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Ownership Structure and Earnings Quality of Listed Financial Firms in Nigeria

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Keywords: ownership concentration, institutional ownership, managerial ownership, earnings quality.

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OWNERSHIPSTRUCTUREANDEARNINGSQUALITYOFLISTEDFINANCIALFIRMSINNIGERIA

Strictly as per the compliance and regulations of:

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I. Introduction

Since the end of 20th century the issue of corporate governance has become the topic of significant discussion in the business environment around the globe. The widely belief view, that corporate governance determines firm performance, perpetuity and protect the shareholders' interest has led to increasing global attention of its importance. One of the most desirable mechanisms of corporate governance for reducing agency cost and mitigate earnings management incentives relates to the structure of ownership of a firm. Ownership structure is defined as the sharing of the equity of a company with respect to asset contribution, rights to vote and the identification of equity contributors.

In line with the agency theory, increase in the accuracy of financial reports are expected to be greatly influenced by the components of corporate governance with a resulting effect on the quality of earnings reported to users of financial information (John and Senbet, 1998). However, investors have lost confidence in the ability of these mechanisms of governance to enhance adequacy of earnings information due to the pervasive financial reporting scandals. Corporate governance reforms have been given a high preference and the need for earnings quality improvement has been highly required as a result of these scandals because investors need information without prejudice to make futuristic decisions.

The need to enhance the system of corporate governance in both local and international level was prompted by the tragic fall and destruction of big international firms like WorldCom international, Enron Corporation, and Tyco international in the United States of America to mention a few. These companies were perceived to be well regulated and also have capital market efficiency. Also the case of Parmalat in Italy which revealed financial statement misrepresentation has caused a great concern for the reforms of corporate governance around the globe due to the need of users of financial information without prejudices and enhancement of the quality of earnings to boost the confidence of investors.

African countries are not left out of these governance failures which have resulted in the destruction of many corporations. The cases of Capital Finance Ltd, The Continental Bank of Kenya Ltd, Consolidated Bank of Kenya Ltd and Trust Bank of Kenya amongst others have prompted the need for corporate governance. In Nigeria, there have also been reported cases of financial scandals of several multinational and conglomerate such as Lever Brothers Nigeria Plc, Cadbury Nigeria Plc, Bank PHB Plc, Oceanic Bank Plc, Abacus Merchant Bank Nigeria Limited, Royal Merchant Bank Limited, Rims Merchant Bank Limited, Financial Merchant Bank Limited, Progress Merchant Bank Plc, and Republic Merchant Bank Limited and the recent case of Skye Bank amongst others. Majority of the cases listed are pre-dominant in the financial sector which is perceived as the backbone of any economy. This facilitated the launch of the code of corporate governance. One of the major issues emphasized by the code is the ownership structure of firms; this is in cognizance of the principal-agent conflict where managers are serving their self-interest and exhibit opportunistic behaviour which usually tends to affect reported earnings adversely.

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This study therefore attempts to examine empirically the relationship between ownership structure and earnings quality in the listed financial firms in Nigeria.

II. Literature Review

a) Theoretical Framework

The theoretical framework for this study is centered on the agency theory. The agency theory simply deals with the operational relationship existing between one party, the principal, who delegates work to another party referred to as the agent. According to the agency theoretical framework, this study includes the composition ownership structure to provide evidence of their monitoring role as a main agent of corporate governance systems to reduce agency costs and thus enhance the quality of earnings. As corporate governance varies across institutional environments and reflects differences in ownership patterns, this study includes ownership structure to present institutional characteristics of governance to provide evidence of their impact on earnings quality.

In line with this framework, the ownership structure was examined from three dimensions: institutional ownership, managerial ownership and ownership concentration while the earnings quality which was proxied by: accrual quality and earnings persistence.

b) Ownership Structure

Ownership structure is the distribution of a company stock among its major shareholders. Agency theory suggests that ownership concentration which is a form of ownership structure will enhance the monitoring system installed in an organization thereby leading to eradication of principal-agent problem (Jensen and Meckling, 1976). The separation of ownership and control gives rise to the clash of interest between owners and those charged with the responsibility of managing the affairs of a business. Jensen and Meckling, (1976) explained that agents who are the managers control the activities of an organization in the place of the principals who are the owners of the organization. This association gives managers the liberty to direct the affairs of an organization and the exclusive power to make decisions on behalf of the owners. It is evident in literature the structure of ownership can be viewed in two directions; one, when managers of an organization also own some shares in the organization. Secondly, when the shareholders of an organization are most dominated by outside owners who have power to influence and monitor the activities of the managers which will cause a reduction in earnings management practices. As such, ownership structure is expected to have a positive relationship with earnings quality.

c) Managerial Ownership

Managerial ownership can be viewed as the proportion of shares attributed to insiders and block holders of a company to total number of shares issued. Managerial ownership is viewed as a relevant tool of ownership structures used to control the differences between owners of business and their managers (Gulzar, Wuham & Wang, 2011; Liu, 2012). Also, when managers of a firm possess a significant amount of share in that firm, the tendencies of managers acting in their self- interest will reduce because their focus will be on the attainment of the overall organizational (Jensen and Meckling, 1976). The use of information not yet made public by managers for their own advantage will be reduced since the interests of both parties have been aligned (Warfield, Wild, and Wild, 1995). Prior studies have shown that organizations where significant number of shares are owned by managers seem to be associated with reduced earnings management practices (Bradbury, Mak and Tan 2006; Salleh, Stewart and Manson 2006). Vafeas (2005) asserts that the quality of earnings information is enhances when insider owners account for a larger portion of the total shares. Likewise, Zhou (2008) observed that increased insider ownership will cause an improved quality of earnings information.

In line with the agency theory, managers tend to act in line with other shareholders to achieve organizational goal when they themselves are also shareholders. A closer relationship can be achieved between owners and managers when the CEO is also a shareholder. Therefore, it is expected that managerial ownership will help to align the interest of owners with that of the managers and as such reduces earnings management practices. The findings of Ali, Salleh and Hassan (2008), Banderlipe (2009), Dhaliwal, Salamon and Smith (1982), Ebrahim, (2007), Klein (2002) and Warfield et al. (1995) shows that management shareholdings is negatively related with earnings management.

When the owner- agent relationship are not well bonded, managers may tend to sideline the organizational goal for their own personal objectives without fright of sanction in spite of owning shares in the organization (Denis and McConnell 2003; Fama and Jensen 1983; Weisbach 1988). Therefore, based on the above statement, what motivates earnings management practices might increase despite the CEO's shares ownership thereby giving managers more opportunity to pursue personal interest. (Fama & Jensen 1983). Based on these researches, it was suggested that CEOs act in their own self-interest and not in the overall organization's interest (Cheng and Warfield 2005; Healy 1985; Holthausen, Larcker and Sloan 1995). Even managers with a high number of shares might profit from smoothing of earnings to achieve an increased share price and their worth (Yang, Lai and Tan 2008). Therefore, an increase in managerial shareholdings might enhance earnings management practices. Hence, the following hypothesis is developed:

Ho1: There is no significant relationship between managerial ownership and earnings management.

d) Institutional Ownership

Institutional ownership is referred to as the proportion of institutional involvement in the overall shares of an organization. Institutional ownership was viewed as the proportion of shares owned by the largest corporate investors to total number of shares issued (Hashim & Devi, 2008). In addition, to this explanation and in order to have a clear view on the type of institutional investors Bushee (2001) classified them into three:

(a) Transient institutional investors: these are class of institutional owners with large asset and manage different investment portfolios in various entities. They are mostly interested in brief period investment where the result of the investment can be quickly achieved. Overseeing the affairs of managers is not what motivates them to invest and they are not bordered about issues related to achieving long-term organizational goals.
(b) Quasi-indexers: these are different class of institutional owners with small assets but they are interested to hold their investment for a long period of time. Their motivation is toward achieving the long-term goal of an organization including increase in its value and success. This class of investors is commitment to monitoring the affairs of the manager of organizations they have invested.
(c) Active institutional ownership: this is referred to as the proportion of shares active institutional owners possess. They usually invest averagely and are usually interested in the long term value of an organization. They are dedicated to oversee the activities of managers and interested in the future prospects of the organization.

Consistent with the agency theory, institutional owners' monitoring activities seems to be a relevant component of governance. According to Almazan, Hartzell, and Starks (2005), adequate overseeing function can be achieved from institutional owners which might be less possible inactive or smaller investors. Thus, the opportunistic behaviour of managers can be curbed to some extent with the presence of institutional owners. The efficient overseeing hypothesis shoes that there exist a negative association between institutional shareholdings and earnings management practices. Likewise, prior research revealed that earnings management is reduced with the involvement of institutional investors (Bange and De Bondt, 1998; Bushee, 1999; Cornett, Marcus and Tehraniam, 2008; Ebrahim, 2007; Koh, 2003.

However, few studies do not agree that the presence of institutional investors will help to oversee the affairs of managers (Claessens & Fan, 2002; Porter, 1992). Institutional investors in most cases are inactive and might dispose their shares when they perceive low performance rather than contributing to the organization (Duggal and Millar 1999). Institutional owners might not be able to adequately oversee the activities of managers or take actions against them because it might lead to an undesired business relationship with the organization. Accordingly, institutional investors may collude with management (Pound, 1988; Sundaramurthy, Rhoades, and Rechner, 2005). Some studies revealed that institutional owners are more concerned with the short term goals and therefore, incapable of overseeing the activities of managers (Bushee, 1998; Porter, 1992). As such, achieving short term income will be highly prioritized by managers. The above reveal that institutional owners might increase incentives for managers to manage earnings which will result in negative effect on earnings quality. Therefore, the following hypothesis is also developed:

Ho2: There is no significant relationship between institutional ownership and earnings management.

e) Ownership Concentration

Ownership concentration is a measure of the existence of large block holders in a firm (Thomsen and Pedersan, 2000). Normally, a shareholder who holds 5% or more of a corporation common stock is considered a major shareholder or block holder. The shareholding of an owner should be significant enough to provide for monitoring the action of the management. The major shareholder can be an individual, a domestic foreign corporation, an institutional investor and or the state. Large block holders are more motivated to oversee the activities of managers because they tend to gain more from monitoring in comparison to the cost involved. Demsetz and Lehn (1985) and Stiglitz (1985) found that large block holders have the incentive to bear fixed cost of gathering information and to perform oversight functions on management. On the contrary, mixed ownership results in poor monitoring system. That is in a situation where the shareholders hold lower stock in a firm the motivation to oversee is low because the costs involved in monitoring outweigh the benefits to be derived.

Divergence of interest may arise between major shareholders and other shareholders when block holders are predominant in an organization. In most cases, large block holders seem to use their powers to create opportunities for their own advantage which can deprive holders with few shares of their rights. Likewise, they go to the extent of prioritizing their own interests at the expense of other shareholders (Shleifer and Vishny 1997). Consequently, large block holders might be highly involved in management affairs thereby creating avenues for managers to manage earnings for their personal interest (Jaggi and Tsui 2007). Incentives to manage earnings are provided for managers due to fear of expected adverse result if the options from large shareholders are downturned. Also, the following hypothesis is equally necessary:

Ho 3: There is no significant relationship between ownership concentration and earnings management.

f) Earnings Quality

Earnings quality is referred to as an increased level in the quality of earnings which make available more detailed financial information about an organization to its individual users in decision making (SFAC No. 1). From the above explanation three characteristics that defines earnings quality are pointed out: earnings quality is centered around the provision of important decision by the an organization to the investors and other users: the second part is related to the informativeness of the figures presented to capture the financial performance of an organization and the third part look into how relevant are these information in decision making and if it actually represent the actual performance of the organization. Also, Penman & Zhang (2002) view earnings quality as that earnings stated on the financial statement, before identifying the extraordinary items, is regarded as an adequate signal for futuristic earnings. Therefore, it is assumed that a high level of earnings quality relates to a desired sustainability of earnings while unsustainability is related to a low level of earnings quality. According to the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) did not define earnings quality in their common Conceptual Framework, but rather itemized a number of qualitative features expected in earnings to be regarded as of a high quality, amongst them are relevance, faithful representation, comparability, verifiability, timeliness, and understandability (IASB, 2010).

Earnings quality will be of no meaning if its decision application is not well defined because important characteristics of individual firm's earnings method are quite distinctive in making resolutions (Dechow, Ge and Schrand2009). There are two pretexts from which earnings quality can be viewed; essential characteristics and fiscal characteristics. When earnings is being observed from the important characteristics, it is viewed as accounting viability to access the firm's future performance while from the other perspective, earnings shown on the face of the financial statement are not too good indicators of the actual performance of a firm. Earnings quality is regarded as the level of exactness by which the book value of earnings shows the real earnings; as earnings increases, so also do reported earnings swiftly express the current worth of expected dividend (Yee, 2006).

Present and previous operational performance of a firm can be truthfully shown by high quality of earnings. Earnings quality reveals expected operational performance produce consistent estimation for a firm notwithstanding the level of earnings. The presence of low earnings quality is not always indicative of earnings smoothing practices; it might be as a result weakened essential factors in prior years. Dechow and Dichev (2002) state that the factors that determine the quality of earnings include the size of a firm, percentage of loss, unpredictability of cash flow and operating cycle. Stickney, Brown and Wahlen (2004) note that qualitative financial statement should depict the true and whole information concerning an organization's financial performance and potential future risk. Also, information pertaining to anticipated earnings and cash movements of an organization should be adequately revealed through a quality financial report. Ebrahim (2007) maintains that due to the fact that financial statements are influenced by discretions of the management, their opportunistic behaviour is reflected in the reporting process. Kanagaretnam, Lobo and Mathieu (2004) investigated bank manager's use of discretion in estimating loan loss provision to reduce earnings variablity while Zoubi and Al-Khazali (2007) asserts that managers of banks in the Gulf Cooperation Council (GCC) region use the loss provision among other things to smooth earnings to achieve certain objectives.

Earnings quality is also viewed as the ability of reported earnings to be useful for decision making. There are diverse determinants of the quality of financial information, majority of which arises as a result of request of such information to access some important financial benefits and also from other factors that motivate managers to smooth earnings. The need to unnecessarily maintain high earnings leads many managers into trying to manage their earnings.

III. Empirical Studies

a) Ownership Structure and Earnings Quality

Ayadi and Boujelbena (2014) conducted a study entitled: *"the relationship between ownership structure and earnings quality in the French context"*. The study explores the association among diverse types of ownership structure and earnings quality proxied earnings management and informativeness in the French companies belonging to SBF 250. The study sample consists of 117 French companies excluding all the financial companies because they are characterized by specific regulations related to financial statement presentation and governance. The finding of the study shows that there exist a negative relationship between managerial ownership and earnings management and also revealed that ownership concentration has a significant positive relationship with earnings informativeness. The study only used two indicators of

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earnings quality based on earnings management and informativeness, it would have been interesting to extend the study by incorporating other components of earnings quality which includes accrual quality, persistence, predictability, conservatism and time liness.

Hashim and Devi (2012) conducted a study entitled: "*institutional monitoring and earnings quality in Malaysia*". The purpose of the study was to investigate the association between institutional ownership and earnings quality of Malaysian firms. The sample consists of 592 non finance related firms quoted on the Malaysia's exchange. The study proxied earnings quality with accrual quality model. It also revealed that institutional owners which mainly dominates the structure of ownership, gives greater monitoring opportunity. The finding shows that institutional owners tend to assume monitoring duties due to their large investment. The focus of this study was based only on institutional ownership; the study would have been more interesting if other forms of ownership structure: management ownership, foreign ownership family ownership and ownership concentration which affects earnings quality was considered.

Sousa and Galdi (2016) conducted a study entitled: "*the relationship between equity ownership concentration and earning quality: evidence from Brazil*". The purpose of the study was to examine the effect of ownership concentration in Brazilian companies on earnings quality. Earnings persistence and asymmetric timeliness (conservatism) were the two proxies used to measure earnings quality. The sample of the study comprises of firms quoted on the Sao Paulo stock exchange excluding financial firms between 1999 and 2014. The results of the study indicated that accounting conservatism has a positive and significant relationship with ownership concentration. It also showed that as the ownership concentration has a negative relationship with earnings persistence. However, the impact of institutional ownership was not clearly captured in the study.

Hsu and Wen (2015) conducted a study entitled *"the influence of corporate governance in Chinese companies on discretionary accruals and real earnings management".* The purpose of the study was to investigate ownership structure and board characteristics on discretionary accruals and real earnings management. The sample comprises of 1858 firms quoted on the Chinese shanghai and Shenzhen stock exchange securities market from 2000-2012. The findings of the study revealed that firms with high ownership concentration tend to provide motivation for managers to manage earnings so as to achieve short-term goals. Increase in managerial ownership can adequately control their earnings management activities which is harmful to the value of the firm. The establishment of independent directors on the board has not been able to monitor the opportunistic behaviour of managers. High rate of earnings management activities will be experienced with the presence of CEO duality. Board size seems to have a negative significant relationship with earnings management.

Amos, Ibrahim, Nasidi and Ibrahim, (2016) conducted a study entitled: "*the impact of institutional ownership structure on earnings quality of food/beverages and tobacco firms in Nigeria*". The study sampled 16 food/beverage and tobacco firms in Nigeria between 2005 -2013. The regression analysis technique was used to estimate the model. The findings of the study showed that the variable institutional ownership is significant while firm size is insignificant. Since institutional investors help in monitoring managers activities, it was recommended by the study that SEC should encourage more institutional participation in the food/beverage and tobacco companies in Nigeria. The sample size used in the study is small compared to the number of food/beverage and tobacco in Nigeria and also the study neglect other forms of ownership structure but rather focused solely on institutional ownership.

Moradi and Nezami (2011) conducted a study entitled "*influence of ownership structure on earnings quality in listed firms of Tehran stock exchange*". The aim of the study was to investigate the relationship between ownership concentration, institutional ownership and earnings quality. The sample of the study comprises of quoted companies in the Tehran stock exchange between 2006 and 2010. Six criteria were used for measuring earning quality: operating cash ratio to operating earnings, accruals volume, persistent growth rate of earning, gross earnings ratio, earning persistence, receivable accounts quality. The results of the study revealed that there is a significant relationship between ownership concentration and persistent growth rate of earning. There is also a significant relationship between earning consistent and institutional ownership. However there is no significant relationship between ownership concentration and institutional ownership with the other criteria for evaluating earning quality. Although the study observed two forms ownership structure but there are other form (managerial ownership, foreign ownership and family ownership) which could as well be considered in relation to earnings quality. Also a wider period coverage in the study would have enhanced the result of the study.

Shaikh, Iqbal, Shah and Bhutto (2012) conducted a study entitled "*institutional ownership and discretionary accruals: empirical evidences from Pakistani listed non-financial firms*" The aim of the research was to investigate the relationship between institutional ownership and discretionary accruals. The sample selected for the study was 68 non-financial quoted firms on the Karachi stock exchange between 2006 and 2010. The finding of the study showed a negative and insignificant relationship between institutional ownership and discretionary accruals. The study considered only one form of ownership structure, whereas other forms are also important.

Al-Zyoud (2012) conducted a study entitled "*the effects of chairman independence and ownership structure on Earnings Management*". The aim of the study was to examine the effects of chairman independence, ownership structure and earnings management. The sample of the study consisted of 91 largest firm by market capitalization quoted on the London stock exchange in 2005. Earnings Management was measured by Modified Jones Model. The results of the study revealed that there is a negative relationship between chairman independence and Earnings Management, institutional ownership is negative and significant and managerial ownership is negative but not significant. The time frame considered in the study is small; a wider time frame would produce more viable result.

Ostaa and Naderi (2012) conducted a study entitled "*the effects of ownership structure on corporate value in the Tehran Stock Exchange*" The purpose of the research was to examine the effects of ownership structure on corporate value of firms quoted on the TSE. The sample of the study consisted of 90 firms listed on the TSE from 2001 to 2008. The finding of the study revealed that corporate ownership has positive effect on corporate value; however, the degree of corporate ownership concentration and corporate value is not significant, which means that there is no significant relationship between degree of corporate ownership concentration and corporate value. According to the results of the institutional ownership and corporate value a statistically negative relationship was revealed, but, the degree of institutional ownership concentration and corporate value did not indicate a not statistically negative relationship. Also, for management ownership ratio is a statistically negative association with corporate value. As for the degree of management ownership concentration, there is no significant relationship between management ownership concentration and corporate value.

IV. Methodology

The data for this study was obtained from secondary source. This study used panel data to establish the relationship between ownership structure and earnings quality in Nigerian financial firms, therefore, the population of this study consisted of all the 16 deposit money banks in Nigeria as at 31st December, 2019. The purposive sampling techniques was adopted in selecting the top 10 deposit money banks whose annual reports were adequately available over a period of 10 years (2009-2018).

a) *Variable Measurement*

Variables	Measurement	Source
Earnings Quality (EQ)	Earnings Quality measured by discretionary loan loss provision (DLLP). $LLP_{it} = \beta_0 + \beta_1 NPL_{it-1} + \beta_2 \Delta NPL_{it} + \beta_3 \Delta TL_{it} + \mu_{it}$	Beaver and Engel (1996)
Institutional Ownership (INTOWN)	Measured using proportion of shares owned by institutional investors to total number of shares issued, expressed in percentage.	Amos *et al.,* (2016)
Managerial Ownership (MANOWN)	Measured using proportion of shares owned directly (shares own by the director only) or indirectly (When the director represents the interest of others) by directors to total number of shares issued, expressed in percentage.	Moradi*et al* (2014)
Ownership Concentration(OWNCON)	Herlfindal index is used to determine the ownership concentration. It is approximated by the sum of squares of all reported holdings. $HHI = \sum I2$	Moradi*et al* (2014)
Firm Size (FRSIZ)	Natural log of total assets	Waweru and Riro (2013),
Leverage (LEV)	Ratio of total debt and total equity	Bala and Kumai (2015)

Source: Author's Compilation, 2020

The model to capture the relationship between ownership structure and earnings quality of deposit money banks in Nigeria was specified as follows:

$$EQ = \beta_0 + \beta_1 INTOWN_{it} + \beta_2 MANOWN_{it} + \beta_3 OWNCON_{it} + \beta_4 FIRMSZ_{it} + \beta_5 LEV_{it} + \mu_{it}$$

Where;
EQ = Earnings Quality
$INTOWN$ = Institutional Ownership
$MANOWN$ = Managerial Ownership
$OWNCON$ = Ownership Concentration
$FIRMSZ$ = Firm Size
LEV = Leverage

V. Results and Discussions

The variables (managerial ownership, institutional ownership and ownership concentration) used in estimating ownership structure are tested to check for the problem of multi-collinearity. From the result in Table 1, it was evident that low degree of correlation exists between managerial ownership and firm size showing a correlation of 0.01. Ownership concentration also showed a low level of correlation with firm size with a correlation figure of 0.00. In addition, low degree of correlation of 0.02 was observed between leverage and institutional ownership. The result of the correlation shows that the variables (ownership concentration, managerial ownership, leverage, institutional ownership and firm size) observed exhibited low degree correlation among each other which suggested that the effect of multi-collinearity is insignificant.

Table 1: Correlation Matrix of Ownership Structure and Earnings Quality

Correlation						
Probability	EQ	FSIZE	INTOWN	LEV	MANOWN	OWNCON
EQ	1.00					

FSIZE	-0.00	1.00				
	0.97	-----				
INTOWN	-0.26	0.07	1.00			
	0.04	0.58	-----			
LEV	-0.09	0.69	0.30	1.00		
	0.46	0.00	0.01	-----		
MANOWN	0.18	-0.35	-0.69	-0.59	1.00	
	0.14	0.01	0.00	0.00	-----	
OWNCON	0.09	-0.37	-0.10	-0.28	0.31	1.00
	0.48	0.00	0.40	0.02	0.01	-----

Source: Author's Compilation, 2020

Table 2 shows the empirical results of the relationship between ownership structure and earnings quality among the selected listed banks in Nigeria. The three models of fixed effect, random effect and ordinary least square were estimated. The result of the Hausman test (0.71, $p>0.05$) (table 3) indicates that the fixed effect will not be the most appropriate model and the Lagranger multiplier test (0.31,$p>0.05$) (table 4) showed that the ordinary least square is better than the random effect. The explanatory power of the model showed that 67.61% of the variation was captured by the explanatory variables, while 60.83% (table 3) was captured by the variables after adjusting for the loss in degree of freedom.

The results showed that institutional ownership has a positive and significant relationship earnings quality, with coefficient of 7.18 (t-value=4.3,$p<0.05$), this signified that a unit increase in the number of institutional ownership will increase earnings quality by 7.18%. In addition, it was revealed in prior studies that institutional involvement helps to curb earnings management practices as a result of high level of monitoring emanating from them. This finding is consistent with the works of Dalhat (2014), Amos *et al.,* (2013), Hashim and Devi (2012), Aggarwal, Erel, Ferreira and Mato (2010), and Koh (2003) but contrary to the work of Raheel (2017).

Managerial ownership did not exhibit statistical relationship with earnings quality (t=-0.11,$p<0.05$) this implied that management ownership does not influence the earnings quality of the selected listed banks at 5% level of significance. The coefficient of 0.53 showed that managerial ownership contributes positively towards earnings quality, however not significant. As expected, the presence of management in the ownership structure of a firm should positively affect the quality of earnings in that firm. The empirical result is consistent with the empirical work of Al-Zyoud (2012) which revealed the existence of a positive association between managerial ownership and earnings quality but not significant. However, this was not in accordance with the findings of Ayadi and Boujelbena (2014) and Dalhat (2014) which found a significant and negative relationship between managerial ownership and earnings quality.

Ownership concentration negatively affect earnings quality with coefficient of -0.019 (t=-2.59, $p<0.05$). Thus, the coefficient of -0.019 implied that a unit increase in ownership concentration causes earnings quality of the selected listed banks to reduce by 2.5%. This goes in the direction of the empirical works of Sousa and Galdi (2016), Waweru and Riro (2013) and Al-Fayoumi, Abuzayed and Alexander (2010) which found a negative and significant relationship between ownership concentration and earnings quality but in contrast with the work of Moradi and Nezami (2011) and Ayadi and Boujelbena (2014) whose findings maintained that ownership concentration positively influence the quality of earnings.

The result of the leverage ratio exhibits positive and statistically significant relationship with earnings quality (t=2.3,p<0.05), this implied that a unit increase in debt to asset ratio of the selected banks will lead to increase in earnings quality. In addition, banks tends to reduce their earnings management practices due to the fact that a high level of disclosures will be required in order to access debt facilities and this will in turn boost and improve the quality of their earnings. This is consistent with the findings of Hassan and Farouk (2014).

Table 2: Model Estimate of the Relationship between Ownership Structure and Earnings Quality

Dependent Variable: Earning Quality						
	Pooled OLS		Fixed Effect		Random effect	
	Coefficient	t-statistics	Coefficient	t-statistics	Coefficient	t-statistics
INTOWN	7.18*	4.4	2.49	0.31	7.18	1.30
MANOWN	-0.53	-0.1	7.26	0.96	0.53	0.11
OWNCON	-0.01*	-2.6	-0.02	-0.55	-0.01	-0.56
FSIZE	-5.46	-1.5	-12.57	-0.70	-5.46	-0.43
LEV	1.41*	2.3	0.09	0.01*	1.41	0.31
C	9.38	0.1	18.89	0.11	9.38	0.07

Source: Author's Computation, 2020

Table 3: Model Estimate of the Relationship between Ownership Structure and Earnings Quality

Dependent Variable: EQ				
Method: Panel Least Squares				
Date: 07/17/19 Time: 11:53				
Sample (adjusted): 2007 2016				
Periods included: 10				
Cross-sections included: 7				
Total panel (unbalanced) observations: 70				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
INTOWN	7.182258	1.645583	4.36457	0.0001
MANOWN	-0.531202	4.506258	-0.11788	0.9066
OWNCON	-0.019402	0.007491	-2.59012	0.0076
FSIZE	5.464651	3.754871	1.45535	0.0807
LEV	1.413101	0.605734	2.33288	0.7405
C	9.380819	120.2006	0.07804	0.9381
R-squared	0.676103	Mean dependent var		-28355.80
Adjusted R-squared	0.608350	S.D. dependent var		777121.2
S.E. of regression	780359.1	Akaike info criterion		30.06754
Sum squared resid	3.29E+13	Schwarz criterion		30.27697
Log likelihood	-896.0261	Hannan-Quinn criter.		30.14946
F-statistic	94.92281	Durbin-Watson stat		1.904465
Prob(F-statistic)	0.000450			
Hausman Test		0.71(p>0.05)		

Table 4: Lagrange Multiplier Tests for Random Effects

Null hypotheses: No effects			
Alternative hypotheses: Two-sided (Breusch-Pagan) and one-sided (all others) alternatives			
	Test Hypothesis		
	Cross-section	Time	Both
Breusch-Pagan	0.022169	0.292447	0.314616
	(0.8816)	(0.5887)	(0.5749)
Honda	-0.148894	-0.540784	-0.487676
	--	--	--
King-Wu	-0.148894	-0.540784	-0.495618
	--	--	--
Standardized Honda	0.396903	-0.330020	-3.743344
	(0.3457)	--	--
Standardized King-Wu	0.396903	-0.330020	-3.742611
	(0.3457)	--	--
Gourieriox, et al.*	--	--	0.000000
			(>= 0.10)

VI. Summary and Conclusion

A positive significant relationship was established between institutional ownership and earnings quality and this is consistent with findings of Hashim and Devi (2012). However, the association between ownership concentration and the quality of earnings were found to be significantly negative. This is in line with findings of Sousa and Galdi (2016). Managerial ownership was found to be statistically insignificant with earnings quality. This conforms to the findings of Ayadi and Boujelbena (2014).

It was concluded from the findings of this work that the presence and the increase of institutional ownership will enhance and improve earnings quality. Earnings management practices were observed to be geared with the increase in the number of ownership concentration. Managerial ownership does not however affect earnings quality.

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