Koh, P. (2005). This does not agree with works El-Gazzar, 1998; Wahal and McConnell, 2000; Velury and Jenkins, 2006.

5.1 Conclusion and recommendation

The study examined the relationship between ownership structure and earnings management in Nigeria. Using regression analysis, a series of diagnostic tests and disaggregating the firm ownership structure. The three variables tested; External block ownership (EXTBLH), Insider Ownership (INSIDEROWN), Institutional Investors Ownership (INSTIIOWN) has a positive and significant relationship with Earnings Management. The

recommendation of the study is that there is the need to ensure that effective corporate governance is in existence and identify the salient channels that may send directly or indirectly the signals of a tensed financial environment that could predispose managers to engage in earnings management. As a suggestion for further study, finding suggests the need to investigate the board room dynamics as the ownership structure examined in isolation may not provide a satisfying explanation to the underlying issues of earnings management. In our opinion, this may be a reason for the clear polarity in empirical findings as firm specific effects could interface with ownership structure. It is suggested that interactive effects and relationships between ownership structures and for example CEO duality, Audit firm effects and the managerial incentive structure of the firm be examined.

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REGRESSION RESULT

Dependent Variable: EARNMGT

Method: Panel Least Squares

Date: 06/04/12 Time: 02:15

Sample: 1998 2007

Periods included: 10

Cross-sections included: 16

Total panel (balanced) observations: 160

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	7.945144	4.011829	1.980429	0.0494
EXTBLH	0.107247	0.015061	7.121000	0.0000
INSIDEROWN	4.20E-07	1.70E-07	2.473299	0.0145
INSTIINV	1.94E-08	1.13E-06	0.017111	0.9864

R-squared	0.481905	Mean dependent var	36.38525
Adjusted R-squared	0.471942	S.D. dependent var	53.12928
S.E. of regression	38.60777	Akaike info criterion	10.16947
Sum squared resid	232527.4	Schwarz criterion	10.24635
Log likelihood	-809.5573	Hannan-Quinn criter.	10.20068
F-statistic	48.36775	Durbin-Watson stat	1.181714
Prob(F-statistic)	0.000000		

DISCRIPTIVE STATISTICS

Date: 06/04/12
Time: 02:13
Sample: 1998 2007

	EARNMGT	EXTBLH	INSIDEROWN	INSTIINV
Mean	28.59	2.56	22.56	7.77
Maximum	47.38	4.00	56.58	18.519
Minimum	16.721	1.86	16.55	2.809.
Std. Dev.	3.129	0.133	7.92	1.301
Skewness	2.08	1.715	2.18	3.93
Kurtosis	6.98	4.716	8.32	25.84
Jarque-Bera	137.38	72.01	201.5	189..613
Probability	0.000	0.000	0.0000	0.0000
Sum	5821.640	28255.96	3.61E+09	2.96E+08
Sum Sq. Dev.	448812.5	11177064	1.19E+17	1.76E+15

Breusch-Godfrey Serial Correlation LM Test:

F-statistic	2.416021	Probability	0.1008
Obs*R-squared	4.867574	Probability	0.0957

Test Equation:
Dependent Variable: RESID
Method: Least Squares
Date: 06/04/12 Time: 02:59

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.700825	4.049099	0.173082	0.8628
EXTBLH	-0.001346	0.015011	-0.089656	0.9287
INSIDEROWN	-4.23E-09	1.69E-07	-0.025098	0.9800
INSTIINV	-2.01E-07	1.13E-06	-0.177561	0.8593
RESID(-1)	0.168906	0.082264	2.053207	0.0417
RESID(-2)	-0.081667	0.081625	-1.000520	0.3186

R-squared	0.030422	Mean dependent var	-2.16E-15
Adjusted R-squared	-0.001057	S.D. dependent var	38.24181
S.E. of regression	38.26203	Akaike info criterion	10.16357
Sum squared resid	225453.4	Schwarz criterion	10.27889
Log likelihood	-807.0857	F-statistic	0.966408
Durbin-Watson stat	2.013288	Prob(F-statistic)	0.440287

White Heteroskedasticity Test:

F-statistic	0.837131	Probability	0.543011
Obs*R-squared	5.085633	Probability	0.532878

Test Equation:

Dependent Variable: RESID^2

Method: Least Squares

Date: 06/04/12 Time: 03:00

Sample: 1 160

Included observations: 160

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1313.635	783.0792	1.677525	0.0955
EXTBLH	-2.048517	7.968523	-0.257076	0.7975
EXTBLH^2	0.008086	0.009308	0.868708	0.3864
INSIDEROWN	-9.42E-06	5.97E-05	-0.157772	0.8748
INSIDEROWN^2	-2.35E-14	4.84E-13	-0.048451	0.9614
INSTIINV	-7.08E-05	0.000361	-0.195951	0.8449
INSTIINV^2	3.97E-12	1.64E-11	0.241490	0.8095

R-squared	0.031785	Mean dependent var	1453.296
Adjusted R-squared	-0.006184	S.D. dependent var	6040.883
S.E. of regression	6059.533	Akaike info criterion	20.29942
Sum squared resid	5.62E+09	Schwarz criterion	20.43396
Log likelihood	-1616.953	F-statistic	0.837131
Durbin-Watson stat	2.046880	Prob(F-statistic)	0.543011

Ramsey RESET Test:

F-statistic	0.037147	Probability	0.847418
Log likelihood ratio	0.038341	Probability	0.844760

est Equation:

Dependent Variable: EARNMGT

Method: Least Squares

Date: 06/04/12 Time: 03:00

Sample: 1 160

Included observations: 160

Variable	Coefficient	Std. Error	t-Statistic	Prob.

C	7.450968	4.771667	1.561502	0.1204
EXTBLH	0.112934	0.033149	3.406902	0.0008
INSIDEROWN	4.53E-07	2.44E-07	1.859773	0.0648
INSTIINV	-7.76E-08	1.24E-06	-0.062350	0.9504
FITTED^2	-0.000407	0.002111	-0.192737	0.8474

R-squared	0.482029	Mean dependent var	36.38525
Adjusted R-squared	0.468662	S.D. dependent var	53.12928
S.E. of regression	38.72747	Akaike info criterion	10.18173
Sum squared resid	232471.7	Schwarz criterion	10.27783
Log likelihood	-809.5381	F-statistic	36.06120
Durbin-Watson stat	1.698703	Prob(F-statistic)	0.000000

Variance Inflation Factors

Date: 06/04/12 Time: 03:14

Sample: 1 160

Included observations: 160

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
C	16.09477	1.727648	NA
EXTBLH	0.000227	2.460206	1.700859
INSIDEROWN	2.88E-14	3.872942	2.301144
INSTIINV	1.29E-12	1.996443	1.522571