



OWNERSHIP STRUCTURE AND EARNINGS MANAGEMENT OF LISTED OIL AND GAS FIRMS IN NIGERIA

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Abstract: *This study examined the effect of ownership structure on earnings management of listed Oil and Gas companies in Nigeria. Data were obtained from annual financial reports and accounts of listed oil and gas firms listed on the Nigerian Stock Exchange Market as at December 31, 2020 covering the period 2011-2020. A descriptive statistics and pooled regression tools were used to analyze the data collected. The findings revealed that ownership structure has a positive but significant influence on earnings management of the listed oil and gas companies in Nigeria. Specifically, the OLS (robust) revealed that except controlled variable of firm size, explanatory variables of the study have a positive and significant influence on earnings management. The study concludes that ownership structure has effect on earnings management and recommended that management should pay attention to the ownership structure when making policies pertaining to earnings management in order to reduce aggressive earnings management.*

Keywords: ownership structure, earnings management, oil and gas, Nigeria

1.1 Introduction

The objective of a financial report is to provide information about the financial position, performance and change in financial position of an entity that is useful to a wide range of users in making economic decisions (International Accounting Standard Board, 2001). Sun and Rath (2008) also posited that the primary role of financial statements is to disclose to internal and external users the company's financial information in a timely and reliable manner. Organizations are expected to present financial report, some organizations operate in a highly competitive business environment with the expectation of capability to achieve a certain profit level and maintain financial solvency. When a firm loses competency to maintain profit and financial solvency, it could lead to

business failure and total extinction (Akintoye, 2008; Wu, 2010).

Accounting earnings information is relevant when it influences user's decisions by helping them to form prediction about the future of the entity and confirm or correct past judgement (Houque, Zijl, Dunstan & Karim, 2012). Accounting earnings information is however, reliable if it can be depended upon to represent faithfully, without bias or undue error, the transactions or events that it professes to represent (FASB 1980: SFAC 2). The accounting earnings information must therefore be relevant and reliable for it to be useful for the economic decision-making activities of both the internal and external users of financial information.

The quality of accounting earnings information is influenced by an array of factors, most of which stem

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from the demand for such information for use in contractual arrangements and from the incentives and opportunities of management to manage the reported earnings (Gabrielson, Gramlich & Plenborg, 2003). Earnings are considered the main sources of information and would alter any economic decisions of the users (Rad, Salahi & Pour, 2016). This raised the need to set rules to guide and control the performance by enhancing the quality of the financial reporting and to ensure the transparency of the financial information (Zgarni, Halioui & Zehri, 2016). Aggressive earnings management therefore pose a serious danger for accurate economic decisions.

Earnings management can be considered as legal if a firm adjusts the disclosed earnings in line with GAAP guidelines (Aygun, Suleyman & Sayim, 2014). But earnings management turns into fraudulent activities when it does not comply with the GAAP guidelines and accounting standards including such activities of accelerating revenue recognition and deferring expenses recognition (Wong, Loo & Shamsher, 2009). Earnings management might be the way to manipulate firm's disclosed financial statement both to misinform shareholders and to affect contractual benefit that is based on accounting earnings (Healy & Wahlen, 1999). However, ownership structure has been identified as one of the ways through which fraudulent and aggressive earnings management activities can be regulated in companies. It's essential to monitor decisions of managers to make sure that the shareholders values are increased and to ensure that disclosures in the financial statements are accurate and transparent (Aygun, Suleyman & Sayim, 2014). Corporate ownership structures if well established tend to decrease earnings manipulations (Chen, Chen & Huang, 2012).

A critical review of the past literatures shows that none of the past researchers have tried to examine the effect of managerial ownership on earnings management from the

investors perspective in Nigeria and this creates a huge gap in the literature as the financial statements are not prepare only for the use of the shareholder but other users including investors that use financial statements as a basis of making decision on whether they should invest in a particular company or not. This study intends to fill the observed gap in the literature.

It was also noticed that previous literatures on this subject are found mostly in the developed countries while there is little or no research work on this subject matter in developing countries and most especially in Nigeria oil and gas sector.

1.2 Objectives of the Study

The main objective of this study is to examine the effect of ownership structure on earnings management of listed oil and gas companies in Nigeria. The specific objectives of the study are to:

- i. determine the effect of managerial ownership structure on the earnings management of the listed oil and gas companies in Nigeria.
- ii. investigate the influence of foreign ownership structure on the earnings management of the listed oil and gas companies in Nigeria.
- iii. assess the effect of institutional ownership structure on the earnings management of the listed oil and gas companies in Nigeria.

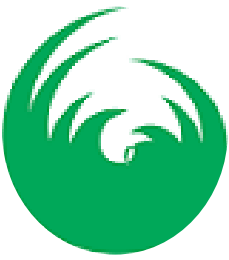
1.3 Research Hypotheses

The following null hypotheses would guide this study.

H₀₁ Managerial ownership structure has no significant effect on earnings management of the quoted oil and gas companies in Nigeria.

H₀₂ Foreign ownership structure has no significant influence on earnings management of the quoted oil and gas companies in Nigeria.

H₀₃ Institutional ownership structure does not significantly affect earnings management of the quoted oil and gas companies in Nigeria.



2.0 Literature Review

2.1 Theoretical literature review

2.1.1 Agency theory

The theory was propounded by Jensen and Meckling in 1976 and defines agency relationship in terms of a “contract under which one or more persons the principal(s) engage another person (the agent) to perform some service on their behalf which involves delegating some decision-making authority to the agent.” Agency theory assumes both the principal and the agent are motivated by self-interest. The agency theory serves as the underlying rationale for corporate law as well as principles and regulations of corporate governance (Li, 2014).

2.1.2 Entrenchment /Expropriation theory

The Entrenchment theory being an offshoot of the agency theory, assumes that the agent is in an aggressive relationship with the shareholder and therefore exhibits opportunistic behavior. The Entrenchment theory sees the agent as someone with an active behavior. This theory, according to Kouaib and Jarboui (2014) begins with the observation that the control mechanisms and incentives to increase managerial efficiency are not sufficient to constrain managers to manage the firm in line with shareholders’ interests.

2.1.3 Conservatism theory

This theory can easily be associated with principle of realization, in that it encourages that an income should not receive recognition prior to its actual realization. This principle as seen by contemporary academicians and accounting standard setters, is a concept under which accountants apply a sensible amount of prudence in the recognition of transactions that are affected by economic uncertainty.

2.1.4 Stakeholder theory

The origin of Stakeholder theory could be traced to Ian Mitroff in his book "Stakeholders of the Organizational Mind", published in 1983 in San Francisco. The theory is

centered on the fact that organization exist to cater for its stakeholders needs and expectations. It stresses the interconnected relationships between a business and its customers, suppliers, employees, investors, communities and others who have a stake in the organization. The theory argues that a firm should create value for all stakeholders, not just shareholders. A stakeholder has been defined (by Freeman 1984) as: any group or individual who can affect or be affected by the achievement of an organization’s objectives.

2.2 Conceptual Review

2.2.1 Ownership Structure

Ownership structure refers to the percentage of a company’s shares owned by a certain number of institutions, individuals or families. It explains the type of ownership that exists within an organization. The ownership structure of a firm can be categorized into two groups: the proportion of shares owned by insiders and outsiders; the proportion of shares owned by institutional versus individual shareholders (Wong, Loo & Shamsher, 2009). Ownership of a corporation may be that of family business, this is a situation in which the largest percentage of the shares is owned by individuals who are related by blood. Managerial ownership is considered an important device of ownership structures for mitigating the conflict between managers and shareholders. Managers with high ownership interest in the firm are less likely to alter earnings for short term private gains at the expense of outside shareholders. Managers whose interest is consistent with shareholders are more likely to report earnings that reflect the underlying economic value of the firm (Dhaliwal, Salamon & Smith, 1982). Institutional investors are seen as sophisticated investors who typically serve a monitoring role in reducing pressures for myopic managerial behaviour (Bartov, Gul & Tsui, 2001). This investors are classified into long-term institutional investors who are occupied with strong incentives to monitor firms they have invested in while institutional



shareholders with short-term orientation or, as popularly referred to as myopic, or transient institutional investors are the more dominant type and their focus are chiefly on present earnings in determining stock prices rather than earnings gained through long-term investments or long-term earnings (Habbash, 2010). Dahlquist and Robertsson (2001) stated that foreign ownership can be seen as one active mechanism that could pair with the governance structure of a firm to monitor the management from engaging in non-value maximising activities because their role is similar to that of institutional investors.

2.2.2 Earnings management

The concept of earnings management has received varying definitions by different scholars (Isenmila & Afensimi, 2012). According to Schipper (1989), earnings management is a “purposeful intervention in the external financial reporting process, with the intent of obtaining some private gain” as different from the assertion of merely facilitating the neutral operation of the process. It is legal if the described gains or profits are modified in line with Generally Accepted Accounting Practices (GAAP).

2.3 Empirical Review

Pranesh (2017) using multiple regression analysis examine the impact of firm's growth and performance on earnings management. It was discovered that growth of the firm is positively associated with discretionary accruals while performance is negatively correlated.

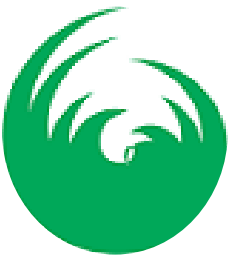
Saona, Muro and Alvarado (2020) examined how the ownership structure and board of directors' features determine the managerial opportunistic behavior exemplified in the management of accounting earnings in Spain. The study considers the relationship of firm-level and country-level corporate governance systems on the earnings management in the Spanish corporate sector. The findings revealed that the varying efficiency of the corporate governance systems is reflected in the way in which accounting discretion is performed.

Warrad (2017) study of leverage influence on earnings quality of 62 Industrial companies at Amman (Jordan) Stock Exchange from the period of 2011 to 2015 concluded that there is a significant influence of debt ratio on the listed Jordanian Industrial companies' earnings quality, and there is a significant influence of return on asset on the listed Jordanian industrial companies' earnings quality.

In Nigeria, Araoye and Obafemi, (2021) investigates the effect of corporate governance on earnings management in listed insurance firms in Nigeria for the period 2010-2019. The data were obtained from 15 sampled insurance companies with the use of descriptive statistics and panel least squares method in analyzing the data. The result shows that the explanatory variables director equity interest, corporate governance disclosure index and audit committee has positive but insignificant effect on earnings management. The board structure has negative but insignificant influence on earnings management while the result further indicates that firm size has positive but significant impact on the earnings management of the selected insurance companies in Nigeria.

Egbunike and Odum (2018) explore the relationship between board leadership structure and earnings quality using quoted manufacturing firms in Nigeria. The output of the research shows that board size and board composition were positive and significant in relation to earnings quality. However, proportion of non-executive directors was negative and significant; while, CEO duality has positive and significant correlation with earnings quality.

Akintoye, Adegbe, Nwaobia and Kwarbai (2019) studied earning quality and growth of listed firms in Nigeria using descriptive statistics and regression analysis discovered that quality of earnings had significant effect on turnover growth. However, earnings quality proxies had mixed effects because earnings predictability had a significant negative effect. The value relevance and



accounting conservatism had a significant positive effect, while accrual quality had an insignificant negative effect on turnover growth of firms.

Apollos, Jerry and Olajumoke (2019) examined earnings management and corporate survival of listed manufacturing companies in Nigeria along with the theory of reasoned action developed. The study used descriptive and inferential statistics and found out that earnings management and the corporate governance have a joint significant effect on corporate survival, implying that many other factors aside earnings management and corporate governance mechanisms affect the survival of an entity.

3.0 Methodology

3.1 Research Design

This study employed the use of *ex-post facto* research design because investigation started after the fact has occurred without interference from the researcher. Purposeful sampling technique was employed to choose eight (8) companies from the population of eleven Oil and Gas companies listed on the Nigerian Stock Exchange Market as at December 31, 2020. Secondary data was used in this study. The data were collected through companies' annual financial reports, research journals and related texts. The study adopted static panel OLS estimation techniques.

3.2 Model Specification

The model employed in this study was adapted from the work of Demirguc-Kunt and Levine (1996), Olatunji and Araoye (2019) and as also adopted by Araoye (2021). The following variables used to examine the influence of ownership structure on earnings management of listed Oil and Gas companies in Nigeria. Therefore, the model specifications are as follows:

$$ERNMGT = f(MGOWN, FROWN, INSTOWN, FSIZE, FAGE) \dots \dots \dots (3.1)$$

The static panel model was presented below as:

$$ERNMGT_{it} = \alpha_0 + \beta_1 MGOWN_{it} + \beta_2 FROWN_{it} + \beta_3 INSTOWN_{it} + \beta_4 FSIZE_{it} + \beta_5 FAGE_{it} + \epsilon_t \dots (3.2)$$

Where:

ERNMGT = Earnings Management

MGOWN = Management Ownership

FROWN= Foreign Ownership

INSTOWN= Institutional Ownership

FSIZE= Firm Size

FAGE= Firm Age

β_1, β_5 = Coefficients of explanatory variables

ϵ_t = Error term

3.3 Measurement of variables

The measurements of variables are as follows:

ERNMGT= Earnings management are measured using the modified Jones model Dechow, Sloan and Sweeney (1995) as a proxy of discretionary accruals. Discretionary accruals are thus the residual of the NDA model using the equation below;

$$NDA_{it} = \alpha_i (1/Ait - I) + \beta_{1t} (\Delta REV_{it} - \Delta REC_{it}/Ait - I) + \beta_{2t} (PPE_{it}/Ait) + \mu_{it}$$

Where: NDA_{it} = Non-discretionary accruals in year t for firm i ;

$Ait - I$ = Total assets in year $t - 1$ for firm i

ΔREV_{it} = Revenues in year t less revenues in year $t - 1$ for firm i ,

ΔREC_{it} = Net receivables in year t less net receivables in year $t - 1$ for firm i and

PPE = Property, plant and equipment in year for firms

MGOWN = Ratio of management ownership to total ownership

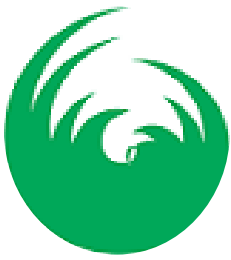
FROWN = Ratio of foreign ownership to total ownership

INSTOWN = Ratio of institutional ownership to total ownership

The control variables included in the study were firm size (SIZE) and firm Age (AGE)

FSIZE = natural log of total asset

FAGE = number of years in operation



A Priori Expectation: $\beta_1, \beta_2, \beta_3, \beta_4, \beta_5 < 0$

Table 4.1 shows the descriptive statistics for the study.

4.0 Data Analysis and Interpretation of Result

4.1 Descriptive Analysis

Table 4.1: Descriptive Statistics

Variables	Mean	Std. Dev.	Maximum	Minimum	Skewness	No Obs
DA	7.91667	14.43376	65.0000	0.3000	4.54616	80
MGOWN	0.35417	0.095207	0.7800	0.0580	0.66096	80
FROWN	0.55691	0.20529	0.8000	0.0000	0.21876	80
INSTOWN	0.4582	0.05099	0.6195	0.0000	-0.67549	80
FSIZE	12.5630	4.44304	9.0315	7.1149	-0.54329	80
FAGE	10.4320	12.35641	49.000	8.0000	1.9543	80

Source: Author's computation 2021

Table 4.1 shows that on average, during the period of the study, the Managerial Ownership has a mean value of 35%, foreign ownership has a mean value of 25% and Institutional Ownership has an average of 45%, this implies that Managerial, foreign ownership and Institutional Ownership are below 50%. Managerial ownership has a minimum value of 0.05% and a maximum value of 78%. Foreign ownership has a minimum value of Zero (0) and maximum value of 61.95%. Similarly, institutional ownership has a minimum value of Zero (0) and a maximum value of 74%. The minimum value of foreign ownership and institutional Ownership implies that there is a particular year that the firm's do not have foreign and institutional investors. Amongst the Independent variables, the foreign

ownership has the highest standard deviation of 0.20162 signifying its low contribution in constraining earnings management in oil and gas firms in Nigeria. While institutional ownership has the lowest standard deviation among the significant variables which indicate its higher contribution in restraining earnings management in listed oil and gas firms in Nigeria.

The results show that all the variables have mean values greater than their respective standard deviation, except for dependent variable (discretionary accruals) and firm age used as control variable implying higher than normal peak. The skewness result, which was largely around zero and one, indicates that the data are typically distributed.



4.2 Correlation Analysis

Table 4.2: Correlation Matrix

	DA	MGOWN	FROWN	INSTOWN	FSIZE	FAGE
DA	1.0000					
MGOWN	-0.1198	1.0000				
FROWN	0.1443	0.2899	1.0000			
INSTOWN	0.0400	0.2373	-0.1054	1.0000		
FSIZE	-0.2501	0.0520	0.1124	0.4843	1.0000	
FAGE	0.0097	0.7672	0.3305	0.1508	0.2457	1.0000

Source: Author's computation 2021

The results presented in table 4.2 revealed a significant but weak (0.14) positive correlation between foreign ownership and discretionary accrual. Similarly, institutional ownership is significant but had weak positive relationship with discretionary accrual (0.04). This is a potential indication that these variables may be associated with higher accruals-based earnings management among in the selected oil and gas listed firms in Nigeria. Conversely, there are significant but weak (-0.12) and negative correlation between managerial ownership and discretionary accrual. More so, firm size indicated significant but weak (-0.25) and positive correlation with discretionary accrual. This suggests that these variables potentially lead to a lower degree of accruals-based earnings management.

The correlations between the independent variables themselves are not expected to be significant. The tolerance value and the variance inflation factor are two good measures of assessing multicollinearity between the independent variables in the study. The variance Inflation factor show from the regression result, were consistently smaller than ten as shown in table 4.3 indicating the complete absence of multicollinearity. This indicates the appropriateness of our study model being fitted with the four independent variables. Also, the tolerance values were consistently smaller than 1.00, thus further substantiates the fact that there is a complete absence of multicollinearity between independent variables.



4.3 Pooled Regression

In testing the hypotheses for this study, OLS regression was employed and presented in table 4.3

Table 4.3: Regression Model

Variables	OLS	Robust
DA	-2.56(0.00)*	-2.69(0.00)*
MGOWN	-0.01(0.00)*	0.013(0.00)*
FROWN	0.20(0.00)*	0.40(0.00)*
INSTOWN	0.03(0.00)*	0.015(0.00)*
FSIZE	0.84(0.00)*	0.86(0.00)*
FAGE	-0.0002(0.91)	-0.00007(0.96)
<i>R-Squared</i>	0.65	0.65
<i>F-Statistic</i>	323.9(0.00)*	402.48(0.00)*
<i>VIF Test</i>	1.02	
<i>Heteroscedasticity</i>	8.58(0.00)*	
Observation	80	80

Source: Author's computation 2021

Note: * represents significant at 0.05

In the table 4.3, OLS pooled regression revealed adjusted R-squared value of 0.65 which indicates that about 65% of the systematic variations in the dependent variable in the pooled companies over the period of interest was jointly explained by the independent variables. The F-statistic value of 402.5 and its associated P-value of 0.000 shows that the OLS Pooled regression model on the overall is statistically significant at 1% level, this means that the regression model is valid and can be used for statistical inference. The table above also shows a mean VIF value of 1.02 which is less than the benchmark value of 10, this indicates the absence of multicollinearity, and that no independent variables was dropped from the model.

H₀₁- *managerial ownership* (OLS robust = 0.013(0.00)*) as an independent variable to earnings management (DA) appears to have a positive and significant influence on DA at 5% level of significance. The result is in congruence with the hypothesis but contrary to a priori expectation of the study stated. It shows that a unit addition to managerial ownership will culminate to about 0.013 increases in earnings management at 5% level. H₀₂: *Foreign ownership* (OLS robust =0.40(0.00)*) as an independent variable to earnings management appears to have a positive and significant influence on earnings management at 5% level. A unit increase in foreign ownership will result in 0.4 unit increase in earnings management of the listed oil and gas firms in Nigeria. The findings align with the stated hypothesis but at



variance with the a priori expectation of the study. H_{03} : *Institutional ownership* ($OLS\ robust = 0.015(0.00)^*$) revealed that the variable significantly affects earnings management and a unit addition to institutional ownership leads to 0.015 unit increase in earnings management. This result is in line with the study of (Velury & Jenkins, 2006; Koh, 2007; Pizzaro *et al.*, 2007) but contrary to the works of (Sirger & Utama, 2008; Lin & Hwang, 2010; Farouk & Bashir, 2017). Table 4.3, firm size and age were considered as control variables were examined their influence on earnings management and the result revealed ($OLS\ robust = 0.86(0.00)^*$) and ($OLS\ robust = 0.00007(0.96)^*$) respectively, firm size appears to have a positive and significant influence on DA at 5% level, while firm age shows negative and insignificant influencing on earnings management.

4.6 Discussion of Results

The main objective of this study is to analyze the effect of ownership structure on earnings management of listed Oil and Gas companies in Nigeria. Specifically, the study examined the effect of managerial ownership structure on earnings management; ascertained the effect of foreign ownership structure on earnings management and assessed the influence of institutional ownership structure on earnings management in oil and gas listed companies in Nigeria. The panel regression result showed there was significant and negative effect of MGOWN (management ownership) on ERNMG (earnings management) at 5% level of significant. The results is in line with the outcome of (Saleh, Iskandar & Rahmat, 2005; Bradbury, Mak, & Tan, 2006; Farouk & Bashir, 2017), Nevertheless, the empirical works of (Liu & Lu, 2007; Pizzaro, Mahenthiran, Cademarton, & Curci, 2007; Chang & Sun, 2008) are in contrast with this study findings. Foreign ownership appears to have a positive and significant influence on earnings management at 5% level. This result agrees with prior empirical outcome of (Farouk & Bashir, 2017) while is in contrast to the findings of

(D'Souza, & Megginson, 2005). Institutional ownership revealed a positive and significant influence on earnings management at 5% level. More so, institutional ownership showed significant effect on earnings management. This result is in line with the study of (Velury & Jenkins, 2006; Koh, 2007; Pizzaro *et al.*, 2007) but contrary to the works of (Sirger & Utama, 2008; LinHwang, 2010; Farouk & Bashir, 2017). Firm size and age were considered as control variables and examined their influence on earnings management and the result revealed at 5% level, while firm age shows negative and insignificant influencing on earnings management. This outcome support entrenchment theory which suggests that firms with higher director ownership may use earnings management to camouflage the reported earnings to hide expropriation from outside shareholders.

5.1 Conclusion And Recommendation

This study examined the effect of ownership structure on earnings management of listed Oil and Gas companies in Nigeria with the specific objectives of examining the effect of managerial ownership structure on earnings management; investigating the effect of foreign ownership structure on earnings management and also assessed the influence of institutional ownership structure on earnings management in Nigerian oil and gas listed companies. Data were obtained from the secondary source through companies' annual financial reports and accounts. The study sampled some selected Oil and Gas companies on the Nigerian Stock Exchange Market as at December 31, 2020 covering the period 2011-2020. A panel least-square estimator was used to analyze the data collected. The findings revealed that only managerial ownership significantly influences earning management negatively whereas foreign ownership and institutional ownership have positive and significant influence on earning management in the period observed. The study concludes that ownership structure has effect on earnings management and recommended that management should



pay attention to the ownership structure while making policies pertaining to earnings management in order to reduce aggressive earnings management.

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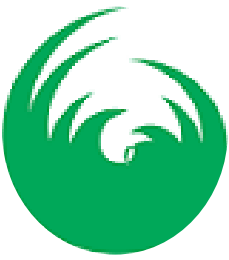
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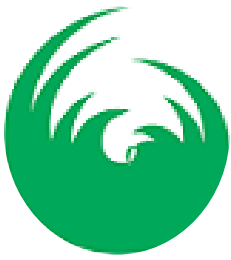
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Table 3.1: Listed Oil and Gas Companies in Nigeria

S/N	COMPANY NAME	TICKER
1	11 PLC	MOBIL
2	ARDOVA PLC	ARDOVA
3	CAPITAL OIL PLC	CAPOIL
4	CONOIL PLC	CONOIL
5	ETERNA PLC	ETERNA
6	JAPPAUL GOLD AND VENTURES PLC	JAPPAUL GOLD
7	MRS OIL NIG PLC	MRS
8	OANDO PLC	OANDO
9	RAK UNITY PET. COMP. LTD. PLC	RAKUNITY
10	SEPLAT ENERGY PLC	SEPLAT
11	TOTAL NIG PLC	TOTAL

Source: www.listedcompaniesinnigeria