EFFECT OF OWNERSHIP STRUCTURE ON EARNINGS QUALITY OF LISTED CONSUMER GOODS FIRMS IN NIGERIA

BY

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A THESIS SUBMITTED TO THE SCHOOL OF POSTGRADUATE STUDIES, AHMADU BELLO UNIVERSITY ZARIA, IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF MASTER OF SCIENCE (M.Sc) DEGREE IN ACCOUNTING AND FINANCE

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DECLARATION

I declare that the work in this dissertation entitled "Effect of ownership structure on earnings quality of listed consumer goods firms in Nigeria" has been developed by me in the Department of Accounting, Faculty of Business School, Ahmadu Bello University, Zaria. The information derived from the literature has been duly acknowledged in the text and a list of references provided. No part of this dissertation was previously presented for another degree or certificate at this or any other institution.

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CERTIFICATION

This dissertation, entitled **EFFECT OF OWNERSHIP STRUCTURE ON EARNINGS QUALITY OF LISTED CONSUMER GOODS FIRMS IN NIGERIA** by **Folake Maysurah AKINDELE** meets the regulations governing the award of the degree of Master of Science (M.Sc) in Accounting and Finance of the Ahmadu Bello University, Zaria, and is approved for its contribution to knowledge and literary presentation.

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DEDICATION

This dissertation is dedicated to Almighty Allah, the most gracious and the most merciful, and also to my late father, Imran Oladipo Akindele.

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ABSTRACT

Earning is believed to be the most significant item in the financial report because it serves as an indicator of the firm's financial performance and guides investors in evaluating the performance of the firm. However, the quality of financial reporting has remained an issue of major concern among the various users of financial information. As a result, measures are raised to curb this situation among which is ownership structure (distribution of company ownership among its shareholders). The study seeks to examine the effect of ownership structure on earnings quality of listed consumer goods firms in Nigeria. The study formulates four hypotheses and applied Panel Regression Technique to analyse the relationship between dependent variable earnings quality and the independent variable (ownership structure). The dependent variable was measured by the modified Jones model while the independent variable was proxied by, managerial ownership, institutional ownership, ownership concentration and foreign ownership of the sampled Consumer goods firms. Secondary data was extracted from the annual reports and accounts of nineteen sampled firms listed under the consumer goods sector of the Nigerian Stock exchange for the period 2009-2016. The study found that: Managerial ownership positively influences earnings quality, Ownership concentration negatively influences earnings quality but Institutional Ownership and Foreign Ownership have positive but insignificant influence on earnings quality. Based on the findings, the study concluded that ownership structure has a great effect on the earnings quality of listed consumer goods firms in Nigeria. The study recommends that Managers should be encouraged to have interest through share ownership in Nigerian Consumer goods firms but concentration of shares in the hands of few shareholders should be discouraged. The limitations of the study are that the results are only applicable to listed consumer goods firms, hence cannot be applied to non-listed firms, other manufacturing firms and other sectors of the economy.

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CHAPTER ONE
INTRODUCTION

1.1 Background to the Study

The financial report of a firm has a great value on the organization's activities and aid decision making by users of financial information. Earnings are a significant part of the financial reports that help users of accounting information to evaluate firm performance. The quality of accounting information is always inspected by the quality of accounting earnings. Hence, earnings quality is an important factor in determining the validity and reliability of reported figures.

Earnings quality is the honest expression of the reported profit. It is the ability of the present earnings to give a real picture about the company and its ability to survive in future (Salawu, 2017). The scandals in Enron, WorldCom, Cadbury Nigeria plc, Intercontinental bank, Afribank, and Oceanic bank have casted doubt on the quality of reports and the ability to meet the expectations and needs of the users (Uwuigbe, Peter & Oyeniyi, 2014). The challenges necessitated review and globalization of accounting standards, adoption of the International Financial Reporting Standards (IFRS), and Corporate Governance Code in order to evolve efficient accounting practice. It also led to the birth of Financial Reporting Council of Nigeria (FRCN) Act No 6 of 2011.

Earnings management has a lot in common with earnings quality because high earnings management can produce low quality of earnings, as the manipulated information may lead to an

incorrect decision but earnings management is not the only factor that affects quality of earnings. Other factors such as capital market and management compensation also contribute to the quality of earnings (Azzoz & Khamees, 2016). Prior research (Ayadi & Boujelbene (2016); Hashim & Devi (2014)) related earnings quality to the level of earnings management because of the difficulties in measuring earnings quality and established that firms use accounting accruals to manage earnings.

Ownership structure is generally referred to as the type of shareholders in a firm, which may influence firms' decisions that affect firm performance (Phung, 2015). The structure of a company is very important as they determine the economic efficiency of corporations being managed (Owiredu, Oppong & Churchill, 2014). Ownership is one of the main sources of agency problems between managers and shareholders or dominant and minority shareholders. Imbalances between ownership, control and monitoring may provide opportunities for some parties to exploit others. Managers perform services on behalf of shareholders and in most cases, the goals of the managers and shareholders may not align. The separated ownership leads to various conflict and controversies between shareholders, stakeholders and the managerial behavior. The ownership structure is also a factor that affects quality of accounting data because different ownership structures exist in different firms and as such influences performance, degree, and manner of management control (Namazi & Kermani, 2008).

More equity ownership by managers may encourage them to make value- maximizing decision and lead to increase in earnings quality which results to the alignment of managerial interests with the shareholders. On the other hand, high managerial ownership and lack of discipline from

the financial market paves way for managers to pursue an opportunistic behavior and may attempt to maximize their gains at the expense of shareholders and this may promote entrenchment of managers which may be costly and hereby reduces the quality of earnings (Owiredu, Oppong & Churchill, 2014).

Institutions with large shareholdings play an active role in monitoring the management of reported earnings because when they have long term investments, they are more concerned with the underlying profitability of the companies and cautious of the use of discretional accruals to manage earnings, thereby enhancing the quality of earnings reported (Yang,Chun, & Ramadili, 2009). The institutional investors also have the ability, opportunity and resources to monitor, discipline, and influence managers' decisions in the firm. Researchers like Hashim and Devi (2014), Alves (2012), Koh (2003) and Mashayekh (2008) argued that institutional share ownerships may have implications for earnings quality as they are able to influence the company. When institutional investors exert more control over company management than when they are mere investors, earnings quality is expected to increase because they are able and motivated to encourage high quality reports (Velury & Jenkins, 2006).

Large shareholders also known as block holders also impact greatly in governance because their sizable stakes gives the incentives to bear the cost of monitoring manager. Large shareholders are expected to monitor managerial behavior and actions effectively and in turn reduce the scope of managerial opportunism to engage in earnings management. This results to an improvement in earnings quality reported by managers. A firm is said to be highly concentrated if a significant proportion of its equity lies in the hands of few individuals (Roodposhti & Chasmi, 2010). In concentrated firms, there may be conflict of interest between the majority and minority

shareholders as the controlling shareholders may be entrenched due to their concentrated voting power and hide their personal benefits by reporting low earnings which reduces the quality of earnings. On the other hand, controlling shareholders may align their interest with minority shareholders by reporting high quality earnings (Kiatapiwat, 2010). Empirical studies have revealed mixed relationship, researchers like Shleifer and Vishny (1997), Amador (2012), Anderson and Reeb (2003a), and Haioui and Jerbi (2012) have revealed positive relationship while Wang (2006), Baba (2016), Alves (2012), Kiatapiwat (2010) revealed negative relationship.

Foreign ownership can also be considered as a good source of managerial and monitoring skills. Most times, foreign owners choose the best domestic firms to invest in or firms belonging to high-productivity industries. Studies have shown that the foreign investors may act as a monitoring force to mitigate the decision of managers or insider owners that may be costly to other shareholders as they are believed to have the ability to monitor managers and unite the interests of both the managers and shareholders. It is argued that when foreign investors increase their stock holding to a certain level, and become large shareowners, they have the power to influence managerial decisions in ways that benefit them, perhaps by expropriating wealth from minority shareholders. When foreign ownership level is minor or moderate, it may improve firm performance by monitoring which results to high quality earnings. However, when large, it may damage performance (Choi, Park, & Hung, 2012).

Nigerian firms are not left out of the great concern on earnings quality following the evidence of inappropriate accounting disclosures and financial recklessness that led to the fall of five biggest Nigerian banks in 2009 and Cadbury Nigeria Plc. scandal in 2006. The situation of Nigerian firms is similar to other developing countries where deliberate manipulation and misappropriation of shareholders' funds are widespread due to weak legal and financial reporting frameworks, unbalanced share ownership structure and corruption (Sadiq, 2011). Hence, eliminating these problems will make the Nigerian economy a more realistic target for international investments that will improve the country's market and economy. In an effort to improve the overall trust in the Nigerian capital market, the Securities and Exchange Commission (SEC) and the Financial Reporting Council of Nigeria (FRCN) have continually improved the corporate governance codes of which the latest review was in 2017.

The consumer goods sector has been chosen because it is one of the most vibrant sectors of the Nigerian capital market. The sector has attracted and retained foreign investment over decades which have resulted in boom in the retail sector. The fall in crude oil prices since 2014 has adversely affected the sector resulting to high production costs and reduction of profits, and this is mainly due to scarcity of foreign exchange in importing inputs for the companies. However, despite the importance of consumer goods sector to the Nigerian market, there is paucity of studies on impact of ownership structure on earnings quality in this sector. The level of research interest in this area will reflect the contributions of the various forms of ownership on the earnings quality of listed consumer firms in Nigeria.

1.2 Statement of the Problem

The financial reports of an organization should provide relevant and reliable information that will assist in making useful decisions. Hence, it is important that the financial information show a true and fair view of the organization's financial transactions during a period. Earning on the financial reports of companies summarizes the performances to various users. However, several factors may affect the quality of earnings reported such as; firm's business model, accounting standards, company industry, internal controls, macro-economic conditions, directors reporting choices and operating cycle (Dichev, Graham, Harvey & Rajgopal, 2013). The varying factors have resulted in a wide gap between what is reported and the actual position of the company which can be misleading to people placing reliance on such reports for decision making, investors' confidence become eroded and there may be reduction in the inflow of foreign investments. To overcome these issues, control mechanisms are being put in place of which, ownership structure of firms is one of the control mechanisms.

The accounting scandals that rocked Oando in 2017, the Nigerian banking sector in 2009 and the scandal of some public quoted companies like Cadbury Nigeria Plc between 2003- 2006, Unilever Brothers, African petroleum and the Nigerian Stock Exchange(NSE) in 2010 were seen to be attributed to non-compliance with regulations, connivance of board of directors with company managers against uninformed minority shareholders and other stakeholders, weak board governance due to lack of or insufficient independence, ability and heterogeneity in board composition, and weak executive monitoring due to lack of active institutional shareholders and unethical shareholders activism by shareholders' association. As a result of this, the Federal Government of Nigeria through some agencies came up with institutional structures to protect

investors of their investments from corrupt practices. (Ugowe, 2016). The Securities and Exchange Commission (SEC) introduced Code of Corporate Governance in 2003, which was updated in 2011and 2014 respectively, the Nigerian banking industry also introduced Guidelines for Whistle blowing (Mall, 2016). The Asset Management Corporation Act of 2010 was enacted for banks and the Financial Reporting council of Nigeria Act No 6 of 2011 was also established. Despite all this, the quality of financial reports still remains questionable.

Several studies have been conducted to examine the relationship between ownership structure and earnings quality in the developed and emerging markets including Nigeria. Some of the studies include; Affan, Rosidi, and Liliki (2017), Ayadi (2014), Hashim and Devi (2014), Amador (2012), Karuntarat (2013), Spinos (2013), Alves (2012), Ismail (2011), Habbash, (2010), Kiatapawat (2010), An (2009), , Katz (2008), which were conducted in other countries while Shehu and Yero (2012), Muhammad (2014), Mohammed (2014), Musa (2014), Adebiyi and Olowookere (2016), , AbdulHadi (2016), Lawal and Mohammed (2014), Ogbonnaya, Ekwe and ihendinihu (2016), Shehu and Ahmed (2012), Amos, Ibrahim, Ibrahim and Nasidi (2016) , Baba (2016), and Uwuigbe, Erin, Uwuigbe, Igbinoba and Jafaru (2017) were studies conducted in Nigeria. The results of their findings were mixed and there was no general agreement on the relationship between ownership structure and earnings quality.

From the empirical studies reviewed on ownership structure and earnings quality, except for the works of Affan, Rosidi, and Liliki (2017), and Uwuigbe, Erin, Uwuigbe, Igbinoba and Jafaru (2017) whose study ended in 2015, the most recent works ended in 2014. The results obtained during these periods can be regarded as not being too current because a lot of activity has taken

place such as changes in corporate governance code of 2003 which has been updated in 2011, 2014 and the most current in 2017. The recession that hit the Nigerian economy in 2016 which created a lot of challenges for companies must have also overtaken the position of these companies as at that period (Ibenegbu, 2016). Hence, there is need to conduct a more recent research that will capture the changes. It is to this end, that this study extends its scope of research to 2016.

Prior studies (AbdulHadi (2016); Musa (2014); Spinos (2013); Alves (2012); Al-Zyoud (2012); Shehu & Abubakar (2012); Yang Chun & Ramadili (2009)) have related ownership structure to earnings management and have interpreted earnings management to be the same as earnings quality because of the significance of the relationship between earnings management and earnings quality. Earnings management has a lot in common with earnings quality because high earnings management can produce low quality of earnings but earnings management is not the only factor affecting earnings quality. This study fills the gap by measuring earnings quality as the inverse of the results of earnings management proxy of modified Jones model.

Furthermore, most of the studies on the effect of ownership structure on earnings quality in Nigeria have been concentrated on other sectors of the economy especially the banking sector and the manufacturing sectors. But there is paucity of studies in the listed consumer goods firms in Nigeria despite its relevance to the Nigerian market. This study is an attempt to fill the gap for the Nigerian consumer goods firms and further examines the effect of ownership structure on earnings quality of listed consumer goods firms in Nigeria. Therefore, it extends the very limited research on this issue and adds to a growing body of research.

1.3 Research Questions

The following research questions were answered:

i. How does managerial ownership affect the earnings quality of listed consumer goods firms in Nigeria?
ii. What is the effect of institutional ownership on the earnings quality of listed consumer goods firms in Nigeria?
iii. Does ownership concentration have effect to the earnings quality of listed consumer goods firms in Nigeria?
iv. What is the effect of foreign ownership on the earnings quality of listed consumer goods firms in Nigeria?

1.4 Objectives of the Study

The main objective of the study is to examine the effect of ownership structure on the earnings quality of listed consumer goods firms in Nigeria. The specific objectives include:

i. To determine the effect of managerial ownership on the earnings quality of listed consumer goods firms in Nigeria.
ii. To examine the effect of institutional shareholding on the earnings quality of listed consumer goods firms in Nigeria.
iii. To evaluate the effect of ownership concentration on the earnings quality of listed consumer goods firms in Nigeria.
iv. To examine the effect of foreign ownership on the earnings quality of listed consumer goods firms in Nigeria.

1.5 Statement of Hypotheses

Based on the objectives above, the following Hypotheses were tested.

H_{01}: Managerial ownership has no significant effect on earnings quality of listed consumer goods firms in Nigeria.

H_{02}: Institutional ownership has no significant effect on earnings quality of listed consumer goods firms in Nigeria.

H_{03}: ownership concentration has no significant effect on earnings quality of listed consumer goods firms in Nigeria.

H_{04}: Foreign ownership has no significant effect on earnings quality of listed consumer goods firms in Nigeria.

1.6 Scope of the Study

This study examined ownership structure and earnings quality specifically focusing on the listed consumer goods firms in Nigeria for the period of 2009-2016 (eight years), which belongs to the consumer goods sector of the Nigerian capital market. The dependent variable is earnings quality and the independent variables are managerial ownership, institutional ownership, ownership concentration and foreign ownership.

The choice of the period 2009-2016 is due to the fact that it succeeds the global financial crisis of 2008, it also coincides with the accounting and financial scandals of big companies and banks in

Nigeria like the case of African petroleum and eight banks. Recent data that reflects the current economic circumstances of the companies can be readily obtained.

1.7 Significance of the Study

The relevance of the study stems from its importance to respective beneficiaries and stakeholders in the consumer goods sector. It provides a benchmark for consumer goods firms listed on the Nigerian Stock Exchange on the attributes of ownership structure that are effective in improving transparency of financial reports thereby improving the quality of earnings, the practical situation of the ownership structure and earnings quality are well understood and this improves the credibility, reliability, and transparency of accounting information published by listed consumer goods firms in Nigeria.

The shareholders/investors benefit from the study as it serves as a guide for investment decisions. The research provides effective evidence on understanding the concept of ownership structure, how ownership structure influences earnings quality thereby guides the investors on the best form of ownership structure that influences earnings quality in the consumer goods sector. A clear and comprehensive view on how the variables affecting the quality of earnings of the listed consumer goods firms in Nigeria are provided. The study also enriches knowledge on the role of different types of shareholders to monitor the firms within Nigeria.

In addition, Academics and future researchers also stand to gain a better understanding of the topic because the juxtaposition of earnings quality with each component of ownership structure leads to a new or modified knowledge on ownership structure for listed consumer goods firms in

Nigeria. It also provides empirical evidence on the relationship between the variables. The research also suggests areas needing further researches.

Finally, the policy makers and regulatory bodies such as SEC, FRCN, and the government benefit from the study. The input offered by the study serves as a strong base for the regulators and policy makers to establish or reform policies that will help the consumer goods firms to achieve a better performance and promote economic stability.

CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction

This chapter explains the concept of earnings quality and ownership structure and how they are being measured in the literature. Empirical literatures on the relationship between earnings quality and ownership structure (institutional ownership, managerial ownership, ownership concentration and foreign ownership) were reviewed. Lastly the theoretical frameworks that underpin the relationship between the variables of the study were also discussed.

2.2 Conceptualisation

This has to do with inventing or contriving an idea or explanation and formulating it mentally (Shehu, 2013). Therefore, the explanations of earnings quality, ownership structure and other relevant concepts are provided in this chapter.

2.2.1 Earnings Quality

Academic researchers have introduced and operationalised different dimensions of earnings quality constructs using certain characteristics of earnings and its components. The notion of earnings quality is defined differently by different users of financial statements. According to Dechow and Schrand (2004), earnings quality is defined as a measure of how well earnings reflect the actual performance of a firm. In their assertion, earnings quality relies on the true performance of the firm. Financial statement users may also define earnings quality in terms of the "absence of earnings management". This is because the intentional manipulation of earnings by managers, within the limits possible in accounting standards, may distort the usefulness of earnings to users. In support of this view, Barth and Schipper (2008) define high quality earnings

as those that exhibit less earnings management, implying that quality is not an innate characteristic, but rather the absence of manipulation and bias. This definition depicts the relationship between earnings management and earnings quality.

Schipper and Vincent (2003) define earnings quality as a construct that measures the extent to which reported earnings faithfully represents "true earnings" (hicksian income). Faithful representation refers to the agreement between a measure and the phenomenon it represents. Salawu (2017) defines earnings quality as the ability of the present earnings to depict the real situation of the company and its ability to survive in the future. This definition implies that current earnings should be reliable so as to guide future decision making.

Yee (2006) explains that earnings quality depends on two main elements, "the fundamental earnings and reported earnings". The former is a profitability figure that measures a firm's ability to make future dividend payments, while the latter is an imperfect signal or estimation of fundamental earnings that a firm announces. According to him, the more accurate and timely that reported earnings reflect shocks in the present value of expected future dividends, the higher the quality of earnings. Penman and Zhang (2002) defined earnings quality from the perspective of an analyst as reported earnings before extraordinary income statement that is a good indicator of future earnings. Their assertion is that the use of accounting method consistently will give sustainable indicators of future earnings.

Entiwistle and Phillips (2003) define earnings quality as the ability of earnings to meet the primary objective of financial reporting by providing relevant and reliable information to users. Francis, La Fond, Olsson and Schipper (2005), states that earnings quality is used by investors as a conditioning variable to extract valuation-relevant information from earnings patterns. An (2009) also proposed two definitions of Earnings Quality. First, earnings quality is when reported earnings provide useful information for evaluating performance and better decision making by users of financial statement. Secondly, earnings quality is when a firm's reliability and transparency that will help control information asymmetries and uncertainties of its performance are reflected. Ohlson and Feltham (1995) defined earnings quality as the ability of investors to predict future abnormal earnings with recent data. The definitions stated above share the same view that financial statements must present a true and fair picture of happenings in the organization to enable users make accurate decisions. Hence for the purpose of this study, earnings quality is defined as the extent to which reported earnings reflect relevant and reliable information that will assist the users in future decision making.

Measures of Earnings Quality

Bernstein and Siegel (1979) as cited in An (2009) classify earnings quality into three concepts: conservatism, discretionary costs and variability of earnings resulting from management decisions or economic cycle. Schipper and Vincent (2003) suggest seven measures of earnings quality: persistence, predictability, variability, ratio of cash from operations to income, changes in total accruals, discretionary accruals, and accruals to cashflow. Francis, La Fond, Olsson and Schipper (2004) classify the seven earning attributes into either accounting - based or market-

based attributes. They characterize accrual quality, persistence, predictability and smoothness as accounting- based attributes because only accounting information are the basis of measurement while value relevance, timeliness, and conservatism are classified as market- based because they are based on the relation between accounting earnings and returns.

Financial reporting quality can be assessed by two approaches as stated by Jones and Blanchet (2000) namely: user needs and shareholder/ investor protection. The user needs is measured by earnings persistence and value relevance, while shareholder/investor protection is measured by conservatism and accrual quality. For the purpose of this study, the following measures are discussed:

Accrual quality

Bergstresser and Philippon (2006) define accruals as components of earnings not depicted in current cashflows and their construction involves a great deal of managerial discretion. The model uses the level of earnings management as a proxy for earnings quality. (Dechow, Ge and Schrand, 2010) distinguish "abnormal" from "normal" accruals by directly modeling the accrual process. The normal (non-discretionary) accruals are meant to capture adjustments that reflect fundamental performance, while the abnormal (discretionary) accruals are meant to capture distortions induced by application of the accounting rules or earnings management (i.e., due to an imperfect measurement system). According to them, these measures attempt to directly capture problems with the accounting measurement system and so are particularly relevant to accounting researchers. Abnormal (discretionary) accruals have been used as a proxy for

earnings quality to test predictions in almost all of the determinants and consequences categories. It is the most popular measure of earnings quality, and proponents of the model opine that the main advantage of using discretionary accruals is its ease in data collection and measurement.

Different researchers have propounded the model, but a large portion of the models have their root in Jones model (De Fond, 2010). Jones (1991) model measures abnormal accruals as the difference between actual and total accruals. However, since its introduction, other researchers have been investigating it and this has led to several modifications that aim to address the shortfalls of the original model. Dechow and Dichev (2002) model relates total current accruals (*TCA*), measured by changes in working capital, to lagged, current and future cash flows from operations. McNichols (2002) suggested the inclusion of change in revenues and property, plant and equipment (PPE) as additional explanatory variables in the Dechow and Dichev (2002) model, in order to distinguish the unintentional accrual estimation error from those that are intentional. However, inclusion of the new explanatory variables would require the same assumptions as in the Jones (1991) model.

Persistence

This approach depends on performance of the firm as well as how things are measured through the accounting system, Persistent earnings are desirable because earnings that are able to predict themselves are more valuable for users since they yield better input to equity valuation models and thus persistent earnings are of higher quality (Dechow et al., 2010). Richardson, Sloan, Soliman and Tuna (2001) define persistence as the degree to which earnings performance persists into the next period. Persistence or sustainability has therefore often been used as a

measure of earnings quality, where sustainable earnings are thought to be of higher quality (Francis, La Fond, Olsson & Schipper, 2006). Regardless of the sign and magnitude of earnings, persistence captures the extent to which the current period innovation becomes a permanent part of the earnings series (Schipper and Vincent, 2003), that is, it does not imply low volatility.

A common measure for persistence is the autocorrelation of earnings where high autocorrelation between present and past income is desirable. The main criticism of persistence as a quality attribute is related to the fact that very persistent earnings could also be an indication of opportunistic income smoothing (Dechow et al., 2010). Schipper and Vincent (2003) argue that highly impersistent earnings can be the outcome of a neutral application of accounting standards in volatile economic environments, and thus do not indicate poor accounting quality.

Predictability

The concept of earnings predictability as a desirable attribute is closely connected to persistence. According to Schipper and Vincent (2003), predictability is the ability of the financial statements to improve users' abilities to forecast items of interest, that is, the ability of past earnings to predict future earnings. Following this definition, variability decreases predictability and the term is therefore connected to the smoothing literature. Predictability can be measured using the same model as was used for measuring persistence because it is a similar construct to earnings persistence as both relate to the time-series behavior of earnings. However, Schipper and Vincent (2003) note that there is a possible situation where persistence and predictability may not be consistent. Volatile earnings might be high quality in terms of high persistence (earnings follow

random walk), but low in quality in terms of low predictability (the magnitude of a typical shock to earnings is large).

Value Relevance

The intuition behind value relevance is simply that accounting numbers should explain variations in stock returns. The model examines the relationship between stock returns and earnings figure in order to measure the relevance and reliability of financial reporting information. (Collins, Maydew, and Weiss (1997); Hung (2001) define value relevance as the ability of financial statements to summarize information that affects firm's value. Francis , La Fond, Olsson & Schipper, (2004) argue that the ability of earnings to explain variations in returns is a direct measure of decision usefulness stemming from the conceptual frameworks, while value relevance measures the combination of relevance and reliability according to Barth, Beaver and Landsman (2001). In other words, value relevance is a summary measure of the extent which accounting figures reflect a firm's underlying economics (Barth, Landsman & Lang, 2008).

Value relevance is typically measured empirically as the explanatory power from a regression of stock returns on core earnings, based on the idea that investors respond to information that has value implications. A higher correlation with share prices implies that earnings better reflect fundamental performance and hence earnings are of higher quality (Dechow et al., 2010). The theoretical prediction stems from Holthausen and Verrecchia (1988), who propose a model where the stock price response increases with the precision of the information. Teoh and Wong (1993) modify this to a model where investors' response to earnings surprise will depend on the

perceived credibility of the earnings report. The empirical measure of value relevance is mainly criticized for not taking into account that accounting numbers are clearly not the sole driver of stock prices and thus the earnings-return regression suffers from correlated omitted variables that affect investor decisions (Dechow et al., 2010). The models using quite long time series of earnings (such as 15 months) are especially affected by this since it is evident that countless other variables apart from earnings influence variations in stock prices. As a consequence, other researchers have used shorter time-periods, for example Visvanathan (2006) uses quarterly earnings announcements. However, this approach still raises the same concern. Holthausen and Watts (2001) also observed that value relevance measures verifiability in addition to relevance and reliability.

Timeliness

Timeliness of earnings is often regarded as one of the characteristics of high quality financial reporting. According to Abdullah (2006) timelier reporting is associated with higher accounting quality as users are able to use the information for such purpose as valuation and evaluation. More timely information (including earnings) is more relevant and thus more useful for financial statements users. In Beekes, Pope and Young (2004), timeliness is defined as the length of time taken to reflect information in earnings. Similarly, Raonic, McLeay and Asimakopoulos (2004) state that:

"Reported earnings may be considered to be timely when they fully reflect the information that has been incorporated by the market in its pricing of a firm's equity. Earnings are less timely if value changes that are recognised by the market in the present period are not incorporated in the accounting computations until sometime in the future''.

Basu model is the most frequently used measure of timely loss recognition to proxy for earnings quality. The limitations of this model are that it is a return based approach and assumes market efficiency. The asymmetric timeliness coefficient also reflects all information available to the market which makes it difficult to determine effects due to earnings information (Dechow et al 2010).

Conservatism

According to SFAC No 2, conservatism is defined as "a prudent reaction to uncertainty and an attempt to ensure that uncertainty and risks inherent in business situations are adequately considered". Basu (1997) defines conservatism as capturing the accountants' tendency to require a higher degree of verification for recognizing good news than bad news in the financial statement.

Conservatism leads to asymmetry in recognition of gains and losses in such a way that the latter are recognized more timely than the former. Conservatism differs from timeliness in that it reflects the differential ability of accounting earnings to reflect economic losses versus gains (Francis et al., 2004). Ball, Kothari and Robin (2000) argue that conservatism is a property of accounting income and captures financial statement transparency since the timely recognition of economic loss in accounting income may force managers to stem the losses more quickly and attempt to reduce investment risk for investors. Hence, conservatism reduces management's opportunistic behavior to increase (decrease) income (losses). It therefore, increases earnings quality (An, 2009). The most popular and general model used to measure conservatism is Basu's

(1997) reverse regression stock return model but its limited by its inability to recognize substantial accounting earnings change due to conservatism.it only reflects stock market reaction to good and bad news of a firm.

To overcome the limitation of Basu, Ball and Shivakumar (2005) estimate conservatism using relation between cash flows from operations and accruals. They argue that the incremental association between accruals and negative cash flows over the association between accruals and total cash flows represents the degree of conservatism. For the purpose of this study, the modified jones model is used to measure earnings quality due to its prominence.

2.3 Concept of Ownership Structure

Ownership structure is an internal control system exercised over a firm management team (Gonzalez and Garcia-Meca, 2013). This definition is more relevant to an unquoted firm. Thomsen and Conyon (2012) defined ownership structure by considering public listed firms which consist of two distinctive features namely; Ownership concentration (ownership by one or few large owners or multiple smaller owners) and Ownership identity (ownership type). Lee (2008) categorizes ownership structure into ownership concentration and ownership identity. Johnson, Scholes and Whittington (2011) say ownership structure is concerned with the structures and systems of control by which managers are held accountable to those who have a legitimate stake in an organization.

Sahut and Garbi (2010) viewed ownership structure as the combination of ownership concentration, managerial ownership and institutional ownership. Khalid, Syed and Zahid (2012)

viewed it as the composition of managerial ownership and concentrated ownership. Uwuigbe and Olusanmi (2012) viewed ownership structure as decisions made by those who own or would own the shares. They measured it as the composition of board ownership, institutional ownership and foreign ownership. Douma, George and Kabir (2006) conceptualized ownership structure by use of percentage of common shares of ownership identities such as foreign, institutional and corporate investors, domestic ownership and also family and directors.

The concept of ownership structure has been given several definitions but the basic feature remains the same in every definition. Hence, this study sees ownership structure as the combination of shares owned by managers, institutions, ownership concentration, and foreigners in a company.

2.3.1 Managerial ownership

The managerial ownership is represented as the proportion of shares owned in the firm by insiders and board members or insider ownership (Liang, Lin & Hung, 2011; Mandacı & Gumus, 2010; Wahla, Shah & Hussain, 2012). Habbash (2010) defines managerial ownership as the percentage of shares held by executive directors. Spinos (2013) views managerial ownership as the proportion of shares owned by executives. Adebiyi & Olowookere (2016) defines managerial ownership as a situation where insiders or managers act as shareholders if they acquire a considerable proportion of entity's shares. Omolehinwa & Obigbemi (2017) defines managerial ownership as the process where a large part of the company's shares is owned by management. From the definitions, it is clear that managerial ownership is more related to insider ownership

and it's mainly shares owned by the directors of the firm. For the purpose of this study, managerial ownership is defined as the proportion of shares owned by directors. This is similar to the definition given by Spinos (2013).

2.3.2 Institutional Ownership

This ordinarily represents the proportion of shares owned by institutions (public, private, NGO) to total number of shares issued by a firm. According to the definition of (Bushee, 1998), institutional investors are major investors like banks, insurance firms, investment companies and pension funds. Institutional investors are large investors, other than natural person, who exercise discretion over investment of others (Yang, Chun & Ramadili, 2009). Hope (2013) defined institutional investors as a diverse set of organisations including banks and trusts, insurance companies, and investment advisors. Chi Keung (2013) sees institutional shareholders to include holders of pension funds, investment trusts and insurance companies that invest large sums of money in a firm which gives them greater incentives to monitor their interests in the firms. Murwanigsari (2009) defined institutional ownership as an institution with great investment including equity investments. Daniel (2008) operationalized institutional investors as comprising of pension funds, life insurance companies and mutual funds.

The definitions stated by the various authorities basically refer to institutions external to the organization that have interest in the organisations by subscribing to its shares and having a reasonable percentage of ownership. For the purpose of this research, the definition given by Hope (2013) will be adopted.

2.3.3 Ownership Concentration

Ownership concentration is defined as the proportion of a firm's shares owned by a number of the major shareholders (Sanda, Mikailu & Garba, 2005). In the same context, ownership concentration is measured by the fraction owned by the five largest shareholders or by the significant shareholders (Karaca & Ekşi, 2012; Obiyo & Lenee, 2011; Singh & Gaur, 2009). Blair (1995) refers to ownership concentration as when most of the shares in a firm are concentrated in the hands of a shareholder or a small number of shareholders called concentrated shareholders or controlling shareholders. Pongsaporamat (2016) views ownership concentration as percentage of shares held by shareholders owning 5% or more of a firm's shares. Kiatapiwat (2010) views a controlling shareholder as a shareholder whose combined direct and indirect voting rights in the firm exceeds 25%. The definitions given are similar. Hence, for the purpose of this study, the definition given by Sanda, Mikailu and Garba (2005) is adopted.

2.3.4 Foreign ownership

The term foreign ownership comprises all form of foreign private investment which confers control and ownership over a package of resources in a foreign country (Herbert, 1995). According to (Liang & Weir, 1999; Estrin, Konings, & Agelucci, 2001), foreign firms are presumed to possess superior ownership and internalization advantages (greater business experience, technology, and capital, managerial and entrepreneurial skills) than their domestic counterparts. An (2009) defined foreign ownership as percentage of equity shares held by all

foreign shareholders. Chai (2010) defines foreign ownership as the percentage of total shares held by foreign owners. Tsegba and Achua (2011) defined foreign ownership as the participation in the ownership structure of a firm by non- nationals. In this study, the definition given by An (2009) will be adopted.

2.4 Review of Empirical Studies

Prior studies have shown that the influence of ownership structure on the earnings quality of a firm remains a controversial issue. This discrepancy in their findings could be methodological, measurement or environmental peculiarity. The following section is a review of the link between the selected variables (managerial ownership, institutional ownership, ownership concentration and foreign ownership) of the study and earnings quality.

Hashim and Devi (2014) examined the relationship between internal governance mechanisms namely the role of board independence and the ownership structure (i.e. managerial ownership, family ownership and institutional ownership) and the financial reported earnings quality. The population of the study included 622 financial and non-financial companies listed on Bursa Malaysia's Main Board out of which 280 non-financial companies listed were sampled for the period of 1999- 2005, this study used a linear multiple regression analysis to test the association between the dependent variable of earnings quality and managerial ownership. The study included firm size, leverage and return on assets as control variables in the regression model. Results revealed that there was no significant evidence on the relationship between the traditional functions of board of directors (i.e. proportion of independent non-executive directors) and earnings quality measured by accrual quality model but found positive significant

evidence on the relationship between institutional ownership and earnings quality. This study considered the non- financial sectors of the Malaysian market like similar prior studies that have focused on only the non-financial sectors. There is a gap in the currency of the research.

Spinos (2013) investigated the relationship between earnings management and managerial ownership within the U.S. setting and more specifically to examine whether this relationship is influenced by the financial crisis that hit the U.S. on 2006. The research employed the Modified Jones model on 235 U.S. firms listed in the S&P 500 index and tries to examine this relationship both in the whole research period (2004-2009) as well as to compare the findings 3 years before (2004-2006) and 3 years after (2007-2009) the economic recession in order to investigate whether the potential association between them is affected by it. The empirical results provide evidence that during the whole research period there is no significant relationship between managerial ownership and earnings management. However, the findings suggest that the latter relationship is indeed influenced by the effects of the financial crisis. More specifically, evidence is presented that the level of managerial ownership decreased, thus signaling a change in the use of earnings management. The study focused on developed country, the results may not be applicable in a developing country like Nigeria because the economic environment in Nigeria is quite distinct. There is also a gap in the currency of research because this study ends in 2009 and if examined currently, a different result might be obtained.

Al- Fayoumi, Abuzayed, and Alexander (2010) examined the relationship between earnings management and ownership structure for a sample of Jordanian industrial firms during the period 2001-2005. Data was obtained from the annual reports of the sampled firms in the Amman Stock

Exchange (ASE) data base. Earnings management was measured by discretionary accruals. The three types of ownership studied are insiders (managerial), institutions and block-holders. Using the Generalized Method of Moment (GMM), the results indicate that insider ownership is significant and positively affect earnings management while institutional ownership negatively affects earnings management. This result is consistent with the entrenchment hypothesis which states that insider ownership can become ineffective in aligning insiders to take value-maximizing decisions. Jordan is a developing nation like Nigeria; hence the two countries share similar characteristics that can enable adoption of the findings. However, the scope of the study (2001-2005) raises serious concern as changes in economic circumstances might affect the applicability of its findings to current economic happenings. Hence, there is need for current research on similar topic.

Uwuigbe, Erin, Uwuigbe, Igbinoba and Jafaru (2017) examined the impact of ownership structure on financial disclosure quality of 75 firms listed on the Nigerian Stock Exchange during the period of 2011-2015. Financial disclosure quality was modeled using both accounting measure (ACCR); Kothari model and market based measure (RET). The study used foreign ownership, managerial ownership, and institutional ownership as ownership attributes. Data was obtained from annual reports, company's website, and African financial website for the period of 2011-2015. GLS was used to estimate the parameters of the model. Findings revealed significant relationship between institutional investors, managerial ownership and quality of financial disclosure. The use of both accounting and market based measure to estimate the quality of financial disclosure is remarkable as it gives room for comparison of results.

Ayadi and Boujelbene (2014) tried to investigate the relationship between ownership structure and earnings quality proxied by earnings management (Kothari, 2005) and informativeness (regressing stock return on accounting data). The ownership structure variables were managerial ownership, ownership concentration, and institutional ownership. The study focused on a sample of 117 French companies belonging to the SBF 250 index for the period of 2003-2011. Panel data was used to analyse data. Results showed that managerial ownership has positive impact on earnings management and reveal that ownership concentration and institutional ownership have positive impact on earnings informativeness. There is a gap in the currency of the research and results obtained from the French context may not be applicable to Nigerian firms.

AbdulHadi (2016) examined the relationship between ownership structure and earnings management of listed banks in Nigeria. The pooled data design was employed in the study and the simple random sampling was used to select sample size resulting in sample size of six (6) listed banks in the Nigerian stock exchange as at 2014. The scope was from 2009-2014. Multivariate regression based on ordinary least square (OLS) assumption was used to estimate data. The measures of ownership structure include; managerial, institutional and ownership concentration while earnings management was measured with the modified Jones model. Findings revealed negative relationship between ownership concentration, managerial ownership and earnings management while institutional ownership showed no significant impact on earnings management. The study is only relevant to the banking sectors, results cannot be generalized to non- financial service sector of the economy.

Lawal and Mohammad (2014) investigated the effect of ownership structure on Informativeness of accounting earnings of listed deposit money banks in Nigeria. Ownership structure was measured by managerial, institutional and ownership concentration while informativeness of earnings was proxied using Fan and Wong (2002) model. Pooled regression model was adopted to analyse the data. Purposive sampling technique was applied to filter out banks resulting to a sample size of ten (10) from a population of seventeen (17). Secondary source of data was used and the period of study was from 2006-2012. Findings revealed that managerial ownership is negatively and significantly rated to informativeness of accounting earnings, ownership concentration is significantly and positively related to informativeness of accounting earnings, and institutional ownership has no significant influence on informativeness of accounting earnings. The study is only relevant to the banking sector, results cannot be generalized to non-financial service sector of the economy and the period covered by the study is considered to have been long for its conclusion to be drawn on present issues.

Alves (2012) examined the relationship between corporate ownership structure in Portugal and earnings management. Firm's ownership structure was measured with three variables: managerial ownership, ownership concentration and institutional ownership. The managerial ownership was calculated as the proportion of the company's shares directly or indirectly owned by the manager, institutional ownership was measured as an indicator variable taking the value 1 if there are institutional investors who own at least 2% of the common stock of the company, and 0 if otherwise, while ownership concentration was measured as the proportion of stocks owned by shareholders who own at least 2% of the common stock of the company.. The association

between ownership structure and earnings management, controlling the impact of other relevant variables was estimated using OLS regression model. Using a sample of 34 non-financial listed Portuguese firms from 2002 to 2007, results showed that discretionary accruals as a proxy for earnings management is negatively related to managerial ownership and ownership concentration but positively and significantly related to institutional ownership. The period covered by the study is considered to have been long for its conclusion to be drawn on present issues and the results obtained may not be applicable to Nigeria.

Muhammad (2014) assessed the effect of Ownership Structure on Informativeness of Accounting Earnings of listed Deposit Money Banks in Nigeria. Ownership structure is proxied with Managerial ownership, Institutional ownership and Ownership concentration, while Informativeness of Accounting Earnings is proxied using Fan and Wong (2002) model. The study used a purposive stratified sampling technique to filter out banks that do not satisfy the criteria set out for inclusion thereby arriving at the sample size of ten (10) listed Deposit Money Banks in Nigeria out of twenty one (21). Secondary data source was used which were extracted from the Annual reports and accounts of the sampled Banks from 2006-2012. Multiple Regression, fixed and random effect analysis were adopted in the study. The findings revealed that Managerial Ownership is negatively and significantly related to Earnings Informativeness of listed Deposit Money Banks in Nigeria, institutional ownership and ownership concentration are positively and significantly related to Earnings Informativeness of listed Deposit Money Banks in Nigeria. This study is one of the few that have examined earnings in relation to the banking

sector but a similar study on consumer goods firms could produce a different result. there is also a gap in the currency of research.

Baba (2016) determined the impact of ownership structure on earnings quality of listed insurance companies in Nigeria. The study formulates three hypotheses and applied Generalised Least Squared (GLS) Techniques to analyse the relationship between dependent variable earnings quality and the independent variable, institutional ownership, managerial ownership and ownership concentration of the sampled Insurance Companies. Data were extracted from the annual reports and accounts of the Insurance Companies over the period of 2008 to 2013. Kothari et al 2005 performance adjusted discretionary accrual model was employed in this study to determine earnings quality. Findings revealed that managerial ownership, institutional ownership, and ownership concentration negatively influence earnings quality. The insurance sector is a financial sector and few studies have been carried out in this area. However, a similar study can be carried out in consumer goods sector.

Al- Zyoud (2012) investigates whether the extent of opportunistic earnings management (measured by discretionary accruals) is related to chairman independence and ownership structure (managerial ownership and institutional investors). The population of the study included the largest 250 companies by market capitalization listed on the London Stock Exchange (LSE), in 2005 of which 91 of them were sampled excluding financial sectors and companies working in regulated and mining industries. Managerial ownership was measured as the percentage of total shares in issue held by employees, or by those with a substantial position

in a company that provides significant voting power at an AGM, including family holdings and institutional investors was measured as the percentage of total shares in issue held as long term strategic holdings by investment banks or institutions seeking a long term return. Findings showed that managerial ownership has negative but marginally insignificant relation with earnings management, and institutional investors' ownership is negatively significant to earnings management. The scope of the study was short and results obtained cannot be generalized for Nigeria because of the difference in economic environment.

Idris (2012) examined the impact of ownership structure and external audit on accruals and real earnings management in Jordan. Four measures of earnings management were estimated through the models of Kothari et al (2005) and Rowchowdury (2006). The independent variables were classified into three categories; ownership structure (ownership concentration, controlling shareholders (managerial), institutional ownership and foreign ownership), external audit quality (audit size) and control variables which include board size, leverage, growth, and firm size. The population of the study included all manufacturing firms listed on Amman stock exchange from 2005-2008, pooled cross-sectional multiple regression analysis were conducted using ordinary least squares method to estimate the empirical models. Secondary data was used to test the research hypothesis. Findings suggest that controlling shareholders (managerial ownership) are effective in constraining accrual earnings management, institutional ownership appears to negatively affect abnormal discretion expenses. The measure of earnings based on accrual and real activities is a remarkable development but there is a gap in the currency of research, hence findings might not reflect current economic circumstances.

Yang, Chun and Ramadili (2009) examined the role of outside directors and institutional shareholders in constraining the earnings management activities. A sample of 613 firms from construction, industrial products and consumer products sectors were selected from the main board of bursa Malaysia. The time period covered for this study was from year 2001 to 2003. Modified Jones Model with cross sectional approach was employed in this study. The finding shows that magnitude of earnings management in Malaysian listed firms has approximately 16% of prior year total assets. Most firms manage the earnings upward rather than downwards. No relationship was observed between the degree of earnings manipulation and the proportion of outside directors and institutional shareholders. However, there is weak evidence to show that outside directors have some effect in curbing the earnings management in the construction sector. There is a wide gap in the currency of research which is over a decade ago and a similar study can be carried out in Nigeria to know if same results will be obtained.

Karuntarat (2013) examined the impact of ownership structure and other corporate governance mechanisms on accounting discretions with evidence from Thailand. This study separates the full sample into pre-period (1994 – 1998) and post-period of the corporate governance reform (2000 – 2007) and run each specification models for each sample in order to examine the impact of ownership structure on firm performance before and after the corporate governance reform. Eight (8) non- financial sectors were studied. Ownership structure variables include; ownership concentration, managerial ownership, family ownership, Government, foreign, domestic, bank and non- bank financial institution. The linear regression model was used to test the relationships

and dummy variables were used to test the equality between sets of co-efficient in the pre and post reform regressions. For the dependent variable, two common discretionary accrual based model (cross-sectional jones model and modified jones model) and revenue based model by Stubben 2010 were adopted. Managerial ownership was measured by percentage of shares owned by all directors, ownership concentration was measured by percentage of shares held by the largest shareholders within each type. Findings revealed that there is no significant relationship in both periods between managerial ownership and discretionary accruals, but it is negatively related with discretionary revenues, ownership concentration was negatively correlated with the discretionary accruals before the reform but otherwise after the reform while it showed no significant impact on discretionary revenues before the reform but negative significant impact after the reform, foreign ownership are negatively related to discretionary accruals based on modified jones model but not significant for other accruals based models, while it was seen to be positively related with discretionary revenues. The study was a robust one because it used different models to measure the accounting discretion and the evaluation of the pre and post reform periods allows for comparison of results but there is a gap in the currency of research and results may not be applicable in the Nigerian market.

Shehu and Abubakar (2012) examined the impact of institutional investors on discretionary accruals in the Nigerian manufacturing companies. Secondary source of data was used. Twenty most active quoted firms on the Nigerian stock exchange were selected for the period of 2008-2010. Modified Jones model was the proxy for earnings management while four dimensions of institutional ownership (institutional shareholding, number of institutional investors, number of

institutional investors on the board, and institutional presence on the board) were the independent variables. The technique of data analysis was OLS multiple regression. Findings revealed that institutional investors have strong and positive impact on earnings management. There is gap in the currency of research, the scope is too short and it also examined only the institutional form of ownership.

Ogbonanya, Ekwe, and Ihendinihu (2016) investigated the effect of corporate governance and ownership structure on earnings management of Nigerian Brewery industries for the period of 2004-2013. Multiple regression technique was used to analyse the data. Findings revealed that CEO and managerial ownership have positive significant effect on earnings management. There is a wide gap in the currency of research and results cannot be generalized to other sectors of the economy.

Amos, Ibrahim, Nasidi, and Ibrahim (2016) examined the impact of institutional ownership on earnings quality of listed food/beverages and tobacco firms in Nigeria over the period of 2005-2013. The data was obtained from annual reports. panel data regression technique was used to estimate the data. Findings revealed that institutional ownership has a significant relationship while firm size used as a control variable showed no significance. There are other forms of ownership structure apart from institutional ownership. Hence, the result cannot be generalized for ownership structure.

Pongsaporamat (2016) investigated the relationship between ownership structure and the quality of financial reporting of listed firms in the stock exchange of Thailand. The sample consists of all non-financial Thai listed firms in SET index in year 2011. The study employs firms' accounting restatements to reveal the poor quality of financial reporting. Ownership structure was characterized by ownership concentration, institutional ownership, foreign ownership, government ownership, family ownership and political connected firms. Findings show that concentrated ownership firms are positively associated with their accounting restatements. Hence, they have low quality of financial reporting. The use of accounting restatement as against the general accrual quality is remarkable but the scope of one year is small and there is also a gap in the currency of research.

Latif, Latif and Abdullah (2017) examined the impact of institutional ownership on earnings quality for the listed firms of the Pakistan stock exchange. Two hundred non-financial listed firms were sampled from a population of 441 non- financial listed firms for the period of 2002-2014. Earnings quality was measured by conceptual framework of financial Accounting Standards Board (FASB, 1980) using four dimensions namely; predictive value, neutrality, timeliness and representational faithfulness. Four regression models were used to test the hypotheses. Result showed that institutional ownership is positively related with earnings quality. The focus on the qualitative aspects of financial information as against the use of accrual quality is remarkable. However, results obtained in Pakistan may not be applicable in Nigeria.

Attia and Hegazy (2015) focused on examining whether the internal mechanisms of corporate governance especially ownership structure (institutional /family) can control earning management manipulations and enhance the firm performance. This study focused on 49 listed companies whose shares are among Egypt's 100 most actively traded shares (EGX100 price index) for the years (2006 to 2013) after excluding Firms with insufficient data, Banks and Financial Institutions, and Insurance companies from annual reports of Egyptian companies, Egyptian disclosure Books, and Egyptian financial statements. The earnings management was measured by discretionary accruals developed by Jones; the study employs an advanced panel threshold regression estimation developed in 1999 by Hansen that tests whether there are positive and negative impacts of ownership structure on earning management and firm value. This estimation procedure has the advantage of quantifying the threshold level of ownership structure as compared to the *ad hoc* classification procedure of splitting the sample. The results show that institutional ownership in Egypt is found to be influenced by who control and manage the companies, instead of the composition of the board of directors due to the mixed findings. The method of data analysis gives a more robust result and other measures can be used to measure earnings management.

Moradi and Nezami (2011) analyzed the relation between ownership centralization and institutional ownership with the earning quality. Research sample consists of the listed firms in Tehran stock exchange during 2006-2010. Independent variable in this study is ownership centralization and institutional ownership. Dependent variables (the six criteria for evaluating the earning quality) were; operating cash ratio to operating earnings, accruals volume, persistent

growth rate of earning, gross earnings ratio, earning persistence, receivable accounts quality. Linear regression and correlation analysis, Fisher test and t-testate were used for examining the research hypotheses. Results showed that there is a positive (direct) relation between institutional ownership and earning quality index, but it is not so significant. The result may be because of short-term view of institutional investors. The use of different criteria to measure earnings quality is remarkable as it will allow for comparison of results but results of the study will only be applicable in Iran, in Nigeria, a similar study will be conducted.

Amador (2012) examined the relation between firms with concentrated ownership and earnings quality by comparing all publicly listed companies of The Netherlands, except for financial and regulated institutions for the period of 2000 to 2010. Closely Held Shares (%) was used as the proxy for ownership concentration and the variables that affect accruals quality such as cash flows, revenues, net income and property plant and equipment. The methodology used for data analysis was panel regression models. The entrenchment and the alignment effects theories were used to explain the association between the supply of earnings quality and ownership concentration. The results showed that on average, firms with high concentration of ownership are associated with reporting lower quality earnings than firms with more diversified shareholders. In addition, the study investigated the components of earnings quality: the innate and discretionary parts of accruals. Dechow & Dichev's (2002) regression model was used to calculate abnormal accruals as modified by McNichols (2002) after which regression model was used to investigate the association between earnings quality and the firms' level of concentration of ownership. The distinction between discretionary and innate components of accruals quality

was done by implementing Francis et al.'s (2005) accruals quality components method across the two types of firms in order to identify which component is driving the quality of earnings. The results show that the discretionary factor of accruals increases the quality of earnings for most of the firms in the sample, while the innate factor seem to have a neutral effect for both types of firms. The result from the study showed the significance of the discretionary accrual method. The use of different measures for earnings quality gave room for comparison of results and there are other variables that can be used to measure ownership structure in addition to ownership concentration.

Adebiyi and Olowookere (2016) examined the relationship between corporate ownership structure and financial reporting quality among deposit money banks in Nigeria. Ownership structure variables were managerial ownership, foreign ownership, and institutional ownership. The scope was for nine years between 2005-2013 using OLS regression model. Discretionary accrual was used to measure financial reporting quality. The population of the study was twenty listed deposit money banks in Nigeria out of which fifteen (15) banks were sampled. Findings revealed that managerial ownership is positively related to financial reporting quality while foreign and institutional ownership are negatively related to financial reporting quality. The discretionary accruals used to measure financial reporting quality is not adequate for the banking sector, there is a gap in the currency of research, the research also focused on the banking sector which implies that result cannot be generalized to other sectors of the market.

Affan, Rosidi, and Liliki (2017) examined the difference in quality between the financial reporting that uses accrual earnings management and those that use real earnings management as indicators and to determine the effect of ownership structure on the quality of financial reporting in Indonesian market. Mann whitney's difference test and multiple regression analyses were used to estimate data. Secondary source of data was obtained. 52 manufacturing firms listed on the IDX were sampled during 2013-2015. The ownership structure variables include; institutional, managerial, family and foreign ownership. The results showed a difference in quality of financial reporting that uses accrual earnings management and real earnings management as indicators. With accrual earnings management, institutional ownership was shown to improve the quality of financial reporting quality but managerial, family, and foreign ownership does not affect the quality of financial reporting. But for the indicators of real earnings management, institutional and foreign ownership were seen to decrease the quality of financial reporting quality but managerial and family ownership had no effect on the quality of financial reporting. The comparison of different measures of financial reporting quality was remarkable. However, the period of the study was too short and result may not be applicable to the Nigerian market.

Kiatapiwat (2010) in his study examines the associations of controlling shareholders and audit committee effectiveness with earnings quality. A sample of non-financial Thai listed firms is used in the study for the period of 2005-2007. A unique data set on the voting rights of controlling shareholders and audit committee characteristics is used to test the hypotheses of whether controlling shareholders and audit committees with strong governance characteristics affect the quality of earnings. Earnings quality is measured using Basu's (1997) asymmetric

timeliness measure of accounting conservatism, and absolute abnormal accruals estimated from the Dechow and Dichev (2002) and the Jones (1991) models and its variations. The empirical results show that firms with a controlling shareholder, on average, are associated with both lower accounting conservatism (lower earnings quality) and lower absolute abnormal accruals (higher earnings quality) than firms with no controlling shareholder. Further analysis shows that family- and the government-controlled firms and firms whose controlling shareholders have voting rights below 75%, in particular, are associated with lower accounting conservatism and absolute abnormal accruals. Although the results imply both lower and higher earnings quality for firms with a controlling shareholder compared to firms with no controlling shareholder, the lower (higher) absolute abnormal accruals (earnings quality) simply reflects less conservative accounting practice by firms with a controlling shareholder. The measurement of earnings quality with different criteria is remarkable because it allows for comparison of results. However, the scope of the study is too small.

Laith (2015) aimed to define the relationship between ownership structure and earnings quality by using the annual report of industrial companies in Jordan for five years between 2009- 2013. The population was 76 companies out of which 48 were sampled. The ownership variables were family ownership and foreign ownership. Logistic regression was used to estimate data. Findings showed a positive relationship between foreign ownership and the quality of earnings in Jordanian companies which can be interpreted that companies with higher institutional ownership are better in controlling the management's action and earnings quality. Only a sector

of the market was considered in the study and the measurement variable for earnings quality was not stated.

An (2009) examined the effect of corporate governance on earnings quality with evidence from Korea for the period of 2000- 2005. Earnings quality was the dependent variable and it was categorised based on user needs and shareholder/ investor protection. Hence, four variables were used to measure (earnings persistence, value relevance, conservatism and accrual quality). The independent variables were ownership structure measured by (family and foreign ownership), internal governance (outside directors on board and audit committee), and external governance (auditor). Foreign ownership was defined as percentage of equity shares held by all foreign shareholders. The control variables were firm size, leverage, firm with negative earnings (loss), growth prospects and profitability. Panel data of 509 non-financial Korean firms and a total of 3,054 firm- year observations were used. Two stage least square regressions were used to estimate data and robustness test was done by GLS random effect estimation. Results showed that foreign ownership is significantly positive with earnings quality on user needs but not statistically significant on the investor perception measures. Overall, the relationship supports the active monitoring hypothesis. The measures of earnings quality based on user needs and investor protection is commendable because it allows for comparison of results but there is a wide gap in the currency of research and results obtained may not be applicable in Nigeria.

2.4.5 Control Variables

In addition to the ownership structure variables discussed above, the control variable relevant to this study is Firm size measured by total assets.

Firm Size

Large firm size can obscure any relationship between managers and owners because of its complexity. As the firms size increases, the agency costs are expected to increase and allow for greater managerial discretion and opportunism (Jensen & Meckling, 1976). Watts and Zimmerman (1986) stated that larger firms face higher political costs and hence have stronger incentives to manage earnings in order to reduce the potential political risk. Other schools of thought are of the opinion that larger firms have a lot of pressure by regulators to ensure credibility in their financial report and that makes it difficult for them to manage earnings. Thus, the size of the firm is likely to affect ownership structure and earnings quality.

2.5 Theoretical Framework

The appropriate theories that will be used to explain the linkage between ownership structure of firms and earnings quality in this study are: the agency theory, stakeholders' theory and stewardship theory. The theory that underpins the theory is the agency theory.

Agency theory

The agency theory is based on the relationship between the principal (owners) and the agent (Managers). It arises as a result of separation of owners from managers. The theory suggests that shareholdings held by managers help align their interests with those of shareholders (Jensen and

Meckling, 1976). This incentive alignment effect, is anticipated to have more impact as managerial ownership increases, suggesting that as managerial ownership increases, efficient earnings management may exist to improve earnings informativeness in the communication of value-relevant information (Siregar and Utama, 2008). Thus, under the convergence-of-interest hypothesis, insider ownership can be seen as a mechanism to constrain the opportunistic behavior of managers and improve the quality of earnings.

In contrast, when there is narrow separation between owners and managers, managers face less pressure from financial markets to signal the firm value to the market and they pay less consideration to the short-term financial report (Jensen, 1986; Klassen, 1997); therefore, high managerial ownership encourages earnings manipulation when there is no market discipline and this may lead insiders to make accounting choices that reflect personal motives at the expense of the shareholders (Sanchez-Ballesta and Garsa-Meca, 2007). In this context, Morck, Shleifer and Vishny (1988) argue as managerial ownership increases, the managerial labour market and the market for corporate control become less effective in aligning managers to take value maximizing decisions. This is because high ownership by management implies sufficient voting power to guarantee future employment. This managerial behavior is consistent with the entrenchment hypothesis which states that high levels of insider ownership can become ineffective in aligning insiders to take value-maximizing decisions. Hence, this entrenchment effect potentially confounds the agency theory predictions. As managerial ownership increases, earnings management may increase and thus reduce the quality of earnings (Yeo, Tan, Ho and Chen 2002).

The effect of institutional ownership on earnings management can be explained based on an active monitoring hypothesis and passive hands-off hypothesis (Koh, 2003). Under an active monitoring hypothesis (Bushee, 1998 and Majumdar and Nagarajan, 1997), institutional investors influence the monitoring mechanism a firm uses, including the monitoring of earnings management activity. According to this view, it is assumed that institutional investors play a controlling role and their presence decreases earnings management possibility and thus increases the quality of earnings (Bushee, 1998). Under the passive hand hypothesis (Bhide, 1993 and Potter, 1992), the institutional investors are inherently short-term oriented. Such investors are often referred to as myopic investors who focus mainly on current earnings rather than long-term earnings. This orientation deters institutional investors from incurring monitoring costs and to concentrate on current earnings news, and that managers have incentives to manage earnings aggressively (Koh, 2003).

Agency theory suggests that monitoring by institutional ownership can be an important governance mechanism (the efficient monitoring hypothesis). In fact, institutional investors can provide active monitoring that is difficult for smaller, more passive or less-informed investors (Almazan, Hartzell & Starks 2005).When institutional investors exert more control over company management than when they are mere investors, it is expected that earning quality increases because they are able and motivated to encourage high quality earnings reports (Velury & Jenkins, 2006).

The agency theory postulates that ownership concentration is a critical factor for good corporate governance (Siala et al., 2009). Nevertheless, ownership concentration at a high level offers an opportunity for controlling shareholders and managers to take part in preventing expropriation

from minority shareholders (La Porta, Lopez-De-Silanes & Shleifer, 1999; Shleifer & Vishny 1997). Large shareholders are expected to monitor managerial behaviour actions effectively, which reduce the scope of managerial opportunism to engage in earnings management (Dechow, Sloan & Sweeney 1996). Also, there will be less pressure on management to meet short-term earnings expectations because controlling shareholders focus more on the long term. Thus, according to the efficient monitoring hypothesis, ownership concentration limits earnings management and improves earnings quality. Ali, Saleh and Hassan (2008) and Iturriaga and Hoffmann (2005) find that ownership concentration reduces the managers' discretionary behaviour.

Furthermore, firms with concentrated ownership may be subject to conflicts of interest between majority and minority shareholders. Large shareholders can exercise their control rights to create private benefits, sometimes expropriating minority shareholders (expropriation hypothesis). The controlling shareholders may impose their personal preferences even if those preferences run contrary to those of minority shareholders (Shleifer & Vishny 1997). Therefore, large shareholders may intervene in the firm's management, and may encourage managers to engage in earnings management to maximise their private benefits and as such reduce the quality of earnings (Jaggi & Tsui 2007). As managers fear negative repercussions for declining performance from large shareholders, they may also have a strong motivation to engage in earnings management.

From the view of agency theory, foreign ownership can be considered a source of good managerial and monitoring skills in corporate governance (Choi et al., 2012; Khanna & Palepu,

1999). Studies indicate that foreign ownership may impact on firm performance in two ways.According to this view, foreign investors may act as a monitoring force to mitigate the decisions of managers or insider owners that may be costly to other shareowners. They can improve corporate governance by becoming board members or outside large shareholders (Choi et al., 2012). They are believed to have the ability to monitor managers and give performance based incentives which will unite the interests of managers and shareholders and thereby improve the quality of earnings.

Stakeholders Theory

The argument of this theory is that companies try to satisfy stakeholders' demands to avoid negative confrontation and be able to maintain access to stakeholders' resources (Huang & Kong, 2010). The society expects beneficial behavior of corporations in terms of their social and economic role. The common criticism of the theory is that it is difficult to align the conflict of the stakeholder with the difficulties resulting from how to administer different stakeholders with various needs and demands and to treat all stakeholders equally.

Stewardship Theory

This theory maintains that the interests of corporate executives as stewards are aligned with the organization and its owners. It is generally expected that there is a relationship between the success of an organization and owners' satisfaction and the role of the steward to balance between personal needs and the organization's objectives. The theory assumes that management wishes to perform a beneficial role of a good company steward. It also assumes that there are no

inherent issues of executive motivation (Donaldson and David, 1991). The major notion is that directors are better at increasing shareholders' wealth since they have adequate knowledge of the business. This theory is only relevant to the managerial ownership, hence cannot be generally adopted for the study.

CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction

This chapter discusses the method and procedures employed in carrying out the research in accordance with the objectives of the study. It consists of the research design, population and sampling, source of data and method of data collection, technique of data analysis, and model specifications.

3.2 Research design

This study adopted the correlational design. The design gives a better insight on the study variables and assists in describing, analyzing and interpreting the result of the analysis to be collected from historical records of the study population. This study involves the measurement of four proxies to the independent variable to one dependent variable and the relationship between the variables was also assessed. The research design is based on the assumption that ownership structure has influential power on earnings quality. The study is designed in two parts; in the first part, the measures of earnings quality are estimated, while in the second part, the effects of ownership structure on earnings quality is examined.

3.3 Population and sampling of the study

The population of the study comprises all the 28 listed consumer goods firms in the Nigerian stock exchange as at 31st December 2016. List of firms that constitute the population are in the table 3.1.

Table 3.1: Listed Consumer Goods Firms in Nigeria

S/NO	Consumer Goods Firms
1	7-up Bottling company plc
2	Cadbury Nigeria plc
3	Champion Breweries plc
4	Dangote Flour Mills plc
5	Dangote Sugar Refinery plc
6	DN Tyre and Rubber plc
7	Flour mills of Nigeria plc
8	Golden Guinea Breweries plc
9	Guinness Nigeria plc
10	Honeywell flour mills plc
11	International breweries plc
12	Jos International Breweries plc
13	McNichols plc
14	Multi-Trex integrated food plc
15	Nascon Allied Industry plc
16	National salt company of Nigeria plc.
17	Nestle Nigeria plc
18	Nigeria breweries plc
19	Nigeria enamelware plc
20	Northern Nigeria flour mill plc
21	P.s Mandrides & Co plc
22	Premier Breweries plc
23	PZ cusson Nigeria plc
24	Unilever Nigeria plc
25	Tiger Branded Nigeria plc
26	Union dicon salt plc
27	UTC Nigeria plc
28	Vitafoam Nigeria plc

Source: Nigerian Stock Exchange, 2016

Filter was employed to select the sample of the study based on the criteria that: Firms must not be delisted during the period of study and they must have all data information required to measure the variables of the study within the period. After using the filter, census population was used. The census population gives more accurate and reliable data. Hence, the final sample was 19 (nineteen) consumer goods firms. The list of the sampled firms is depicted in table 3.2.

Table 3.2: Modified Population

S/NO	Consumer Goods Firms
1	7-up Bottling company plc
2	Cadbury Nigeria plc
3	Champion Breweries plc
4	Dangote Flour Mills plc
5	Dangote Sugar Refinery
6	Flour mills of Nigeria plc
7	Guinness Nigeria plc
8	Honeywell flour mills plc
9	International breweries plc
10	McNichols plc
11	Nascon Allied Industry plc
12	Nestle Nigeria plc
13	Nigeria breweries plc
14	Nigeria enamelware plc
15	Northern Nigeria flour mill plc
16	PZ cusson Nigeria plc
17	Unilever Nigeria plc
18	Union dicon salt plc
19	UTC Nigeria plc

Source: compiled by author, 2017

3.4 Sources and Methods of Data Collection

The data for the study was obtained through the secondary source and was mainly from the annual reports of the listed consumer goods firms and Nigerian stock exchange fact book. The use of secondary data in this study is justified based on the fact that the study is based on the quantitative research methodology, and hence requires quantitative data.

3.5 Technique of Data Analysis

For the purpose of this research, the effect of ownership structure on earnings quality of listed consumer goods firms in Nigeria was analyzed using the multiple panel regression models. The

choice of regression as the tool of analysis in this study is informed by the fact that, the technique is effective in estimating the effect of one variable on another. Thus, the technique is consistent with the correlation research design employed in the study and the objective of this study.

3.6 Variables Measurement

To examine the effect of ownership structure on earnings quality of the listed consumer goods firms in Nigeria, the dependent variable was earnings quality while the proxies to the independent variables include managerial ownership, institutional ownership, ownership concentration, and foreign ownership. The control variable was firm size.

The summary of the variables used and their measurements in this study are presented in table 3.3 below;

Table 3.3: Summary of Variables and their Measurement

Variable Type	Variable Name	Measurement	Source
DV	Earnings Quality	Measured by modified jones model.	Musa (2014), Spinos (2013), Yang, Chun and Ramadili (2009).
IV	Managerial Ownership	The proportion of shares owned by the firm's directors to total number of shares issued.	Alves (2012), Spinos (2013), Baba (2016)
IV	Institutional Ownership	The proportion of shares owned by Institutions to total number of shares issued.	Holderness (2003), Shehu (2012), Musa (2014)
IV	Ownership concentration	The proportion of shares owned by the largest shareholders to total number of shares issued.	Baba (2016)
IV	Foreign ownership	The proportion of shares owned by the foreign investors to total number of shares issued.	An (2009), Lee (2008)
CV	Firm size	Natural logarithm of total sales	Uwuigbe, Peter & Oyeniyi (2014), Hashim and Devi (2014), Shehu (2012).

Source: Author, 2017

3.7 Model Specification

Dechow et al (2010) states that there are different models that can be used to measure earnings quality and there is no universally acceptable model. Each of the models has its pros and cons. Hence, researches should not rely on one model but test several to achieve a more reliable result. In view of this, the researcher relies on the modified Jones model due to its ease of managing earnings through credit sales rather than cash collections and its popularity among other models

to estimate earnings quality of the listed consumer goods firms in Nigeria. The model is mathematically presented below:

$TAit = \beta_0 + \beta_1 / A_{it-1} + \beta_2 (\Delta REV_{it} - \Delta REC_{it}) / A_{it-1} + \beta_3 PPE_{it} / A_{it-1} + \mu it$ ……i

Where,

TA_{it} = is defined as the difference between net income before tax (NI) and cash flow from operating activities which is as follows:

TA_{it} = Total Accruals for firm i in year t

A_{t-1}= Total assets for firm I in previous year

ΔREV_{it}= Change in Revenue of firm i between year t and t-1

ΔREC_{it}= Change in Receivables of firm i between year t and t-1

PPE_{it}= Gross Property, Plant and Equipment for firm i in year t

B_0 is a constant

β_1, β_2 and β_3 are the parameters estimate for each firm and each year.

μ_{it} = Residual and discretionary accruals portion

All variables are scaled by lagged total asset. The absolute residuals from this industry-year specific regression model multiplied by -1 are used to determine the earnings quality so that higher values mean higher quality.

This model has been used by existing studies (Musa 2014; Baba 2016; Karuntarat 2013; Hope, Thomas & Vyas 2013) on earnings quality. From the above model and the theoretical framework underpinning this study, the standard deviation of the unexplained portion (residuals) of total

current accrual model above is used as measure of earnings quality in this study. It is this measure that will be used in the overall model of the study.

Hence, the overall model of the study will be stated as;

$ENQ= \beta_0+ \beta_1 MGO_{it}+ \beta_2 INO_{it}+ \beta_3 OWC_{it}+ \beta_4 FRO_{it}+ \beta_5 SIZ_{it} + \varepsilon_{it}$

Where,

ENQ= Earnings quality
MGO= Managerial ownership

INO= Institutional Ownership

OWC= ownership concentration

FRO= Foreign ownership

SIZ= Firm Size measured as Natural logarithm of total sales

B_0	is constant
$\beta_1 - \beta_5$	are the coefficient of the parameter estimate.
ε	is the error term.

3.8 Regression Diagnostics

In order to improve the validity of all the statistical tools used for the study, the following tests were carried out: Multicollinearity test, Heteroskedasticity test, Cross-Sectional Dependence test, Haussmann Specification Test and Normality Test.

Multicollinearity Test was done to check whether there is a correlation between the independent variables which will mislead the result of the study. If the correlation coefficients are low it indicates that multicollinearity should not be a problem for the sample of the study. To substantiate the lack of multicollinearity between the independent variables, collinearity diagnostics are used and they are: the variance inflation factor (VIF) and tolerance values. The

tolerance values and VIF values should be consistently lower that 10 and 1 respectively to indicate absence of multicollinearity.

Heteroskedasticity Test was carried out to check the variability of error terms. The presence of heteroskedasticity signifies that the variation of the residuals or term error is not constant and will therefore affect inferences in respect of beta coefficient, coefficient of determination (R^2) and F-statistic of the study. Breusch-Pagan/Cook- Weisberg is used to test the error variance.

Cross- sectional Dependence Test is also called the contemporaneous correlation. It is used to check whether the specific characteristics of the individual firms are depending on each other or not. Hence, checks whether residuals are correlated across companies in the panel. Cross-sectional dependence can lead to biasness in the overall results of the study. Breusch-Pagan Lagrange multiplier (LM) test was used to ascertain the presence of cross-section dependence.

Hausman Specification Test was conducted to select between the preferred models (fixed or random effect models) by examining whether random effects estimation would be almost as good in fixed effect. It basically tests whether the unique errors (term error) are correlated with the regressors. The test usually requires one estimate to be efficient under the null hypothesis.

CHAPTER FOUR
DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.1 Introduction

This chapter deals with data presentation and analysis. The chapter begins with analysis of descriptive statistics. This is followed by presentation and analysis of correlation result, robustness tests, fixed and random effect tests and regression results. The chapter concludes with test of hypotheses and discussion of findings.

4.2 Descriptive Statistics

Analysis of descriptive statistics is carried out in this section so as to unveil the nature of data being used for analysis. The samples of descriptive statistics are displayed in table 4.1 where minimum, maximum, mean and standard deviation for all variables used in the study are described.

Table 4.1: Descriptive Statistics

	Variable	Mean	Std Dev.	Minimum	Maximum
DV	**DACC**	0.098	0.11	0.0003	0.54
IVS	**MGO**	34.35	7.05	16.75	49.21
	INO	6.85	0.77	5.76	9.05
	OWC	4.81	2.99	0.75	17.96
	FRO	4.12	2.44	0	8.08
CV	**SIZ**	6.57	1.09	4.12	9.05

Source: Output from Stata, 2017

From the table, the mean value of ENQ is 0.098, while the minimum and maximum values are 0.0003 and 0.54 respectively. The standard deviation of ENQ is 0.11 which is above the mean and this indicates that there is high level of variability in ENQ of the studied firms which implies

that earnings management practice is common in the consumer goods firms and thereby affects the earnings quality of the firms. The table shows that on average, during the period of the study, managerial ownership has a mean of 34%, which suggests that the average proportion of managerial ownership of the listed consumer goods firms in Nigeria is 34%. Institutional ownership has an average of 7%, ownership concentration has an average value of 5% which can be explained to mean that the proportion of shares that are concentrated to few shareholders is just 4.82%. This is confirmation to the ordinary belief that firms prefer dilution of shares, and foreign ownership has a mean value of 4%.

The minimum value of MGO is 17.65 which imply that the least proportion of managerial ownership in the listed consumer goods firms in Nigeria is 17.65%. Relatedly, the maximum value of MGO is 49.21, representing about 49.21%. The standard deviation of MGO is 7.05 which is smaller than the mean, indicating that there is low rate of variability in the managerial ownership of listed firms in the consumer goods sector in Nigeria. The minimum value of INO is 5.76, which is slightly less than the maximum value, 9.05 by 3.29%. The minimum and maximum values of OWC are 0.75 and 17.96 respectively while the standard deviation is 2.99. FRO has minimum value of 0 which can be likened to a point at which a firm has no foreign ownership. The maximum value of FRO is 8.08 which signifies that the highest proportion of FRO from the sampled firms is 8.08% of total shareholdings. The results show that all the variables have mean values greater than their respective standard deviation except for the dependent variable.

The size of the firms is represented by SIZ; and the minimum value of SIZ is 4.12 while the maximum value is 9.05. The mean of SIZ is 6.57 with standard deviation of 4.12 which is below

the mean, implying low level of variability in the size of the firms under study. In general, the preceding analysis suggests that there is low variation in the variables among the cross-sections.

4.3 Correlation Analysis

Correlation analysis was performed to quantify the association between the variables (independent and the dependent variables). The correlation between two variables can be positive (when higher levels of one variable are associated with higher levels of the other) or negative (when higher levels of one variable are associated with lower levels of the other). The sign of the correlation coefficient indicates the direction of the association. The result of correlation analysis is presented in form of a matrix as shown in table 4.2.

Table 4.2 Correlation Matrix

Variable	ENQ	MGO	INO	OWC	FRO	SIZ
ENQ	1.0000					
MGO	-0.5432	1.0000				
INO	0.0331	-0.2421	1.0000			
OWC	0.5593	-0.5932	0.3425	1.0000		
FRO	0.3288	-0.4733	0.5585	0.5656	1.0000	
SIZ	-0.1898	-0.0692	0.6172	0.1778	0.2152	1.0000

Source: Output from Stata, 2017

The correlation matrix table shows that ENQ measured as the inverse of earnings management has positive correlation with MGO and SIZ. This indicates that managerial ownership and size positively affects earnings quality. However, a negative relationship is recorded between ENQ and INO, ENQ and OWC, as well as between ENQ and FRO. This means that the variables

move in the same direction. In a similar way, the table shows that MGO and INO, MGO and OWC, MGO and SIZ are negatively correlated, indicating that the paired variables move in opposite direction while INO and OWC, INO and FRO, INO and SIZ, OWC and FRO, OWC and SIZ as well as FRO and SIZ are positively correlated. This suggests that ownership structure proxies contribute positively and negatively to the earnings quality of listed consumer goods firms in Nigeria. Since correlation analysis only reveals direction of association between variables, causality cannot be construed. The correlation matrix also serves as a preliminary test for multicollinearity. However, in this study, multicollinearity was further tested using the variation inflation factor (VIF) and Tolerance Value (TV).

According to Gujarati and Porter (2009), a correlation coefficient between two independent variables above 0.8 is considered excessive and may indicate the existence of multicollinearity. From table 4.2, all correlation coefficients between the pairs of independent variables are less than 0.8. Hence, suggesting that the four independent variables can be well fitted into a regression model.

4.4 Regression Diagnostics

Various robustness tests were conducted in order to improve the validity and reliability of data used which is critical for derivation of statistical inferences from the findings of the study. These tests include: multicollinearity test, cook-weisberg test for heteroskedasticity, Hausman specification test for fixed and random and Breusch-Pagan lagrangian multiplier test for random effect.

4.4.1 Multicollinearity Test

This test was carried out to check whether there is high correlation among the independent variables. Multicollinearity is a state of very high intercorrelations or inter-associations among the independent variables. It is therefore a type of disturbance in the data, and if present in the data, statistical inferences made about the data may not be reliable.

As reaffirmed by (Necter, Kutner, Nachtsheim and Wasserman (1996) as well as Casey, Anderson, Mesak and Dickens (1999)) as cited by Shehu (2012), Multicollinearity can be detected with the help of Tolerance Value and its reciprocal, called Variance Inflation Factor (VIF). If the value of tolerance is less than 0.1 or, the value of VIF is 10 and above, then the multicollinearity can be said to be problematic.

Table 4.3: Result of Multicollinearity Test

Variable	VIF	1/VIF
INO	2.33	0.43
FRO	2.05	0.49
OWC	1.86	0.53
SIZ	1.69	0.59
MGO	1.62	0.61

Source: Output from Stata, 2017

Output from Stata as presented in table 4.3 reveals that the tolerance values for all the study variables are greater than 0.1 and the values of VIF are less than 10. This shows appropriateness of fitting the model of the study with the independent variables.

4.4.2 Heteroskedasticity Test

One of the assumptions of the classical linear regression model is that there is no heteroscedasticity. Heteroscedasticity arises if there are sub-populations that have different variability from others.

In view of the preceding, Breusch-Pagan/Cook-Weisberg test for heteroscedasticity was performed to test whether the variance of the errors from the regression is dependent on the values of the independent variables. The result indicates chi-square value of 54.02 with p-value of 0.000 which is significant at 1%. This suggests that there is heteroscedasticity necessitating further test.

4.5 Regression Result

4.5.1 Hausman Specification Test

Panel data regression method was used to analyse data for this study. For the purpose of analysis, Hausman test was used to compare two estimation methods, fixed and random effects. The null hypothesis is that the preferred model is random effects; while its alternate hypothesis is that the model is fixed effects. Findings demonstrate that random effect model is appropriate since the probability value of 0.6438 is not significant.

4.5.2 Lagrangian Multiplier Test

The Lagrangian Multiplier test helps in deciding between random effects regression and pooled Ordinary Least Square (OLS) regression. The test was conducted after running the random effects model to see if there is presence or absence of cross sectional effect in the panel dataset.

The rule is that if it is significant, random effect is the preferred model otherwise, OLS regression suffices. Based on the result of the Lagrangian multiplier test, the null hypothesis was rejected and it was concluded that a random effect model is appropriate. This is evidenced by prob>chi^2= 0.001 which is significant at 1%. Therefore, the study interpreted a random effect regression result which is shown in table 4.4.

Table 4.4 Random Effect Regression Results

Variables	**Coefficient**	**Z- Statistics**	**Z Sig**
CONSTANT	0.338	3.49	0.002
MGO	-0.004	-3.13	0.827
INO	0.004	0.22	0.000
OWC	0.017	5.35	0.602
FRO	-0.002	-0.52	0.001
SIZ	-0.030	-3.42	0.000
R^2			0.4572
Wald Chi^2			103.49
Prob>Chi^2			0.0000

Source: STATA output, 2017.

Since this study is on earnings quality and the model employed was developed for earnings management, the sign of the coefficient derived from the result would be interpreted as opposite. This is due to the fact that earnings quality and earnings management have inverse relationship, that is, higher earnings management indicates lower earnings quality and vice versa. The results from table 4.4 indicates that the independent variables, managerial ownership, institutional ownership, ownership concentration, foreign ownership and firm size explained 45.72% of the

total variation in the dependent variable, earnings quality, of listed consumer goods firms in Nigeria (R^2=0.4572). Furthermore, the result of the Wald Chi^2 (103.49) shows that the model is well fitted and that the variables used as surrogates for ownership structure in the study are well selected and utilized as confirmed by the Prob>Chi^2 (0.0000) which is statistically significant at 1%. This is further confirmation that heteroscedasticity earlier observed does not pose threat to correct specification of variables.

4.5.3 Managerial Ownership and Earnings Quality

The coefficient of managerial ownership (MGO) is -0.004. This is an indication of a negative relationship between MGO and earnings management. This translates to managerial ownership having a positive relationship with earnings quality. By implication, a unit increase in MGO will lead to an increase in earnings quality of listed consumer goods firms in Nigeria by 0.004.

4.5.3 Institutional Ownership and Earnings Quality

The results of the econometric analysis also show that the coefficient of INO is 0.004, which implies that there is a positive relationship between institutional ownership and earnings management which translates to a negative relationship between INO and ENQ. The relationship is such that a unit increase in INO will lead to a corresponding increase in ENQ to the tone of 0.004.

4.5.4 Ownership Concentration and Earnings Quality

Similarly, the coefficient of OWC is 0.017 which is suggestive of the fact that there is positive relationship between ownership concentration and earnings management, translates to a negative relationship between OWC and ENQ of listed consumer goods firms in Nigeria. The relationship is such that a unit increase in OWC will cause a decrease in ENQ by 0.017.

4.5.5 Ownership Concentration and Earnings Quality

Table 4.4 further reveals that the coefficient of FRO is -0.005. This implies a negative relationship between foreign ownership and earnings management which translates to a positive relationship between FRO and ENQ of listed consumer goods firms in Nigeria. The relationship is such that units increase in FRO will lead to a corresponding increase in ENQ by 0.005.

In addition, the coefficient of SIZ is -0.308. This implies a negative relationship between firm size and earnings management which translates to a positive relationship between SIZ and ENQ of listed consumer goods firms in Nigeria. This means that a unit increase in firm size will lead to about 0.308 increase in ENQ of listed consumer goods firms in Nigeria.

4.6 Hypotheses Testing and Discussion of Findings

This section seeks to test the study's formulated hypotheses. This is done based on the results of random effect regression detailed in table 4.4. The results presented in table 4.4 shows that three variables have significant relationship with earnings quality while two variables have no significant relationship.

Hypothesis One

$H0_1$: Managerial ownership has no significant effect on earnings quality of listed consumer goods firms in Nigeria.

Table 4.4 shows that managerial ownership (MGO) has Z-value of -3.13, with P-value of 0.002, and this is significant at 1%. This suggests that managerial ownership has significant and positive relationship with earnings quality of listed consumer goods firms in Nigeria. This is supportive to the incentive alignment effect which suggests that an increase in managerial ownership leads to a decrease in earnings management and thereby improves the quality of earnings reported. This implies that the managers are capable of monitoring the affairs of the company efficiently which improves the quality of financial information conveyed to the users of financial statement in the Nigerian listed consumer goods firms. Also, an increase in managerial ownership reduces unethical accounting which has a positive role in determining the quality of earnings of Nigerian listed consumer goods firms. Consequently, the study rejects null hypothesis 1 which states that managerial ownership has no significant effect on earnings quality of listed consumer goods firms in Nigeria. The result confirmed the studies of Idris (2012), and Alves (2012) but contradicted the study of Al- Fayoumi, Abuzayed, and Alexander (2010), Baba (2016), Musa (2014), Mohammed (2014) and Muhammad (2014).

Hypothesis Two

$H0_2$: Institutional ownership has no significant effect on earnings quality of listed consumer goods firms in Nigeria.

Results presented in table 4.4 show that INO has negative relationship with earnings quality of listed consumer goods firms in Nigeria. This also indicates that the presence of institutional investors in the ownership structure of Nigerian listed consumer goods firms increases the level of earnings management in these companies and thereby reduces the earnings quality. The reason for the deviation from the theory could be that Nigerian listed consumer goods firms institutional investors are myopic or short term institutional investors who are more interested in immediate earnings in short term than long run, as a result they do not engage in monitoring the activities of the management, instead they sell their ownership stake and invest somewhere else However, this relationship is not statistically significant as the Z-value of INO is 0.22 with a probability of 0.827 which is not significant. On this basis, the null hypothesis which states that institutional ownership has no significant effect on earnings quality of listed consumer goods firms in Nigeria is not rejected. The result contradicts the findings of Hashim and Devi (2014), Muhammad (2014), Shehu (2012), Musa (2014), and Alves (2012).

Hypothesis Three

$H0_3$: Ownership concentration has no significant effect on earnings quality of listed consumer goods firms in Nigeria.

Table 4.4 shows that the coefficient of OWC is 5.35 with a probability of 0.000 which is significant at 1%. Based on this result, the study concludes that ownership concentration has significant relationship with earnings management which translates to a negatively significant relationship with the earnings quality of listed consumer goods firms in Nigeria. This result is consistent with the expropriation hypothesis which states that firms with concentrated ownership

are subjected to the large shareholders imposing their personal preferences even if they contradict those of minority shareholders. The result provides sufficient evidence for rejection of null hypothesis 3 which states that ownership concentration has no significant effect on earnings quality of listed consumer goods firms in Nigeria. This finding is consistent with the findings of Baba (2016), Alves (2012), Amador (2012), and Musa (2014) but contrary to the works of Moradi and Nezami (2011), and Mohammad (2014) who reported that there is significant relationship between ownership concentration and earnings quality.

Hypothesis Four

$H0_4$: Foreign ownership has no significant effect on earnings quality of listed consumer goods firms in Nigeria.

Contrary to the expectation of the study, FRO has been found to have a positive but insignificant relationship with earnings quality of listed consumer goods firms in Nigeria. This is because, the Z-value of FRO is -0.52 with probability of 0.602 which is not significant. Despite its insignificance, this result supports the view that foreign investors may act as a monitoring force to mitigate the decisions of managers that may be costly to other shareholders. The lack of significance may be as a result of the low representation of foreign investors in the Nigerian listed consumer goods firms. The result provides insufficient evidence for rejection of null hypothesis 4 which states that foreign ownership has no significant effect on earnings quality of listed consumer goods firms in Nigeria. Thus, the study failed to reject hypothesis 4. This is contrary to the findings of Idris (2012), An (2009), Laith (2015), Karuntarat (2013) and Faruk (2014) who found significant relationship between foreign ownership and earnings quality.

4.7 Policy Implications

This study examined the effect of ownership concentration on earnings quality of listed consumer goods firms in Nigeria. Four variables, managerial ownership, institutional ownership, ownership concentration and foreign ownership were used as surrogates for ownership structure. The results and findings from the analyses have far-reaching implications to policy makers and management of listed consumer goods firms in Nigeria. These implications, which constitute the contribution of the study to existing body of knowledge within the accounting and finance research, are highlighted hereunder.

Findings from the study suggest that managerial ownership and ownership concentration hold significant but opposite influence on the earnings quality of listed consumer goods firms in Nigeria. This implies that ownership of shares by managers can increase the quality of earnings reported by firms. It therefore becomes necessary for listed consumer goods firms in Nigeria to consider encouraging large ownership of shares by managers. This is in view of the fact that managerial ownership has positive relationship with earnings quality of listed consumer goods firms in Nigeria.

Findings suggest that ownership concentration has negative and significant relationship with earnings quality of listed consumer goods firms in Nigeria. The implication of this is that listed consumer goods firms in Nigeria have to discourage ownership concentration. There is the tendency that concentration of ownership will be accompanied with influence where owners of such shares will have power to pressurize management for quality reporting.

CHAPTER FIVE
SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

This study examined the effect of ownership structure on earnings quality of listed consumer goods firms in Nigeria. Variable used as surrogate for earnings quality was modified jones model and proxies for ownership structure were managerial ownership, institutional ownership, ownership concentration and foreign ownership while firm size was used as control variable.

Issues regarding the relationship between ownership structure and earnings quality were brought to the fore. The issues resulted into gaps which formed basis for statement of the problem. Basic research questions, objectives and hypotheses were stated.

Chapter two centred on conceptual, empirical and theoretical review. The key concepts that were explained included ownership structure and earnings quality. Review of empirical studies that relate to the relationship between ownership structure and earnings quality was carried out where diverse findings were reported. Several theories that underpin the relationship between ownership structure and earnings quality were reviewed.

The methodology for the study was explained in chapter three. The study employed correlational research design. From a population of twenty-eight listed consumer goods firms in Nigeria, a sample of nineteen listed consumer goods firms in Nigeria was used for data collection and analysis. Panel data regression analysis was adopted to analyse secondary data collected from the websites of the selected listed consumer goods firms in Nigeria. Analysis of data was done in chapter four using descriptive statistics, correlation matrix and multiple panel regressions. The study carried out analysis of descriptive statistics in order to examine the nature of data that was

used for analysis. After various robustness tests, random regression result was selected as the most preferred regression for the study.

The OLS regression was selected based on the Lagrangian Multiplier test for Random effect. The OLS regression model result indicated that two independent variables (managerial ownership and ownership concentration) have significant impact on earnings quality while institutional ownership and foreign ownership have insignificant impact on earnings quality of listed consumer goods firms in Nigeria.

5.2 Conclusions

Based on the findings of the study, it was concluded that ownership structure has a great effect on the earnings quality of listed consumer goods firms. Findings from regression analysis reveal that managerial ownership and ownership concentration hold significant influence while institutional ownership and foreign ownership holds insignificant relationship on earnings quality of listed consumer goods firms in Nigeria. Therefore, the study concludes as follows:

Managerial ownership affects the informational quality of earnings positively, and consequently enhances the quality and value relevance of published financial data. Managerial ownership has tendency to improve the quality of financial reports. Hence, it will affect earnings quality as earnings constitute key element of financial statements. Managerial ownership positively affects informativeness of accounting earnings and reduces the use of discretionary accruals. The finding is consistent with the incentive alignment effect which suggests that high managerial ownership leads to convergence of interest and thereby constrains opportunistic behavior of managers.

Ownership concentration negatively affects earnings quality. Concentration of shares in the hands of few shareholders will interfere in the firm's management and may encourage managers to manipulate earnings to maximize their private benefits.

5. 3 Recommendations

In line with the findings of the study, the following recommendations are made:

i. Managerial ownership should be encouraged in consumer goods firms in Nigeria. This is necessary as large ownership of shares by managers enable them to have more sense of belonging which may help to reduce manipulations and therefore enhance the quality of financial statement reported.

ii. Concentration of shares in the hands of few shareholders should be discouraged as it gives them power to exercise their control rights to create private benefits thereby expropriating the minority shareholders and encouraging managers to manipulate earnings.

iii. Shareholders should be mindful of management's capacity to manipulate accounting earnings. hence, their investments should be channeled towards firms with high managerial ownership structure and avoid companies whose shares are controlled by few shareholders in order to get the true value of their investments**.**

iv. The policy makers and regulatory bodies should create policies that will discourage share ownership of Nigerian Consumer goods firms in the hands of few individuals and ensure that such policies are strictly adhered to so as to promote relevance and reliability of financial reports.

5.4 Limitations of the Study

Like any other research, the results of this study are subject to some limitations. Firstly, the study focused on listed consumer goods firms in Nigeria. Therefore the findings of this research are not applicable to those consumer goods firms that are not listed. It also excludes other manufacturing firms that are not classified under the consumer goods category and cannot also be generalized to other sectors of the Nigerian economy.

5.5 Areas for Further Research

It will be interesting to carry out a comparative study on the effect of managerial ownership on earnings quality of consumer goods firms and the industrial goods firms in Nigeria. This is because, these two key sectors perform complementary sectors and are accorded priority by the government. In addition, other measures of earnings quality apart from discretionary accruals can also be adopted for similar studies.

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Appendices

Output from Stata

```
  /__    /   ____/   /   ____/
___/   /   /___/   /   /___/   11.0   Copyright 1984-2009
  Statistics/Data Analysis             StataCorp
                                       4905 Lakeway Drive
     Special Edition                   College Station, Texas 77845 USA
                                       800-STATA-PC        http://www.stata.com
                                       979-696-4600        stata@stata.com
                                       979-696-4601 (fax)

Single-user Stata license expires 31 Dec 9999:
       Serial number:  71606281563
         Licensed to:  STATAForAll
                       STATA

Notes:
      1.  (/m# option or -set memory-) 50.00 MB allocated to data
      2.  (/v# option or -set maxvar-) 5000 maximum variables

. edit

. *(7 variables, 152 observations pasted into data editor)

. xtset id year, yearly
       panel variable:  id (strongly balanced)
        time variable:  year, 2009 to 2016
                delta:  1 year

. summarize

    Variable |        Obs        Mean    Std. Dev.       Min        Max
-------------+---------------------------------------------------------
        year |        152      2012.5    2.298862      2009       2016
          id |        152          10    5.495332         1         19
         enq |        152   .0979157   .1134224    .000287   .539594
         mgo |        152    34.34808   7.054774     16.754   49.2126
         ino |        152    6.848036   .7657558    5.75939   9.05095
-------------+---------------------------------------------------------
         owc |        152    4.814623   2.987564    .746856   17.9642
         fro |        152    4.123736   2.444053          0   8.07658
         siz |        152    6.571724   1.094678    4.12157   9.05095
```

```
. pwcorr enq mgo ino owc fro siz
```

	enq	mgo	ino	owc	fro	siz
enq	1.0000					
mgo	-0.5432	1.0000				
ino	0.0331	-0.2421	1.0000			
owc	0.5593	-0.5932	0.3425	1.0000		
fro	0.3288	-0.4733	0.5585	0.5656	1.0000	
siz	-0.1898	-0.0692	0.6172	0.1778	0.2152	1.0000

```
. reg enq mgo ino owc fro siz
```

Source	SS	df	MS		
Model	.89762842	5	.179525684	Number of obs	= 152
Residual	1.04641993	146	.00716726	F(5, 146)	= 25.05
				Prob > F	= 0.0000
Total	1.94404835	151	.012874492	R-squared	= 0.4617
				Adj R-squared	= 0.4433
				Root MSE	= .08466

enq	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
mgo	-.0049704	.0012438	-4.00	0.000	-.0074287	-.0025122
ino	-.0041628	.0137369	-0.30	0.762	-.0313116	.022986
owc	.0161253	.0031427	5.13	0.000	.0099143	.0223363
fro	.0007813	.0040319	0.19	0.847	-.0071871	.0087496
siz	-.0282949	.0081887	-3.46	0.001	-.0444786	-.0121112
_cons	.402185	.0837267	4.80	0.000	.2367122	.5676578

```
. vif
```

Variable	VIF	1/VIF
ino	2.33	0.428963
fro	2.05	0.488813
owc	1.86	0.538448
siz	1.69	0.590706
mgo	1.62	0.616440
Mean VIF	1.91	

```
Breusch-Pagan / Cook-Weisberg test for heteroskedasticity
         Ho: Constant variance
         Variables: fitted values of enq

         chi2(1)      =    54.02
         Prob > chi2  =   0.0000
```

```
. xtreg enq mgo ino owc fro siz, fe

Fixed-effects (within) regression               Number of obs      =       152
Group variable: id                              Number of groups   =        19

R-sq:  within  = 0.3925                         Obs per group: min =         8
       between = 0.5634                                        avg =       8.0
       overall = 0.4435                                        max =         8

                                                F(5,128)           =     16.54
corr(u_i, Xb)  = 0.1745                         Prob > F           =    0.0000

------------------------------------------------------------------------------
         enq |      Coef.   Std. Err.      t    P>|t|     [95% Conf. Interval]
-------------+----------------------------------------------------------------
         mgo |  -.0032793   .0014518    -2.26   0.026    -.0061519   -.0004067
         ino |    .006205   .0216451     0.29   0.775    -.0366236    .0490337
         owc |   .0178153   .0034667     5.14   0.000     .0109558    .0246748
         fro |  -.0052299   .0052489    -1.00   0.321    -.0156157     .005156
         siz |   -.030834   .0098582    -3.13   0.002    -.0503401   -.0113279
       _cons |   .3064369   .1242799     2.47   0.015     .0605278     .552346
-------------+----------------------------------------------------------------
     sigma_u |  .04958415
     sigma_e |  .07596364
         rho |  .29876896   (fraction of variance due to u_i)
------------------------------------------------------------------------------
F test that all u_i=0:     F(18, 128) =     2.96                 Prob > F = 0.0002

. est store fixed
```

```
. xtreg enq mgo ino owc fro siz, re

Random-effects GLS regression                   Number of obs      =       152
Group variable: id                              Number of groups   =        19

R-sq:  within  = 0.3896                         Obs per group: min =         8
       between = 0.5984                                        avg =       8.0
       overall = 0.4572                                        max =         8

Random effects u_i ~ Gaussian                   Wald chi2(5)       =    103.49
corr(u_i, X)       = 0 (assumed)                Prob > chi2        =    0.0000

------------------------------------------------------------------------------
         enq |      Coef.   Std. Err.      z    P>|z|     [95% Conf. Interval]
-------------+----------------------------------------------------------------
         mgo |  -.0040339   .0012905    -3.13   0.002    -.0065631   -.0015046
         ino |   .0035783   .0163878     0.22   0.827    -.0285412    .0356979
         owc |   .0170375   .0031845     5.35   0.000     .0107959     .023279
         fro |  -.0023456   .0044979    -0.52   0.602    -.0111613    .0064701
         siz |  -.0301953   .0088179    -3.42   0.001     -.047478   -.0129126
       _cons |   .3379953   .0968361     3.49   0.000        .1482    .5277906
-------------+----------------------------------------------------------------
     sigma_u |  .04229499
     sigma_e |  .07596364
         rho |  .23664317   (fraction of variance due to u_i)
------------------------------------------------------------------------------

. est store random


. hausman fixed random

                 ---- Coefficients ----
             |      (b)          (B)            (b-B)     sqrt(diag(V_b-V_B))
             |    fixed        random       Difference          S.E.
-------------+------------------------------------------------------------
         mgo |  -.0032793    -.0040339        .0007545        .0006651
         ino |    .006205     .0035783        .0026267        .0141404
         owc |   .0178153     .0170375        .0007778          .00137
         fro |  -.0052299    -.0023456       -.0028843        .0027055
         siz |   -.030834    -.0301953       -.0006388        .0044078
------------------------------------------------------------------------------
                           b = consistent under Ho and Ha; obtained from xtreg
            B = inconsistent under Ha, efficient under Ho; obtained from xtreg

    Test:  Ho:  difference in coefficients not systematic

                  chi2(5) = (b-B)'[(V_b-V_B)^(-1)](b-B)
                          =        3.37
                Prob>chi2 =      0.6438
```

```
. xttest0

Breusch and Pagan Lagrangian multiplier test for random effects

        enq[id,t] = Xb + u[id] + e[id,t]

        Estimated results:
                     |       Var     sd = sqrt(Var)
             ---------+-----------------------------
                 enq |   .0128745       .1134658
                   e |   .0057705       .0759636
                   u |   .0017889        .042295

        Test:   Var(u) = 0
                            chi2(1) =    15.39
                          Prob > chi2 =     0.0001
```