Influence of Ownership Structure on Financial Information Quality of Nigerian Quoted Manufacturing Companies

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ABSTRACT

This study examines the influence of ownership structure on the financial information quality of quoted manufacturing companies in Nigeria. Ownership structure, if followed in totality is expected to minimize abnormalities in the preparation of the financial statement of quoted manufacturing companies in Nigeria. However, despite the existence of corporate governance for over a decade in Nigeria, there were a lot of corporate failures in recent years; including the accounting scandals by Cadbury Plc. etc. The data were extracted from the annual financial reports of sampled companies for the period of six years (2013—2019). The sample of the study consists of 26 quoted manufacturing companies. The study employed multiple regressions for data analysis, using panel data to examine the influence of ownership structure attributes on financial information quality. The model is composed of a single dependent variable; financial information quality and one explanatory variable with four proxies - managerial, institutional, concentration, and foreign ownership. The results reveal that ownership concentration and institutional shareholdings were positively, strongly, and statistically significant in predicting real activity manipulation of quoted manufacturing companies in Nigeria, unlike the managerial and Non-Executive directors' shareholdings. Therefore, it is recommended among others that the Financial Reporting Council of Nigeria should motivate institutional investors to invest in the quoted manufacturing companies to reduce activity manipulative practices by the management of quoted manufacturing companies in Nigeria.

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1. Introduction

The ownership structure of quoted manufacturing companies in Nigeria can be of critical importance to the quality and comprehensiveness of the oversight of monitoring mechanisms in those companies. Under this study, four proxies represent both internal and external ownership structures: managerial ownership, Institutional ownership, Block shareholder or Ownership concentration, and foreign ownership have been used to represent the ownership structure of corporate governance in the Nigerian context.

The Nigerian Financial Reporting Council, in its statement of accounting standards, states that the objective of financial statements is to provide information about the reporting entity's financial performance and position that are useful for assessing the stewardship of the entity's management and for making economic decisions. Financial information quality is attained where management does not engage in much real activities' manipulation. Thus, with the high manipulation of accounting numbers by management when preparing financial statements, the quality of financial information derivable from the accounts by the users may be misleading. Simply put, real activities manipulation will decrease the quality of financial information of quoted manufacturing companies in Nigeria Mauda, A.B., (2018).

A Financial Statement is a major means through which companies communicate to their users their financial results as well as their position. Some of the qualitative characteristics of this information are reliability, relevance, and understandability. To achieve the quality of financial statements, a monitoring committee is often put in place to serve as a watchdog in ensuring that companies produce relevant and reliable information which will eventually protect the interest of both existing and prospective investors. The most important of these monitoring committees are the Audit Committee, which is responsible for the review of audited and unaudited financial statements of organizations thereby improving the quality of such information and reducing the possibilities of unethical or abuse of accounting practices by management when preparing financial statements, Mauda, A.B. (2022).

The focus of this research is to empirically examine the influence of ownership structure on deterring the level of real activities manipulation in preparing the financial statements of quoted manufacturing companies in Nigeria. The study associate, on the one hand, the attributes of the ownership structure and, on the other hand, financial information activities manipulation. This study will further enrich the literature on the relationship between board monitoring (ownership structure) and financial information quality by selecting Nigerian quoted manufacturing companies for analysis. By now, most previous studies in this area are U.S based, and a few have provided empirical evidence for UK cases. Ownership structure attributes (managerial shareholding, foreign ownership, institutional shareholding, and ownership concentration) have no significant influence on the financial information quality of quoted manufacturing companies in Nigeria.

The study is equally limited to Nigerian quoted manufacturing companies, because of significant differences in the capital structures and operational requirements. Also, the formats of annual financial reports and statements of accounts of other quoted companies are not similar to that of manufacturing companies in Nigeria. To meet up with the objectives of the study, the hypothesis was formulated: - How ownership structure (managerial shareholding, foreign ownership, institutional shareholding and ownership concentration shareholding) best constrain financial information manipulative activities of Nigerian quoted manufacturing companies? To examine the influence of ownership structure on the quality of financial information of Nigerian quoted manufacturing companies, the study intended to use a population of all non-financial companies quoted on the Nigerian Stock Exchange within the period of study (2013-2019). Therefore, the study excluded financial companies because they have distinctive characteristics different from non-financial companies. Financial companies are much more leveraged than non-financial companies (Acharya et al., 2009).

The current study, investigating financial information quality in the quoted manufacturing companies will reveal the quality of information disclosure on the Nigeria capital market and by extension the capital market efficiency in Nigeria. This insight could be useful for policy makers such as the Securities and Exchange Commission in ensuring the efficiency of the capital market. The study discusses one single dependent variable, financial information quality (FIQ), and one explanatory variable (independent variable); ownership structure with four proxies (managerial ownership, ownership concentration, institutional ownership, and non-executive directors' ownership). The study also limits itself to the published annual report and statement of accounts of the sampled companies to extract secondary data for analysis.

2. Literature Review

2.1 Theoretical Framework

The theoretical framework of this study is based on the agency theory in conjunction with opportunistic theory. Every theory should contain three necessary elements; namely the what; how, and why (Whetten, 1989). Then, we seek to describe the phenomenon and the associated factors in a comprehensive but parsimonious way. The how to describe the relationship between the factors, and the why explains the rationale underlying the selected factors and their proposed relationships (Reay and Whetten, 2011; Whetten, 2009). With a managerial inclination to pursue their self-interest which might be at the detriment of shareholders (principal), monitoring mechanisms become important not only to checkmate the excesses of management but also to align their actions towards the interest of shareholders and the overall good of the company. Corporate governance mechanisms of ownership structure are critical monitoring instruments in the company and the effectiveness with which these mechanisms can monitor to a large extent depends on other attributes. Therefore, in this study, the agency theory is selected to link corporate governance mechanisms (Ownership structure) with real activities manipulation of quoted Nigerian manufacturing companies.

Ownership concentration may take various forms including individual investors, private equity firms, banks, and trusts. Sandra (2012) finds all models, have a negative relationship between ownership concentration and earnings management, suggesting that earnings management is for companies with higher ownership concentration. On the other hand, Isenmila and Elijah (2012) find that the analysis of the slope coefficients of the explanatory variables is indicative of the direction of the relationship, and their respective t-values or P-values indicative of their statistical significance reveal the existence of a positive relationship between external block ownership and earnings management. Also, prior literature found a strong link between Ownership structure and earnings management.

It is important to note that institutional ownership is not governed solely by a particular security's fundamental prospects. Internal policies or objectives, SEC regulations, time horizon, and a variety of other factors can have a major impact on a particular institution's investment decisions and thus its ownership positions. Considering the vast amount of resources, talent, and research capacity these large money, institutional investors have at their disposal, their investing decisions tend to carry a great deal of weight, with smaller investors, many of whom scrutinize institutional trading patterns. For this reason, institutional trading can have an enormous impact on the price of individual securities and can even influence the direction of the broader markets. Ferreira (2007) investigate the role of institutional ownership holding around the globe using a comprehensive data set of equity holding from 27 countries, it was found that firms with higher ownership by foreign and independent institution (while other institution) have higher firm value, higher operating performance and lower capital expenditures. Abd Al-Naseer (2012) in his study found a significant negative relationship between institutional ownership and the likelihood of earnings management. Hadi's (2012) findings suggested, that the proportion of institutional ownership negatively affects the magnitude of earnings management. Sandra (2012) her investigation suggests that the coefficient of the institutional ownership variable is positive and significant, consistent with a hands-off hypothesis which suggests that institutional investors may increase managerial incentives to engage in earnings management. However, the result obtained does not corroborate one of the models used as the coefficient of institutional ownership is negative but statistically significant. Thus, it is not possible to conclude that companies having institutional ownership have higher flexibility to use accruals to manage earnings.

Sandra (2012) in her research documented that, in all models, managerial ownership is significantly negatively related to toning management which is consistent with the alignment of interest hypothesis, the negative relationship suggests that the higher managerial ownership, the lower the magnitude of discretionary accounting accruals. However, managerial ownership is positively associated with income-decreasing discretionary accruals and negatively associated with income—increasing accruals. Also, Isenmila and Elijah (2012) in their research observed that managerial ownership is positive and statistically significant at a 5% level. From another dimension, other researchers documented that managerial ownership has no significant effect on increasing the integrity of financial reporting (Abd AiNaseer, 2012).

As a result of the ongoing globalization, foreign ownership has subsequently become an institutional shareholder in Nigeria and the world at large. Khanna and Palepu (2010) find that interest held by foreign investors in a company is positively correlated with firm value, which therefore connotes that foreign investors have incentives to monitor a company's activities and also have an advanced company monitoring mechanism. The role of foreign investors as external monitors of corporate activities may be even bigger because foreign investors are less likely to be related to controlling shareholders. Foreign investors will as a result positively strengthen their monitoring role to resolve information asymmetry. To protect their wealth and to reduce monitoring costs, foreign shareholders have stronger incentives and expertise to independently monitor companies. Thus, higher proportions of foreign ownership induce companies to improve transparency and erase opportunistic managerial accounting choices and decisions.

Model Specification

FIQ = f (CG + OWSTR)

$FIQ_u = \beta_0 + \beta_1 OWNCN_u + \beta_2 NEXD_u + \beta_3 INSTS_u + \beta_4 MGS_u + \varepsilon_u$………………….... (1)

Where: FIQ = Financial information quality, β_0 = Intercept, ε_u = Error term.

f (CG + OWSTR) = frequency of corporate governance plus ownership structure attributes.

The equation (1) is developed to see whether the ownership structure's attributes can be used in restraining real activity manipulation of quoted Nigerian manufacturing companies.

Based on the lacuna of contradictions in the literature, the following hypotheses stated in the null form were tested in this study:

H_{O1}: ownership concentration has no significant impact on the financial information quality of quoted manufacturing companies in Nigeria.

H_{O2}: Institutional shareholding has no significant effect on the financial information quality of quoted manufacturing companies in Nigeria.

Ho_3: Managerial shareholding has no significant impact on the financial information quality of quoted manufacturing companies in Nigeria.

H_{O4}: Non-executive directors' ownership has no significant influence on the financial information quality of quoted manufacturing companies in Nigeria.

3. Methodology and Data

Table 1
Variables Measurement

Real Activities Manipulation (Dependent Variable)	Residuals of Roy Chowdhury's (2006) model of abnormal cash flow: $CFO_t/TA_{t-1} = \alpha_0 + \alpha_1 1/TA_{t-1} + \alpha_2 SL_t/TA_{t-1} + \nabla SL_t + \mu_t$ *Where: CFOt = cash flow from operations of the present year* α*(1/TA_{t-1}) = scaled intercept, TA_{t-1} = total assets of previous year a = intercept, α_0 = intercept, α_1, - α_2, = parameters for estimating normal cash flow, SL = sales at the present year, ∇SL_t =change in sales, μ_t = residuals*
Managerial Shareholding	Measured by the proportion of shareholding held by the managers to the total number of shares
Non-executive shareholding	Measured by the proportion of shareholding held by the non-executive directors to the number of shares
Institutional shareholding	Measured by the proportion of shares held by institutions to the total number of shares
Ownership concentration	Measured by the proportion of shares held by those with 5% and above holding to the total number of shares

Table 1 indicates the study variables and their measurement. There is a prior expectation that all the independent variables will restrain real activities manipulation or control the manipulative activities in preparation of a financial statement of quoted manufacturing companies in Nigeria.

This study adopts a descriptive research design. The population of this study comprises all 56 quoted Nigerian manufacturing companies from 31st December 2013 to 31st December, 2019. Given the nature of the model used, the filter was employed to eliminate some of the companies that have no complete records of all the data needed for measuring the variables of the study. Specifically, two filter criteria were adopted whereby a) Company must have all data needed for the variables of the study, and b) Companies must not be suspended or delisted from trading within the period of the study (2013-2019). The filter resulted to a sample of 26 companies.

4. Results and Discussions

It is indicated by Table 2 that the average managerial shareholding of 0.0766 with a standard deviation of 0.0797, and minimum and maximum values of 0.0012 and 0.3707 respectively. The standard deviation suggests a moderate dispersion of the data from the mean this is because the standard deviation is close to the mean value. The minimum value of 0.0012 indicates that the minimum shareholding by executive directors is 0.0012. On the other hand, the maximum value of 0.3707 indicates that executive directors did not own more than 37% of the total issued shares in Nigerian quoted manufacturing companies within the period of the study. The peak of the managerial shareholding data is indicated by the value of kurtosis of 4.3474, implying that the data is within

Table 2
Descriptive Statistics

Variable	Mean	Minimum	Maximum	Std. Dev	Kurtosis	Skewness
FIQ	1.7926	0.0064	4.4031	1.1596	2.1581	0.2421
MGS	0.0766	0.0012	0.3707	0.0797	4.3474	1.4629
NEXDS	0.1203	0.0140	0.7633	0.1989	7.1997	2.3990
INSTS	0.1697	0.0700	0.6056	0.1084	7.9266	2.4060
OWNC	0.1813	0.0675	0.6410	0.1337	5.4998	1.7712

Table 2 presents the descriptive statistics of the variables used in the analysis

the normal data distribution assumption. The coefficient of skewness of 1.4629 implies that the data is positively skewed (most of the data are on the right side of the normally distributed curve) suggesting that the data did contravene the symmetrical distribution assumption.

In addition, Table 2 reveals that the non-executive director's shareholding has an average value of 0.1203 with a standard deviation of 0.1989, meaning that, the non-executive director's data deviate slightly from the mean value which suggests a moderate dispersion of the data from the mean value. The minimum shareholding held by the non-executive directors in Nigerian listed manufacturing companies is indicated by 0.1400 meaning that, non-executive directors' shareholding on minimum held 14% of the total shareholding in the Nigerian quoted manufacturing companies, whereas at maximum they held 76%. The peak of the non-executive director's data is given by the kurtosis value of 7.1996 and the value of skewness of 2.3990 indicating that most of the non-executive director's shareholding is on the right side of the normal curve. This indicates that the data violate the normal distribution assumption and symmetrical assumption of the normal data curve.

Similarly, Table 2 shows that institutional shareholding has an average value of 0.1696, implying that, on average institutions own 17% of the total equity shares of Nigerian listed manufacturing companies within the period of the study. The standard deviation is indicated by 0.1084 indicating that the data deviate from the mean value by 6% which is not wide. The minimum shares held by 9 institutions in Nigerian listed manufacturing companies is 7% meaning that at least 7% of the equity shares in Nigerian listed manufacturing companies are held by institutional owners to the maximum of 60%. The peak of the institutional share holders' data is indicated by the kurtosis value of 7.9265 which violates the normal distribution assumption of the normal data curve. The skewness coefficient of 2.4059 indicates that most of the institutional shareholders' data is on the right side of the normal data curve which also contravenes the symmetrical distribution assumption of the normal data curve.

Finally, Table 2 shows an average ownership concentration of 0.1812 with a standard deviation of 0.1337. The standard deviation suggests a very little element of dispersion of the data from the mean. The minimum and maximum values of 0.0675 and 0.641 respectively, imply that the minimum concentrated ownership is 6% of the total equity shares of Nigerian listed manufacturing companies and the maximum shares held by the concentrated owners in Nigerian listed manufacturing companies within the period of the study and are 64% of the total equity shares. The peak of the data is represented by the value of kurtosis of 5.4997 implying that the data did not meet the normal distribution assumption. The coefficient of skewness of 2.4059 suggested that most of the ownership concentration data are positively skewed (that is most of the data are on the right side of the normal curve), therefore, the data did not meet the symmetrical distribution assumption. The analysis of the descriptive statistics of the study variables shows the nature and extent of distribution of data, which suggests that some of the variable data did not follow the normal curve as used by the higher values of standard deviations, kurtosis, and skewness. Therefore, the Gaussian theorem (1929) and Shao (2003) suggest that the abnormality of data does not in any way affect the inferential statistics estimate.

Table 3 gives the cumulative R^2 (0.2228) of the ordinary least square (OLS) which is the multiple coefficient of determination gives the proportion or percentage of the total variation in the dependent variable (FIQ) as explained by the independent variable (OWNCN, NEXD, INSTS, and MGS) jointly. Hence, it signifies that 22% of the total variation in financial information quality (FIQ) in Nigerian quoted manufacturing companies is caused by the collective effort of ownership concentration, non-executive directors, institutional ownership, and managerial shareholding. This result further indicates that the model is fit, variables properly selected, combined, and used in the study, this is statistically supported by the Fishers' statistics of 97.74 which is statistically significant.

In order to investigate the influence of ownership concentration on the quality of financial information, the regression results as presented in Table 3 indicates a coefficient of -2.429879 with a z-value of -4.71 which is statistical significance at 1% (p-value 0.000). This r esult indicates that there is a negative association between ownership concentration and earnings management. This means that the higher the percentage of shares held by the concentrated owners the less the possibility of manipulating accounting numbers by the managers which is increasing the quality of financial information conveyed to users in the financial statement. This result is not surprising because concentrated ownership are normal investors with investment skills and the ability to interpret and deduce information that is conveyed in the financial statement of companies. In addition, concentrated owners are measured by owners with 5% and above. Therefore, a large investment will give them better monitoring ability against managers' abusive accounting practices. This reason proves the result of this study.

Table 3

Regression Result (OLS*)*

Variables	Coefficients	z- values	p-values
R^2			0.2228
Wald Chi^2			97.74 (0.000)
OWNCN	-2.4298	-4.71	0.000
INSTS	-2.5879	-2.15	0.032
MGS	0.4641	0.52	0.600
NEXD	-0.0000	-0.35	0.730
Constant	2.6252	5.28	0.000

Table 3 presents the OLS regression results.

Looking at the relationship between institutional shareholding and financial information quality, a positive relation emerged and it has been supported statistically at a 5% level of significance. This is presented in Table 3 with a beta value of -2.587993 a z-value of -2.15 and a p-value of 0.032. This significant association indicates that institutional investors are one of the major considerations in managers' aggressive earnings management strategy. This result is not surprising. In Nigeria, most institutional owners are social security institutions (government pension funds) and financial firms. As a result, institutional investors in Nigeria are effective in constraining the managerial behavior of earnings management through abusive accounting and income manipulations. Institutional investors are mostly short-term-oriented investors thereby, focusing on the company current performance (Adelepo 2010). The result of the positive influential effect of institutional investors on the financial information quality of manufacturing company quoted in Nigeria found in this study is consistent with the findings of Siregar and Utama (2008), Davi and Aishah (2009), and Nedal *et al* (2010) and disagrees with the findings of Ajinkya *et al.* (2005), Chung *et al.* (2005) and Ahmad and Mansor (2009).

The ordinary least square (OLS) regression result from Table 3 reveals a beta value of 0.4641823 a z-value of 0.52 with a corresponding p-value of 0.600 which is statistically insignificant at all acceptable levels (1% 5% and 10%). This result indicates that the higher the managerial ownership in the manufacturing firms listed in Nigeria the higher the earnings management practices by the managers and hence the lower the quality of financial information. In addition, the result signifies that while managerial ownership increases the quality of accounting earnings will reduce which consequently reduces the quality of financial information of manufacturing companies listed in Nigeria. The entrenchment effect of managers to benefit themselves to the detriment of the organization's owners may also serve as a reason for this finding.

H_{O1}: ownership concentration has no significant impact on the financial information quality of quoted manufacturing companies in Nigeria.

Ownership concentration as measured by those with 5% and above shareholding to the total value of equity shareholding, is revealed to have a significant relationship at a 1% significance level with financial information quality of quoted manufacturing companies in Nigeria. Therefore, the study's null hypothesis one is rejected.

H_{O2}: Institutional shareholding has no significant effect on the financial information quality of quoted manufacturing companies in Nigeria.

The result of the variable institutional shareholding as measured by the proportion of shares held by institutions to the total number of equities holding reveals a statistically significant association with the financial information quality of quoted manufacturing companies in Nigeria. Therefore, there is evidence to reject the null hypothesis three of the study. Thus, for hypothesis two, is rejected.

H_{O3}: Managerial shareholding has no significant impact on the financial information quality of quoted manufacturing companies in Nigeria.

Managerial shareholding measured by the number of equities holding held by the executive directors to the total value of equity shareholding of the company is found to have an insignificant influence on the financial information quality of quoted manufacturing companies in Nigeria. Therefore, null hypothesis three failed to be rejected.

HO_4: Non-executive directors' ownership has no significant influence on the financial information

Table 4

Regression Results for Hypotheses

Variables	Coefficients	z- values	p-values
OWNCN	-2.4298	-4.71	0.0000
INSTS	-2.5879	-2.15	0.0320
MGS	0.4641	0.52	0.6000
NEXD	-0.0000	-0.35	0.7300
Constant	2.6252	5.28	0.0000

Table 4 presents the regression results performed to test the hypotheses *quality of quoted manufacturing companies in Nigeria.*

Concerning the Non-executive directors' ownership, as measured by the proportion of shares held by the non-executive directors to the total value of equity shareholding of Nigerian quoted manufacturing companies, the result reveals that non-executive directors are insignificantly related to financial information quality of quoted Nigerian manufacturing companies. Thus, this provides evidence of failing to reject null hypothesis four of the study. Thus, for hypothesis four failed to be rejected

Table 5

Summarized hypotheses test

Independent variable	Sig or Not Sig	Remarks
Ownership concentration	Significance at 1%	H_{o1} Rejected
Institutional shareholding	Significance at 5%	H_{o2} Rejected
Managerial shareholding	Not Significant	H_{o3} Not Rejected
Non-Executive Directors	Not Significant	H_{o4} Not Rejected

5. Conclusion and Recommendations

The ownership structure variables, particularly ownership concentration and institutional ownership were found to play a prominent role in constraining managerial behavior of accounting manipulation for private gain. Thus, therefore, helps improve the quality of information contained in the financial statement of quoted manufacturing companies. Consequently, the result of the four proxies of ownership structure provides different outcomes, the ownership structure influences real activities manipulation by being driven by ownership concentration and institutional ownership, therefore the significant effects of ownership concentration and institutional ownership on real activities manipulation may be as a result of their significant weight held in the quoted manufacturing companies in Nigeria.

The Securities and Exchange Commission is advised to make clear the minimum percentage of shareholding to be owned or allotted to concentrated shareholders by the companies as it was in the case of ownership concentration playing a prominent role in restraining manager's opportunistic tendencies, thereby, improving the financial information quality of manufacturing companies quoted in Nigeria.

The boards of the manufacturing companies quoted in Nigeria are advised to mandate managers of their companies to offer additional bonus shares to institutional investors, especially during an initial public offer (IPO) as it was found effective in improving the quality of the information content in the financial reports of the manufacturing companies quoted on Nigeria Stock Exchange. The Securities and Exchange Commission should maintain the restriction concerning managerial ownership as the result of the study shows that managerial ownership and non-executive directors' ownership are not effective instruments improving the financial information quality.

6. Policy Implication

The ownership structure attributes, especially ownership concentration and institutional shareholding has a significant influence on deterring real activities manipulation by the management of the company. The policy implication of the study is that more ownership concentration and institutional shareholding in the company will improve the financial information quality of quoted manufacturing companies in Nigeria. Also, other ownership structure attributes, such as non-executive directors' shareholding and managerial shareholding have a non-significant impact on the real activities' manipulation by the management of the companies. The policy implication of this finding is that due to their negative contribution to restraining managers from their opportunistic behavior more good governance mechanism should be put in place to check the inefficiency of non-executive directors' shareholding and managerial shareholding of the company.

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