

TITLE PAGE

**THE EFFECT OF OWNERSHIP STRUCTURE ON INFORMATIVENESS OF
ACCOUNTING EARNINGS OF LISTED DEPOSIT MONEY BANKS IN
NIGERIA**

BY

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**BEING A PROJECT SUBMITTED TO DEPARTMENT OF ACCOUNTANCY,
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JUNE, 2022

DECLARATION

I declare that the work in this thesis entitled “The Effect of Ownership Structure on Informativeness of Accounting Earnings of Listed Deposit Money Banks In Nigeria” has been carried out by me in the Department of Accounting under the guidance and supervision of Dr Abubakar C. Shagari. The information derived from the literature has been duly acknowledged in the text and a list of references provided. No part of this project thesis was previously presented for another degree or diploma at this or any other Institution.

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CERTIFICATION

This is to certify that this research work “The Effect of Ownership Structure on Informativeness of Accounting Earnings of Listed Deposit Money Banks in Nigeria” is an original work undertaken by Hadi Auwal with Reg. No. KPT/CBMS/19/47461 and has been prepared in accordance with the appropriate norms, procedure, rules and regulations governing the preparation and presentation of project in Kaduna Polytechnic, Kaduna.

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DEDICATION

This project is dedicated to Almighty Allah (S.W.T) who gave me the grace to finish this course successfully.and also to my lovely momma for her prayers.

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My immeasurable appreciation goes to Allah (S.W.T) for His protection and support directly and indirectly throughout my life. I fully acknowledged and believed that without Allah's (S.W.T) mercy and support, I would not achieve what I have already achieved now.

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ABSTRACT

This study 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 (2012) 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 fifteen (15). Secondary data source was used which were extracted from the Annual reports and accounts of the sampled Banks from 2014-2020. 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, while Institutional Ownership and Ownership Concentration are positively and significantly related to Earnings Informativeness of listed Deposit Money Banks in Nigeria. It is recommended amongst others that those who are interested in the reported earnings as a basis for their investment decisions should look up to both Institutional Ownership and Ownership Concentration in those banks as they empirically guarantee the reliability of the Banks reported Earnings.

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CHAPTER ONE INTRODUCTION

1.1 Background to the Study

Accounting has developed over time as an essential stewardship function, which enables owners of the business to extract accountability from the managers who are entrusted with the task of running the organization. The custodianship function is at the root of corporate governance, and provides the basis for the sacred trust upon which modern business is built (Osisioma, 2001). The separation of ownership and control due to growth in the size of businesses during the industrial revolution in the 19th century led to the development of stewardship accounting, where those in control of business were made to report to the owner by providing them with accounting information through annual reports and accounts. The annual reports which are usually prepared on historical basis at the end of every financial year are expected to serve as a measurement of firm value which should more or equal to market value. Any change in the value of the firm as a result of income generated from operations indicates an improvement in firm's value. The level of improved earnings reported in the annual reports determines the informativeness of the accounting figures in the firm's financial statement.

Informativeness of accounting earnings involved the accounting process of measuring earnings as the change in firm's wealth and focusing on fair valuing of assets and liabilities(Dechow, Ge and Schrand,2019). The information quality of reported earnings is influenced by an array of factors, most of which stem from the demand for such information for use in contractual arrangements. Firm's ownershipstructure are among the factors that influences quality of reported earnings due to incentive alignment and monitoring effects of

the selected components of ownership structure. Managers to a greater extent are the ones entrusted with the affairs of firms whom in most cases have little or no equity interest in it. The real equity owners on the other hand have little or no direct day-to-day running of the firm. In that respect, managers are vested with the responsibility of preparation and reporting of the earning figures (profit) of the firm they managed. Consequently these pave way for manouvering the information content of the report to suit their interest.

Thus, the managers as agents need to be monitored to ensure that they discharge their stewardship role to their principal (firm owners) rather than adjusting reports to earn high rewards at the detriment of the equity holders. As long as managers' opportunistic tendency are not monitored by shareholders because of diverse nature of equity holdings, reported earnings will continue to be manipulated and the informativeness it deserves to portray to firm owners for decision making is eroded. Block of shareholders if effectively were in control of a firm, they could also control the production of the firm's accounting information and reporting policies and vice versa.

Literature on stewardship accounting posits that an accounting number is deemed value relevant if it has a significant association with equity market value (Barth, Beaver, & Landsman, 2001), and could be used to estimate future returns (Beaver, 1968). Thus, if reported earnings are considered by investors to be value relevant and useful in estimating future returns, market value of shares and earnings should normally be related.

Ownership structure is considered as an important factor that influences the quality of a firms financial reports and that it is possible to use ownership structure to predict the informativeness of a bank's reported earnings by considering the earnings-returns

relationship with managerial ownership, earnings returns relationship with Institutional Ownership as well as earnings-returns relationship with Ownership Concentration.

Managers may impair the faithful determination of accounting numbers in order to meet the performance measures imposed by accounting-based contracts. Therefore, the quality of accounting information may be positively associated with the level of managerial ownership (Warfield, Wild and Wild, 1995). On the other hand, there are countervailing incentives for managers to reduce the quality of accounting information. As managerial ownership increases, managers are increasingly less subject to accounting-based constraints. Thus, managers will reduce reporting quality if there exist the proprietary costs of disclosure, since the less managers disclose, the less competitors and suppliers know about the firm's financial position (Dye, 1985 and Hayes & Lundholm, 1996).

Institutional investors are often characterized as sophisticated investors who have advantages in acquiring and processing information compared with individual investors (Bushee, 1998). However, their specific role in improving reporting quality is quite controversial. There are two opinions about the role of institutional ownership in the capital market. The speculation argument is that institutional investors act as "traders" rather than "owners." Prior research provides several reasons why they act as transient investors. First, institutions are subject to strict fiduciary responsibilities so that they have incentives to trade frequently based on short-term financial performance in order to show fund sponsors and the courts the prudence of their investment (Gompers & Metrick, 2001). Second, due to the information asymmetry between managers and investors, it is more cost-effective for institutions to invest based on short-term performance instead of valuing long-term prospects of firms in their diversified portfolio (Bushee, 2001).

1.2 Statement of the Problem

Reported accounting earnings is said to be the end product of the accounting process. The relevance of reported earnings in aiding equity owners in taking useful decisions can not be overemphasised. As far back as 1968, Ball and Brown concluded that there is definitely an association between accounting earnings and share returns (Easton & Harris, 1991 as cited in Yero, 2020). On the other hand, Lev (1988) identify irrational investment decisions by investors as the cause of low earnings-returns relationship which was a direct link to information content of reported earnings.

The general problem of returns and earnings relationship is of continuing concern for accounting researchers. Given the importance of a well functioning banking system, it is not surprising that a number of studies have focused on how a variety of economic, regulatory and institutional factors have influenced the efficiency of banking systems worldwide. In Nigeria there is paucity of studies that measure earnings informativeness and its relationship with ownership structure of banks. Most of the empirical studies on ownership structure and earnings informativeness such as Fan and Wong (2012), Yu-Chih, Yan and Ya-Fen (2017), Chang (2008), Gul, Lynn and Tsui (2012), and Jung and Kwon (2012) were conducted in other countries and they are inconclusive. These studies are foreign based and their findings may not be applicable to Nigeria, while the few studies conducted by researchers in Nigeria on ownership structure was in relation to earnings management not informativeness of earnings eg Shehu and Jibril (2020). Therefore, this study intends to close this gap by looking at the impact of ownership structure on informativeness of accounting earnings of banks listed on the Nigerian Stock Exchange.

The research questions guiding this study were:

- i. Does managerial ownership of Deposit Money Banks provide well informed reported earnings in Nigeria?
- ii. Is institutional ownership associated with informativeness of reported earnings of Money Deposit Banks in Nigeria?
- iii. Does Ownership Concentration of Deposit Money Banks in Nigeria play a vital role in checkmating managerial opportunistic behaviour thereby improving the quality of reported earnings?

1.3 Objectives of the Study

The study is aimed at evaluating the effect of ownership structure on accounting earnings informativeness of listed Deposit Money Banks (DMBs²) in Nigeria.

Specifically, the objectives of the study are to:

- i) Examine the impact of Managerial ownership on earnings informativeness of listed deposit money banks in Nigeria;
- ii) determine the influence of Institutional ownership on earnings informativeness of listed deposit money banks in Nigeria; and
- iii) determine the effect of ownership concentration on earnings informativeness of listed deposit money banks in Nigeria.

1.4 Hypotheses of the Study

In line with the objectives raised above, the following hypotheses have been formulated in null form:

H₀₁: Managerial Ownership has no significant impact on earnings informativeness of listed DMBs in Nigeria.

H₀₂: Institutional Ownership has no significant influence on earnings informativeness of listed DMBs in Nigeria.

H₀₃: Ownership Concentration has no significant effect on earnings informativeness of listed DMBs in Nigeria.

1.5 Scope of the Study

This study is restricted to only banks that are quoted on the Nigerian Stock Exchange (NSE) as at January, 2020. The study focuses on impact of managerial ownership, Institutional ownership and ownership concentration on informativeness of reported earnings of deposit money banks in Nigeria. All these (components of ownership structure) put together may help us establish the effectiveness of ownership structure as a corporate governance tool in assessing the banks reported earnings and it enhances shareholders returns as well as checkmate managers' income manipulation behavior.

1.6 Significance of the Study

Ownership Structure has been frequently studied far and wide, using data from different countries of the world. However, few of these studies address the issue of informativeness of reported earnings and its relationship with the structure of Firms shareholdings and executive director's holdings. There was extensive literature that discusses

the role of ownership structure, earnings quality, institutional ownership, ownership concentration and size of the firms around the world, but there is scarce evidence from prior literature that empirically examine the relationship between Managerial ownership, Institutional ownership, ownership concentration and earnings informativeness in the Nigerian context. This research therefore, is a modest effort to fill that literature gap. In addition, the significance of this research lies in the following:

Firstly, looking at the importance given to reported earnings in shaping the decision of shareholders, it is worthwhile to look at the ways ownership structure can improve the accounting earnings informativeness of Deposit Money Banks in Nigeria. The true value of a company stock return ought to be equated with the actual earnings per share of that company. This is hardly the case in Nigeria and this indicates the low informativeness of the annual accounting reports generated by listed banks.

Secondly, the result will provide an insight into the complex issues of financial reporting quality and corporate governance in the banking industry. The result is expected to have an important policy implication for Nigerian Stock Exchange (NSE), Securities and Exchange Commission (SEC), Central Bank of Nigeria(CBN) and other stakeholders in banking regulation to strive hard in improving transparency, informativeness and quality assurance of annual reported earnings for Deposit Money Banks in Nigeria.

Finally, in addition to confirming the findings of previous researches in depicting the role of ownership structure of the banks as an important determinants of reported earnings informativeness, the findings of this research would contribute to the existing literature. The research will also suggest areas needing further researches.

CHAPTER TWO LITERATURE REVIEW

2.1 Introduction

This section covers background issues on the variables of the study and a review of literature in the related studies. The main purpose of the section is to examine the contributions of previous researchers and identify gaps within the literature, with a view to filling them. In addition, the section identifies and reviews the relevant theory that best underpin the study.

2.2 The Concept of Ownership Structure

Ownership structure is defined by the distribution of equity with regard to votes and capital as well as the identity of the equity owners (Jensen and Meckling, 1976). These structures are of major importance in corporate governance because they determine the incentives of managers and also the economic efficiency of the corporations they manage.

Ownership structure is one of the main dimensions of corporate governance and is widely seen to be determined by country-level corporate governance characteristics such as the development of the stock market and the nature of state intervention and regulation (La Porta, Lopez de Silanes, Shleifer & Vishny, 1998). In addition, it affects the scope of a firm's agency costs (Jensen & Meckling, 1976).

In a sense, ownership structure is a deep-seated problem for governance structure since it may make big effects on business incentives, mergers and acquisitions, competition and oversight of agency; and the concept is discussed by different views. The first view defined ownership structure as different type of equity such as A share, B share, outstanding

share or allotment transfer, etc. (He, 1998 and Zhou, 1999). A second view divided ownership structure according to its “ownership”, i.e. state shares, state-owned legal person shares, legal person shares, etc. This view sees ownership structure like the shareholder structure which refers to equity ratio occupied by various shareholders (Wu, 2013). The shareholder structure normally was described and measured by ownership concentration, like the largest shareholder, the second largest shareholder or minority shareholders, etc., and it illustrates the outcome of configuration for corporate control. Equity split or transfer will lead to shareholder structural changes which may results in restructuring of corporate control, then make changes for corporate governance. According to a third view, ownership structure is equal to equity ownership or equity structure, which can be understood as the proportion of shares held by different categories of shareholders (Sun, 2012).

The connection between ownership structure and performance has been the subject of an important and ongoing debate in the corporate finance literature (Demsetz & Villalonga, 2001). The concept of ownership structure can be defined along two dimensions: ownership concentration and ownership mix (Gursoy & Aydogan, 2012). The former refers to the share of the largest owner and is influenced by absolute risk and monitoring costs (Pedersen & Thomsen 1999), while the latter is related to the identity of the major shareholders.

According to Morck, Shleifer and Vishny (1988), the differences in ownership structure have two obvious consequences for corporate governance. On the one hand, dominant shareholders have both the incentive and the power to discipline management. On the other hand, concentrated ownership can create conditions for a new problem, because the interests of controlling and minority shareholders are not aligned. Therefore, it will be an

economic image for minority shareholders to look for interests' protection through board of directors.

The increase in ownership concentration and earnings informativeness show that the higher the managerial ownership, institutional ownership and ownership concentration in relation to incentive of both managers and shareholders, the lower the incentive of managers to engage in an opportunistic reporting in order to hide corporate resources expropriation. From the above explanation ownership structure components covered by this study are: i) Managerial Ownership ii) Institutional Ownership and iii) Ownership Concentration.

2.2.1 Managerial Ownership

Managerial Ownership ordinarily represents the proportion of shares owned by the firm's directors to total number of shares issued. Warfield, Wild and Wild (1995) posited that corporations exhibit a myriad of manager- ownership structure extending from owner manager holding the vast majority of equity shares to professional managers whose ownership share is negligible. The separation of ownership and control begets questions of managers' incentives to take action in the best interest of owners. The extent of proportion of share held by management may affect control over the firm's decision (Jensen & Meckling, 1976). Rudiger and Rene (2017) in their study review theories of the determinants of managerial ownership and their implications for the relation between firm value and managerial ownership. They consider three theories: the agency theory, the contracting theory, and the managerial discretion theory.

Rudiger and Rene (2017) assert that agency theory takes managerial ownership as given; greater managerial ownership aligns the interests of management better with the interests of shareholders. The contracting agency view portrays that shareholders face trade-off. As the managers' stake in the firm increases, their incentives become better aligned with those of shareholders in that, if they increase firm value by one dollar, their wealth increases by a greater fraction of that dollar. However, when managers have a large stake in the firm, they are exposed to the risk of the firm. It follows that shareholders benefit from an increase in managerial ownership because of better alignment of incentives but incur additional costs because they have to pay managers more. When managers hold shares, they also control votes. As managers control more votes, they become more entrenched and can use their position to further their interests even when doing so does not benefit shareholders. Demsetz (1983), Demsetz and Lehn (1985), and Himmelberg, Hubbard, and Palia (1999) find support for the predictions of the contracting model of managerial ownership. The third theory posited by Rudiger and Rene (2017) is managerial discretion theory approach. The theory suggests that managers make their decisions subject to constraints imposed by shareholders. If shareholders solve their collective action problem in such a way that they behave as a group and choose the optimal compensation contract for managers, there is no difference between the managerial discretion approach and the contracting approach.

2.2.2 Institutional Ownership:

This ordinarily represents the proportion of shares owned by institutions to total number of shares issued by a firm . Institutional investors are organizations which pool large

sums of money and invest those sums in securities, real property and other investment assets. They can also include operating companies which decide to invest their profits to some degree in these types of assets.

Typical investors include banks, insurance companies, retirement or pension funds, hedges funds, investment advisors and mutual funds. Their role in the economy is to act as highly specialized investors on behalf of others. For instance, an ordinary person will have a pension from his employer. The employer gives that person's pension contributions to a fund. The fund will buy shares in a company, or some other financial product. Funds are useful because they will hold a broad portfolio of investments in many companies. This spreads risk, so if one company fails, it will be only a small part of the whole fund investment. (Wikipedia)

An institutional investor can have some influence in the management of corporations because it will be entitled to exercise the voting rights in a company. Thus, it can actively engage in corporate governance. Furthermore, because institutional investors have the freedom to buy and sell shares, they can play a large part in which companies stay solvent, and which go under. Influencing the conduct of listed companies, and providing them with capital are all part of the job of investment management. (Investopedia)

Numerous institutional investors act as intermediaries between lenders and borrowers. As such, they have a critical importance in the functioning of the financial markets. Economies of scale imply that they increase returns on investments and diminish the cost of capital for entrepreneurs. Acting as savings pools, they also play a critical role in

guaranteeing a sufficient diversification of the investors' portfolios. Their greater ability to monitor corporate behaviour through proper selection of investors' profiles implies that they help diminish agency costs.

Institutional investors, comparatively to individual investors, have additional capability of gathering, interpreting financial reports and detecting managerial opportunism over earnings figures (Velury & Jenkins, 2014). The Institutional Investors are also interested in monitoring a firm's financial reporting quality when they invest heavily in the firm.

Considering the importance of corporate governance in firm's management, shareholder's active participation in monitoring function is important to ensure good corporate governance practices. To date, institutional investors' participation has emerged as important force in corporate monitoring to serve as mechanisms to protect minority shareholder's interest. The significant increase in the institutional investors' shareholdings has led to the formation of a large and powerful constituency to play a significant role in corporate governance. Earnings information, as part of accounting information, provides investors with relevant information that would help them in making correct asset pricing and investment decisions (Yuan & Jaing, 2008). The active monitoring hypothesis views institutional investors as long-term investors with raving incentives and motivations to closely monitor management action (Jung & Kown, 2012).

2.2.3 Ownership Concentration

Ownership Concentration: Ownership concentration is a measure of the existence of large shareholders in a firm. Zhang (2014) defined Ownership concentration as stockholders

ownership proportion. It can also represent the concentration degree of ownership in firms, which means large shareholders proportion in a firm. Zhang (2014) further reiterated that there are three types of ownership structure. First, absolute concentration of ownership, that is, there is only one stockholder who has the absolute power to control the firm and usually keep 50% ownership; Second, absolutely dispersed ownership, implying that there are numerous stockholders; there is complete separation of ownership and control when the share ownership is highly concentrated than individual ownership as they keeps share below 10%. Third, where there coexists relative concentration of ownership and some large shareholders in a firm. However, in the firm, which has relative concentration of ownership and some large shareholders, ownership structure can almost decide the composition of board. It is always assumed that only shareholders who hold large share may closely monitor the management of board. Dispersed shareholders have little or no incentive to monitor the management and may have no power to decide for the board. Then, some large shareholders control the exercise of board; they hire managers to act on their behalf. They may use their voting power to improve their own position at the expense of other shareholders.

Large shareholders have greater incentives to monitor management, because the costs associated with monitoring management are less than the expected benefits to their large equity holdings in the firm. Ownership concentration provides large shareholders with sufficient incentives to monitor managers. Demsetz and Lehn (1985) and Stiglitz (1985) empirically support this view by finding that large equity holders have incentives to bear the fixed costs of collecting information and to engage in monitoring management. In contrast, dispersed ownership leads to weaker incentives to monitor management . In situations where shareholders hold low stakes in the firm, shareholders have little or no incentive to monitor

managers, because monitoring costs will exceed the gains of monitoring managers. Therefore, Pedersen and Thomsen (1999) as cited in Wen (2010) defined ownership concentration as the share of the largest owner and are influenced by absolute risk and monitoring costs. Composition of Ownership of a Firm is one of the main dimensions of corporate governance and is widely seen to be a determining factor in ascertaining good corporate performance as well as ensuring qualitative financial reporting.

The problem created by concentrated ownership in the firm between managers and minority shareholders has been very difficult to mitigate through agency problem, this was as a result of the tightness of ownership that allowed self-interest behaviour of manager to go internally unchallenged by the board of directors which give room to the managers to determine how the company may be run and use the opportunistic behaviour to expropriate the minority share holders wealth.

Ownership concentration refers to the distribution of the shares owned by a certain number of individuals or institutions; the ownership mix on the other hand, is related to certain institutions or groups such as government, private company or foreign partners among the shareholders (Claessens & Djankov 1998).

The role of ownership structure in the context of concentrated ownership is to assess the cashflow contents with regards to blockholders role in the context of diffused ownership. The accounting literature contains extensive research on how the agency problem between owners and managers affects earnings informativeness as well as the quality of accounting information of firms.

2.3 Informativeness of Accounting Earnings

Accounting information is only relevant if it fulfills certain qualities which includes clarity, understandability, and relevance. The whole functions of accounting revolves around measurement and communication of income or earnings. The earnings reported should be a useful tool for shareholders to take a decision that will add value to their investment.

Despite the importance of earnings for stakeholders, the term earnings quality is also vague and has different interpretations. Some authors relate earnings quality to the accurate representation of underlying economic transactions and events. Another interpretation focuses on persistence of earnings, where earnings of higher quality are sustainable and persist into the future. A more general interpretation of the persistence idea is suggested by tying earnings quality with predictability, claiming that earnings of higher quality are a good indicator of future earnings. Finally, some authors use the term in the context of accounting conservatism.

Previous researchers gave various definitions of earnings quality/earnings informativeness which emphasized on the quality, profits, persistent and predictability, steady and value relativity. One of the most important points to note is that earnings informativeness is used interchangeably with earnings quality, financial information quality and accounting conservatism.

In Siegel (1991) five elements, such as the degree to which the economic reality of the firm is reflected, are mentioned as characteristics that raise the quality of profits, and

eleven other items, including estimated discretion, are mentioned as characteristics which lower quality. Francis et al. (2004) argue that there are seven attributes of earnings, such as accruals quality, persistence, predictability, smoothness, value relevance, timeliness, and conservatism, and examine their relationship with the cost of equity capital. Kothari (2001) mentions corporate evaluation by investors, and discretionary management as relevant factors, and categorizes arguments on earnings quality. Schipper and Vincent (2013) present the value relevance viewpoint, and an economics-based concept of income, examining attributes which specify earnings quality, such as time series properties of earnings, including persistence, predictive ability and variability, the qualitative characteristics of a conceptual framework, the relationships between income, cash, and accruals, and the implementation of decisions.

Chan *et al.* (2004) consider earnings quality/informativeness as the degree to which reported income reflects operating fundamentals. Yee (2014) considers that earnings quality has two guises, first as a fundamental attribute and second as a financial reporting attribute. Fundamental earnings are the accounting profitability measure that gauges a firm's ability to make future dividend payments. Reported earnings are the imperfect signal of the fundamental earnings a firm announces. Therefore, earnings quality/informativeness refers to how quickly and precisely reported earnings reveal fundamental earnings.

Kirschenheiter and Melumad (2004) consider that high quality earnings are more informative and closer to the long run value of the firm. Revsine *et al.* (1999) consider that earnings are of higher quality when they are sustainable.

Hawkins (1998) thinks that high earnings quality should be stable, predicted and reflect the trend of the income level in the future. Meanwhile, the earnings quality not only involves the income, finance activity, management characteristics but also consider income quality as a sequence creation influence. Moreover, the outside factors such as the economic environment, tax policy etc. also play important roles in deciding the company's earnings quality. In 2012, American Accounting Association (AAA) defines earnings quality from the cash perspective: earnings quality is inversely related to the amount of time elapsed between revenue (income) recognition and cash collection.

Dechow *et al* (2019) note that three conditions should be satisfied if a company is considered to have high earning quality. Firstly, it reflects current operating conditions. Secondly, it well predicts future operating condition. Thirdly, it really reflects the company's intrinsic value. Hence, they define earnings quality/informativeness as a measure of how well earnings reflect the actual performance of a firm. Penman and Zhang (2012) define earnings informativeness/quality: “to mean that reported earnings, before extraordinary items that are readily identified on the income statement, are of good quality if they are good indicator of future earnings. Thus, we consider high-quality earnings to be “sustainable earnings” Correspondingly, when an accounting treatment produces unsustainable earnings, we deem those unsustainable earnings to be of poor quality.”

Freeman, Ohlson and Penman (1983) argued that current book rate-of-return provides a basis for predicting future earnings changes. A relatively low rate-of-return implies that earnings are "temporarily depressed"; similarly, a high rate-of- return implies that earnings are” unusually good”. Penman (1989) expands this analysis by showing that not only return- on- assets determines future earnings, rather, a large set of financial statement items determine

future earnings.

The Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) did not define earnings quality in their common Conceptual Framework, but list a number of qualitative characteristics that should achieve a high quality, including relevance, faithful representation, comparability, verifiability, timeliness, and understandability IASB(2010).

Earnings is said to be informative if it reflects current operating conditions and company's intrinsic value, therefore we found the definition given by Dechow *et al* (2019) to be suitable for this research work as it is all encompassing.

2.4 Review of Empirical Studies

The literatures on ownership structure have shown that difference in firm's managerial ownership, institutional ownership and ownership concentration will affect the informativeness of earnings. Leuz, Nanda and Wysocki (2013) said that in a more concentrated ownership structure, the larger owners sit on the board and they are always directly engaging in firms' management, communicating firms performance through financial statements, Scholars such as Haw, Hwang and Wul (2004) argued that firms that are largely owned by the majority shareholders have greater propensity to manage earnings.

Ball and Brown (1968), empirically shows the importance of accounting earnings as value-relevant information for investors (e.g. Liu & Thomas, 2000; Das & Lev, 1994; Wild, 1992; Easton & Harris, 1991; and Collins & Kothari 1989, all cited in Fan Wong, 2012).

The value-relevance of a particular firm's accounting earnings depends on the ability of current accounting earnings to facilitate the prediction of future returns by predicting future earnings and cash flows. Reliable earnings are price informative, because empirical evidence shows that reliable measures of future earnings and cash flows (i.e. permanent earnings) provide value relevant information. Although the market places greater emphasis on reliable earnings but it is hard for shareholders to observe the reliability of earnings. Among the indicators of earning reliability is corporate governance mechanisms, of which, managerial ownership, Institutional ownership, ownership concentration are part. The importance of earnings reliability rests with the assumption that more reliable earnings will be of greater relevance in assessing the value of a firm. The less reliable earnings are, the less informative. Different researches portray results that show that not only industrial firms, even special economic sectors such as banking industry are not left behind in experiencing low informativeness of reported earnings as a result of ownership structure.

The purpose of financial reporting is to provide information that is useful for business decisions. Given the focus on decision usefulness, the informativeness of reported earnings is of interest to those who use financial reports for contracting purposes and for investment decision making. A major interest in financial reporting is the earnings quality, which is part of the overall financial reporting quality. Accountants are not the only group that cares about reported earnings. A recent survey by Juana (2010) finds that managers also view earnings, especially EPS, as key metric for outsiders. (Carla & Sloan, 2017as cited in Juana, 2010) argued that there is no single measure of earnings quality that captures all the dimensions of

earnings quality. Prior studies have indicated a number of features with different earnings quality such as accrual persistence, estimation errors in the accrual process, absence of earning management and conservatism.

2.4.1 Managerial Ownership and Earnings Informativeness

Corporations exhibit a myriad of manager-ownership structures, extending from owner-managers holding the vast majority of equity shares to professional managers whose ownership share is negligible. The separation of ownership and control begets questions of managers' incentives to take actions in the best interest of owners. The property rights literature maintains that managers have incentives to contract with suppliers of capital to limit their opportunistic behavior and to have their actions monitored. This derives from the desire to better align interests of managers and suppliers of capital as managerial ownership declines. The „nexus of contracts“ depiction of the corporation suggests an important role for accounting - contracts contingent on accounting-based constraints can be designed to either restrict or promote certain managerial behavior. Since contracting and monitoring are costly, not all of managers' opportunistic behavior is eliminated nor is the latitude available in the selection and application of accounting techniques entirely removed. Indeed, the suppliers of capital do not wish to eliminate all accounting discretion, since managers are likely to possess a comparative advantage in choosing an efficient set of accounting methods (Ball, 1989). Therefore, the market expects managers to capitalize on the latitude permitted by both contracts and accepted accounting procedures in reporting accounting numbers; and the manager's compensation incorporates this expected behavior (Zimmerman, 1979; Fama, 1980; Fama and Jensen, 1983). The separation of ownership and control, and the attending

agency costs, yield compensating advantages that include diversification, specialization, and economies of scale (Watts and Zimmerman, 1986).

Theory predicts that lower managerial ownership is associated with both increased contractual constraints that are often denominated in accounting numbers and consequent greater managerial motivation to either relax restrictions or capitalize on incentives (Warfield, 1995). Given managers' available latitude in applying accepted accounting procedures, rational behavior suggests managers choose accounting techniques conditional on contractual constraints, and not necessarily on the economics underlying transactions. Since contracts can limit managers' accounting choices a question arises as to whether contractually-constrained or manager-determined accounting numbers better reflect economic performance. Another factor in this relation is the endogeneity of ownership and accounting, and the prospect that increases in managerial ownership is reactions to increased difficulties inherent in accounting measurement. The resolution of these alternative suppositions is an empirical question, and yields the first testable hypothesis: The informativeness of accounting earnings as an explanatory variable for returns is systematically related to managerial ownership. The hypothesis recognizes that theory does not differentiate across ownership structure on managers' available latitude in determining accounting numbers, except for the possibility that determination of certain numbers is contractually defined, but rather emphasizes the differential incentives posed to managers. Another potential interaction between ownership structure and the information environment exists. It is conceivable that shareholders of corporations with diffuse ownership structures lack the resources, incentives, or access to relevant information to monitor managers' actions. Accordingly, to the extent diffuse ownership structures yield greater information asymmetry (or uncertainty among

market participants), and earnings are useful in removing this asymmetry (or uncertainty), the informativeness of earnings is predictably inversely related to managerial ownership

The managers of low managerial ownership firms have greater incentives to manage accounting numbers. Thus, the informativeness of earnings is predicted to be positively related to managerial ownership, as Warfield, Wild and Wild (1995) have shown. On the other hand, a substantial shareholder has incentives to collect information and monitor management, thereby avoiding the traditional free-rider problem. A good financial report should possess qualities that will guarantee investors the safety of their investment as well as maximum returns.

While Lev (1989) suggested that methodological misspecifications or the existence of investors' irrationality may contribute to observed weak returns-earnings association. Other studies posited that low information content of reported earnings is responsible for the weak association (e.g. Ferdinand, Stephen & Judy, 2012). Their findings suggest that the low information content of earnings is a significant contributor to the weak observed returns-earnings relationship and is an outcome of low earnings reliability due to management manipulation. Monitoring attributable to managerial ownership has the capacity to improve the reliability of accounting earnings; and therefore, increases the informativeness of accounting earnings.

However, Warfield, *et al* (1995) carried out one of only a few studies that specifically examine the relation between ownership structure and the stock price informativeness of earnings. In a diffuse ownership context, they document that more managerial ownership is associated with greater earnings informativeness. They argue that an increase in managerial ownership reduces the conflicts of interest between owners and managers and thus the need

for accounting-based managerial constraints. The result is that the informativeness of earnings increases because managers have less need to manage earnings in order to alleviate constraints.

2.4.2 Institutional Ownership and Earnings Informativeness

Proponents of the strategic alliance hypothesis contend that Earnings Management of firms with high institutional shareholdings is low. This contention is consistent with the premise that institutional investors are expected to force firms' management to focus on current earnings, rather than long-term earnings, to avoid reporting disappointing earnings to interested parties. Empirical research findings reveal that the quality of financial reporting is impaired as institutional ownership of equity increases (Bradbury, Mak, & Tan, (2014). Institutional Ownership is considered as an important channel through which minority shareholders are protected against expropriation of controlling shareholders in emerging markets (Oehl, 2000). The institutional investors have greater resources, are more sophisticated than individual investors and have more relevant expertise and experience to monitor management. Therefore, they are able to compel effective disclosure of information. In addition to significant findings, extant literatures on the relationship between institutional ownership and financial reporting quality have reported insignificant results. For example, a research conducted by Betra (2012) does not provide any significant effect of institutional ownership of equity on reported earnings management. Sirger and Utama (2008) document similar findings in which they provide no empirical support that high equity holdings by institutions enhances the reliability of financial information.

To mitigate the problems associated with conflict between controlling owners and minority shareholders in Asia firms, the involvement of institutional investors' equity participation may improve corporate governance practices (Claessen & Fan, 2012). Concentrated shareholdings by institution provide an incentive for diligent monitoring as they have the resources, expertise and stronger incentives to actively monitor the actions of management and prevent managers' opportunistic behaviour (Wan Hussin & Ibrahim, 2013). Institutions that have substantial shareholdings in a firm make it difficult to sell shares immediately at prevailing price, therefore have greater incentives to closely monitor firms with high free cash flow.

Consistent with this view, Jung and Kown (2012) and Velury and Jenkins (2014) provide evidence that firms' with high stock ownership by institutions experience earnings numbers of high quality. Park and Shin (2004) and Koh (2017) recorded similar findings in which they conclude that active institutional investors are more likely to effectively constrain unethical behavior of earnings management and enhance the credibility and reliability of financial reporting.

It is argued that in addition to being sophisticated, institutional investors are capable monitors as well (Velury & Jenkins, 2014). In the active monitoring hypothesis, institutional investors with large shareholding are viewed as long-term investors who have an incentive and motivation to closely monitor and control management activities (Jung & Kwon, 2012). In addition, these investors are capable of gathering and interpreting financial statements and detecting deliberate misstatements by top managers (Chung, Firth, & Kim, 2005; Velury & Jenkins, 2014). In tandem with this notion, earnings informativeness studies provide

evidence of an association between informative earnings numbers and a high equity ownership by institutional investors (Jung & Kown, 2012; Korczak & Korczak, 2019; Sarikhani & Ebrahimi, 2011; Velury & Jenkins, 2014). Park and Shin (2004) note that the presence of financial intermediaries and active institutional shareholders on the board of directors reduce the probability of engaging in income-increasing discretionary accruals by controlling shareholders when unmanaged earnings are below the target.

Similarly, Koh (2017) find that long-term institutions monitor the opportunistic actions of managers in firms with the motivation of manipulating earnings to meet or beat earnings benchmarks. In addition to institutional ownership, managerial ownership is considered an important device of ownership structures for mitigating the conflict between managers and shareholders (Gulzar & Wang, 2011; Liu, 2020). Moreover, having firm managers have a large stake of shares would diminish the managers-shareholders moral hazard problem and reduce the probability of managers engaging in non-optimal activities (Jensen & Meckling, 1976). As the conflict between the two parties is removed, information asymmetry would decline and the quality of financial statements would improve (Warfield, Wild, & Wild, 1995). Consistent with these assertions, academic researchers provide evidence of less earnings management activities when managers hold more shares in a firm (Bradbury et al., 2014; Saleh et al., 2005). Vafeas (2000) concludes that firms whose insiders own a large stake of shares exhibit a high quality of earnings information. Correspondingly, Zhao, Davis, and Zhou (2008) note that the likelihood of reporting informative earnings numbers increases with high managerial ownership of equity.

2.4.3 Ownership Concentration and Earnings Informativeness

Ownership concentration, as an aspect of corporate governance, is concerned with ways in which major shareholders employ measures to ensure proper accountability and transparency by managers in order to safeguard the interest of the stakeholders. However, La Porta et al. (2012) assert that when ownership is concentrated, as is typical in Spain, the nature of the agency problem shifts from manager-shareholder conflicts to conflicts between the major shareholder (controlling owner) and minority shareholders. Large shareholders represent their own interests and enforce decisions that afford them some private benefits of control at the expense of minority shareholders who face the uncertainty of whether the controlling owner may opportunistically deprive them of their rights. As a consequence, an increase in major shareholder ownership may result in an expropriation of minority shareholders as the controlling shareholder is increasingly less subject to market discipline regarding corporate control. This is further influenced by weak legal systems. In consonance with this control activity by large shareholders, Yeo, Tau, Ho and Chen(2012) and Jung and Kwon (2012) show a positive relationship between the existence of large shareholders and the informativeness of earnings. This would be the predicted relationship if the monitoring effect derived from the presence of large shareholders were dominant.

The degree of ownership concentration affects the nature of contracting, creating agency problems between managers and outside shareholders. In a situation of diffuse ownership (e.g in the US and the UK),the agency problems stem from the conflicts of interest between outside shareholders and managers who own an insignificant amount of equity in the firm (Jensen & Meckling 1976)].

Sánchez-Ballesta and García-Meca (2017) investigated the relationship between ownership structure and earnings informativeness in Spanish companies for the years 1999 through 2012. Their results show a non-linear relationship between management ownership and earnings informativeness, an indication that the results do not support a meaningful relationship between ownership concentration and earnings informativeness.

Conflicts between managers and shareholders are expected to be less prevalent in firms with concentrated ownership structure, as controlling shareholders have strong incentives to monitor managers, and even replace them if they perform below the expectations of the shareholders (Franks, Collins & Hornes, 2005). Sanda, Mika'ilu and Garba (2010) asserts that, different ownership of equity tends to prevent any shareholder from taking unilateral action to bear the costs of monitoring the managers, who may pursue interests that conflict with those of the shareholders. This is because shareholders' interests are likely to prevail in firms with concentrated ownership than firms with a dispersed ownership structure.

In this context, together with the factors explaining the presence of concentrated ownership structures determined by Fama and Jensen (1983), Demsetz (1983), Shleifer and Vishny (1986) and Denis and Denis (1994), a growing body of studies focus their attention on the legal environment as a determinant of the corporate governance system. Those studies explicitly analyze the level of efficacy of the legal system not only in controlling the agency relationships established in organizations, but especially in protecting the interests of outside investors. In this respect, the level of defence provided by the legal environment becomes a determinant of the ownership structure.

Bebchuk's (1999) study suggests a greater presence of concentrated ownership structures in countries where the wealth of minority shareholders is poorly protected by the legal system. For their part, Shleifer and Wolfenzon (2012) center their study on the capital market and establish that, when the shareholders' interests are well defended, those markets will be more developed and there will be a lower concentration of ownership. Those theoretical arguments are in line with the empirical results of the works of La Porta, et al (1999), Claessens, Djankov and Lang (2000) and Faccio and Lang (2012).

Shareholders are likely to expect that larger shareholders have an incentive to monitor management and reduce managers' ability to act opportunistically. Less opportunistic manipulations lead to more reliable and value relevant earnings (e.g. Lev, 1989; Wang et al., 1994; Fan and Wong, 2012). The expropriation effect of ownership concentration potentially affects the financial reporting of firms. As the controlling owner oversees accounting reporting policies and is recognized as having strong opportunistic incentives to expropriate minority shareholders, the market presumes that the owner will not report high quality accounting information. This market perception will reduce the credibility of accounting earnings reports and, consequently, the informativeness of these earnings. Accounting numbers produced by management would thus be less informative to the market, a negative relation being expected between ownership concentration and the informativeness of earnings. Fan and Wong (2012) find this result in their study in seven East Asian economies.

Firth, Fung and Rui (2017) studied the effect of ownership and board structures on earnings informativeness of Chinese companies. Their results indicate that ownership concentration, presence of foreign shareholders, percentage of tradable shares, type of dominant shareholders, supervisory board, and independent directors affect the earnings

response coefficient. Zhao and Millet-Reyes (2017) investigated the effect of family ownership and bank ownership on earnings informativeness. They studied a sample of 206 French companies for the years 1994 through 1998. They provide evidence that family ownership reduces the information content of current reported earnings, and bank-owned firms report highly persistent earnings through the use of accruals.

The negative relation that Fan and Wong (2012) find between concentrated control and earnings informativeness is based on data prior to 1997. Using 977 companies in seven East Asian countries they find that concentrated ownership is negatively associated with earnings informativeness, where earnings informativeness is measured by earnings-return relation. Their result is consistent with the entrenchment effect of ownership concentration. Warfield, *et al* (1995) reported that earnings informativeness is positively related to ownership concentration holdings. But Warfield *et al*'s findings is from a developed economy setting. It could be different in a developing economy.

The willingness of large shareholders to expropriate minority shareholders' wealth may be constrained by other incentives, such as legal remedies available to minority shareholders and the incentive to end management's absolute control over the firm. Bennedson and Wolfenzon, as cited in Igor and Tomasz (2000) argue that larger shareholders are recognised by minority shareholders as a signal of a better monitoring environment. Their argument is consistent with the view that ownership concentration is a monitoring attribute of corporate governance (La Porta *et al.*, 1998). The justification for this is that managers at publicly traded firms either lose their control to large shareholders or are constantly monitored by large shareholders. If higher ownership concentration increases monitoring over management (Demsetz & Lehn, 1985; Stiglitz, 1985), higher ownership concentration

should decrease management's capacity to alter accounting earnings and increase the reliability of earnings. Dempsey et al. (1993) finds that different categories of ownership concentration are related to different levels of opportunistic earnings management.

2.5 Theoretical Framework

Two theories can be used to explain the impact of ownership structure on informativeness of accounting earnings i.e stakeholders and agency theories. Agency theory can be used to explain the role of ownership structure on informativeness of accounting earnings.

Agency theory relationship is defined as a contract under which one or more persons (the principal) engage another person (the agent) to perform some service on their behalf that involves delegating some decision-making authority. This theory according to Sanda, *et al* (2010) has helped in providing insights not only into the problems arising between management and shareholders but also between management and a wider class of shareholders. The theory as posited by Ferdinand, Stephen and Judy (2012) predicts that managers who own less equity in a corporation have incentives to pursue non-value-maximizing goal and accordingly accounting based contracts are written to restrict this behavior. In these settings, accounting reports will be demanded for contracts to align managers' interests with those of the shareholders. Managers are expected to respond to these accounting-based contracts by exploiting the latitude available in accounting procedures to either alleviate constraints or capitalize on available incentives, yielding accounting numbers that do not necessarily reflect the economic substance of the underlying transactions. Thus,

the informativeness of accounting earnings is expected to be lower for firms with low levels of management ownership, *ceteris paribus*.

The study is also guided by stakeholder theory developed by Jensen (2012). The theory as quoted by Sanda *et al* (2010) constitutes important extensions of on the application of agency problem. They further assert that, Jensen (2012) finds faults in stakeholder theory since the multiplicity of objective functions that it recognizes „violates the proposition that a single-valued objective is a prerequisite for purposeful or rational behaviour by any organisation“.

In conclusion the nature of banking business further exacerbates the agency problem in banking because of multiple conflicts of interests among the very diverse key stakeholders (Okafor & Wilson, 2010). They further opine that, while depositors are interested in the safety of their deposits, the shareholders are interested in high-risk investment exposures capable of maximising the expected return on their investments. Management’s chief interest, on the other hand, is in their compensation package and power concentration in the organisation. The agency theory and stakeholders’ theory guide this study due to its relevance in addressing the conflict between management and owners and also the ability of every stakeholder’s interest being considered.

CHAPTER THREE RESEARCH METHODOLOGY

3.1 Introduction

This chapter explains the methodology adopted for the study. It considers the methods of investigation, data collection, analysis and interpretation of the result for the purpose of establishing the relationship among variables under study. It also discusses the research design, population of the study, sample size and sampling technique, research instruments and techniques for statistical analysis of data.

3.2 Research Design

The design of this study is correlational design. The design will give the study a better insight on the study variables and aid in describing, analyzing and interpreting the result of analysis of data to be collected from historical records of the study population.

3.3 Population and Sample Size of the study

The population of this study comprises all the 15 banks listed on the Nigerian Stock Exchange (NSE) as per the NSE Fact Book, 2020. The population was screened to determine the sample size for the study. Sample size of 10 banks was derived by using a purposive stratified sampling technique to filter out banks that do not satisfy the following criteria for inclusion;

- (a) Availability of complete data in NSE Fact Book for the period of the study 2014 – 2020.

- (b) Retaining of name without change throughout the study period. This is because same data cannot be used for two different names within same study period.

According to the NSE Fact Book (2020), there were 17 banks listed that survived re-capitalisation policy of CBN after 31st December, 2014 (see appendix I). Out of these Deposit Money Banks, only 13 were listed as at 1st January, 2014 which is our period for the study. (see appendix II). Two out of the prior January, 2014 listed banks were taken over in the bid for merger/acquisition policy leaving only 11. Finally, one of the surviving 11 banks changed its original name in order to survive competition thereby leaving only 10 banks which the study adopted as its sample.

Table 3.1: Population of the Study

S/No.	BANKS	Listing Date
1	Access Bank Plc	18/11/1998
2	Diamond Bank Plc	27/5/2005
3	FCMB Plc	21/12/2004
4	First Bank Plc	1971
5.	GT Bank Plc	9/9/1996
6	Sterling Bank Plc	17/8/1993
7	U B A Plc	1970
8	Union Bank Plc	1970
9	Wema Bank Plc	13/2/1991
10	Zenith Bank Plc	21/10/2004
11	Eco Bank Plc	24/4/2014
13	Fidelity Bank Plc	17/5/2005
15	Skye Bank Plc	24/11/2005
16	Unity Bank	22/12/2005
17	Stanbic IBTC Bank Plc	25/4/2005
	Total Observations	

Source: Compiled by the author 2020.

Table 3.2: Sample size of the study

S/NO.	BANK
1.	Access Bank Plc
2.	Diamond Bank
3.	First Bank Plc
4.	FCMB Plc,
5.	G T Bank Plc
6.	Sterling Bank Plc
7.	Union Bank Plc
8.	United Bank for Africa Plc
9.	Wema Bank Plc
10	Zenith Bank Plc

Source: Compiled by the author 2014.

3.4 Sources and Method of Data Collection

Data for the research was collected from the annual reports and accounts of various banks, The NSE Fact Book of 2020 is also used for accessing some relevant data. Also, some data were obtained from an online access (African Financials), while data on Share prices were obtained through a website (www.cashcraft.com) for daily price-lists of the various banks under study.

3.5 Variables and their Measurements

The study used one dependent and three independent variables. The dependent variable, earnings informativeness was proxied by earnings-return while the independent variables are managerial ownership, Institutional Ownership and Ownership concentration.

The table below presents the summary of variables and their measurements as used in the study.

Table 3.1: Summary of Variables and their Measurement

No	Variable	Measurement
1	Informativeness of Accounting Earnings	Measured Using Fan and Wong Model (2012) as modified (Annualized returns on shares).
2	Managerial Ownership	The proportion of shares owned by the Bank's directors to total number of shares issued.
3	Institutional Ownership	The proportion of shares owned by Institutions to total number of shares issued.
4	Ownership concentration	The proportion of shares owned by the largest shareholders to total number of shares issued.
5	Bank Growth	Ratio of Market value of Equity to Book Value of Equity
6	Bank Size	Natural logarithm of Total Asset.

Source: compiled by the author 2014.

The study used the earnings-return model to examine the informativeness of accounting earnings. Banks earnings are measured by net income; abnormal returns are measured by net-of-market returns. The abnormal returns of i Bank on t year are calculated as such:

$$AR_{it} = R_{it} - R_{mt} \dots \dots \dots (1)$$

Where; AR_{it} is the average abnormal return rate of the i Bank stock on t year; R_{it} is the actual rate of return of the i Bank stock on t year; R_{mt} is the market return rate on t year.

$$AR_{it} = a_0 + a_1 \Delta NI_{it} + \mu_{it} \dots \dots \dots (2)$$

Where AR_{it} is the average abnormal return rate of the i Bank stock on t year; ΔNI_{it} is the change in net income variable of the i Bank stock on the t year and a_1 is the earnings response coefficient (ERC); i.e Profit after tax of the current year less that of last year. μ_{it} is the error term

Two step regressions were used. The residual from the first regression of model two above was used to proxy Informativeness of Accounting Earnings in the second regression with other independent variables of the study explained below.

For managerial ownership, the total of directors' holdings divided by total number of shareholdings was used. While for Institutional Ownership, it is the total of Shares held by Institutions divided by the total number of Shareholdings, likewise in measuring ownership concentration, highest block holdings is divided by the total number of shareholding issued. Median was used as the yardstick for determining the high and the low ownership structure.

The Study introduce control variables (bank growth and bank size) into the final parsimonious model of the study reason been that works related to earnings models that are not controlled are most often mis-specified. e.g Roodposhti and Chasmi (2010) and Matsumoto (2012) used growth as a control variable. Apart from issue of mis-specification, there are other factors that could influence the informativeness of accounting earnings besides ownership structure. Thus, the introduction of control variable will help in answering the following questions on whether an observed relationship between two or more variables is just a statistical accident.

3.6 Model Specification

Model specification for this study is derived from the research efforts of previous contributors in the area of study. To study the relationship between managerial ownership,

Institutional ownership, ownership concentration and informativeness of accounting earnings, the determinants of earnings informativeness were estimated by regressing earnings returns on equity measures adopted in the study. The procedure is in line with the approach adopted by Fan and Wong (2012).

$$IAE = \beta_0 + \beta_1(MGO) + \beta_2(INST) + \beta_3(ONCON) + \beta_4(GRWTH) + \beta_5(SIZE) + \mu$$

Where;

IAE = Informativeness of Accounting Earnings proxied by Earnings returns;

MGO = Managerial Ownership

INST = Institutional Ownership

ONCON = Ownership Concentration

GRWTH = Bank Growth

SIZE = Bank Size

β_0 = the intercept/constant;

$\beta_1, \beta_2, \beta_3, \beta_4, \beta_5$ = are the parameters;

μ = the residual/error term

3.7 Techniques of Data Analysis

A panel regression technique was used as the technique of analysis. The analysis was carried out using the fixed and random effect to examine the parsimonious model of the study. The choice of this is based on the fact that both the technique and tool are more informative (i.e more variability, less collinearity, more degrees of freedom), as estimates are more efficient under it. Also they allow the study of individual dynamics (e.g. separating cohort effects). While this technique and tool also gives information on the time-ordering of events and they allow for control for individual unobserved heterogeneity.

CHAPTER FOUR DATA PRESENTATION AND ANALYSIS

4.1 Introduction

This chapter deals with the presentation, analysis and interpretation of the data collected for the purpose of testing the parsimonious model of the study. Multiple regressions have been used to estimate the relation between the independent variables and the dependent variable (Informativeness of Accounting Earnings).

The Chapter displays the descriptive statistics used in explaining the nature and the data phenomenon, while the correlations matrix table shows the relationship between the dependent and independent variables and also the relationship between the independent variables themselves. Finally, the chapter also present the summary of regression result showing the impact and significance of ownership structure on informativeness of accounting earnings. The relationship is depicted by the model below:

$$IAE = \beta_0 + \beta_1 MGO_{it} + \beta_2 INST_{it} + \beta_3 ONCON_{it} + \beta_4 GRWTH_{it} + \beta_5 SIZE_{it} + \varepsilon_{it}$$

4.2 Descriptive Statistics

The descriptive statistics for each of the variables were determined to show the Minimum, Maximum, Mean and Standard deviation, Skewness and Kurtosis values. Descriptive statistics helps readers to understand the measures of central tendency, measures of variances associated with the variables of the study and the normality of the data used in the study. Table 4.1 shows the descriptive statistics of all the variables.

Table 4.1: Descriptive Statistics

Variables	N	Min	Max	Mean	Std. Dev.	Skewness	Kurtosis
IAE	70	.52	34.38	8.962	7.50857	1.353	4.725
MGO	70	.01	16.09	2.859	3.57559	1.607	5.273
INST	70	.00	85.04	17.768	18.2847	1.486	6.058
ONCON	70	27.41	98.70	85.339	10.7815	-3.158	15.667
GRWTH	70	1.04	100.20	29.382	23.3989	1.291	4.218
SIZE	70	18.48	21.62	19.964	0.8733	0.072	1.891

Source: Extract from Stata 9.1 printout result

Table 4.1 above shows that the mean of Informativeness of Accounting Earnings stood at 8.96%, Managerial Ownership have an average of 2.86, while Institutional Ownership have a mean of 17.77, Ownership Concentration average stood at 85.34, The control variables mean are 29.38 for firm growth and 19.96 for firm size. A comparison of the mean responses with the maximum values for each of the variables indicates that the Banking industry operates with managerial ownership at 2.86 percent, while Institutional Ownership is at 17.77 percent and Ownership Concentration is at 85.34 percent. These results indicated that on average that is what is obtainable for each variable within the study units. The minimum Value for Managerial Ownership is 0.01 and the maximum value is 16.09, implying that the ownership by management is very low as the highest is below 20%. while Institutional Ownership has a minimum value of 0.00 and a maximum value of 85.04, the minimum value indicating that there was a particular bank(s) in a certain year within the observations that have no Institutional Investors. 27.41% were recorded for Ownership Concentration as the minimum Value while 98.70% was the maximum value for ownership concentration, signifying that these set of owners have the highest holdings. One important observation is that while managerial Ownership and Institutional Ownership have values lower than that of its respective standard deviations, Ownership concentration has a mean

value which is higher than the value of its standard deviation. It therefore implies that the level of Managerial Ownership and Institutional Ownership in the Banking industry is low, while Ownership Concentration for the industry is high. Therefore, both Managerial and Institutional Ownership can still be improved upon.

4.3 Correlation Matrix

The correlation matrix is used to determine the relationship between the dependent and independent variables of the study. Table 4.2 represents the correlation matrix for the sample observations. The full results are contained in the appendix iv.

Table 4.2: Correlation Matrix Table

Variable	IAE	MGO	INST	ONCON	GRWTH	SIZE
IAE	1.0000					
MGO	-.2005	1.0000				
INST	.0653	-.0080	1.0000			
ONCON	.1624	.0501	-.0174	1.0000		
GRWTH	.5258*	.2325	-.1413	-.0529	1.0000	
SIZE	.1155	.0897	-.2721*	.1830	.1465	1.0000

Source: Extract from Stata 9.1 printout result

Table 4.2 indicates that there is a negative correlation between Informativeness of Accounting Earnings and Managerial Ownership while there is a positive correlation between Institutional Ownership, Ownership Concentration, and Informativeness of Accounting Earnings. Also, the two control variables (Bank Growth and Bank Size) shows a positive correlation with Informativeness of Accounting Earnings. The correlation or relationship between Managerial ownership and Informativeness of Accounting Earnings is not as strong as that of Institutional Ownership, Ownership Concentration and Informativeness of Accounting Earnings. We can only establish if there is a negative or positive relationship between managerial Ownership, Institutional Ownership, Ownership

Concentration and Informativeness of Accounting Earnings through the inferential statistics and test of hypothesis. The correlation between Managerial Ownership, Institutional Ownership and Ownership concentration is very weak; this is not surprising as the relationships between the independent variables are not expected to be strong. While five of the independent variables are positively related, five were also negatively related

The tolerance values and the variance inflation factor (VIF) are two measures generally agreed by various authors as being good factors for determining multicollinearity between the independent variables of a study. If the variance inflation factors of all the independent variables are less than 10, multicollinearity does not exist and the model is said to fit. Another measure for determining multicollinearity is the tolerance values. A tolerance value of 1 or above signifies multicollinearity, while tolerance values of less than 1.00 in all the observed variables signifies the absence of multicollinearity (Cassey et.al., 1999; Neter et.al., 1996).

The variance inflation factors of all the independent variables of the study are consistently less than 10 which is the benchmark for determining multicollinearity. In addition, the tolerance values are less than 1.00 which is another benchmark for determining multicollinearity. This shows the appropriateness of fitting the model of this study with three independent variables of the study. It also shows the complete absence of multicollinearity between the independent variables of the study. Thus, the results of this study can be applied with the assurance that it measures what it purports to measure, that is, the relationship between Managerial Ownership and Informativeness of Accounting Earnings, Institutional Ownership and Informativeness of Accounting Earnings, and also Ownership Concentration and Informativeness of Accounting Earnings.

4.4 Regression Result

The hypothesized relationships were tested; properties of the casual paths, including standardized path co-efficient, t-values and p-values for the equation in the hypothesized model are presented in the Table 4.3.

Table 4.3: Summary of Regression Result

Variables	Co-efficient	Z-Statistics	z-sig.	Tolerance / VIF
Constant	-20.2932	-1.00	0.318	
MGO	-0.5648	-2.68	0.007	0.938468/ 1.07
INST	0.0598	1.47	0.142	0.913330/ 1.09
ONCON	0.1544	2.31	0.021	0.956670/ 1.05
BGRWTH	0.2058	6.71	0.000	0.910878/ 1.10
BSIZE	0.5298	0.55	0.579	0.877280/ 1.14
R ² Overall				0.4492
Wald Chi ²				50.38
Wald-significance				0.0000

Source: Result output from Stata9.1 printout

The above regression model result can therefore be specified as follows:

$$\text{Informativeness of Accounting Earnings (IAE)} = -20.29 - 0.565\text{MGO} + 0.060\text{ INST} + 0.154\text{ ONCON} + 0.206\text{ BGRWTH} + 0.530\text{BSIZE} + 5.7323$$

The result in Table 4.3 shows that the co-efficient of determination (R²) overall has a value of 0.4492. This means that Managerial Ownership, Institutional Ownership and Ownership Concentration occupy 45.0 percent in the factors that account for the Informativeness of Accounting Earnings of Listed Deposit Money Banks in Nigeria and other factors account for the remaining 55.0 percent. It can be inferred that Ownership Structure to a large extent influences the Informativeness of Listed Deposit Money Banks in Nigeria. This indicates that the explanatory variables strongly influenced the informativeness of accounting earnings.

In addition, F-statistics and Wald chi-squared statistics are really the same thing in that, after normalization, chi-squared is the limiting distribution of the F as the denominator degrees of freedom goes to infinity. So therefore, the Wald χ^2 of 50.38 which is significant at one percent indicates that the Informativeness of Accounting Earnings model is fit. The value of Wald χ^2 which is statistically significant at a level of 0.000 means that there is a 99.9 percent probability that the relationship among the variables is not due to mere chance.

i. Managerial Ownership and Informativeness of Accounting Earnings

From the Table 4.3, it is observed that managerial ownership (MGO) has a z-value of -2.68 and a beta value of -0.5648 with significant value of 0.007. This signifies that managerial ownership has a statistically strong influence on the Informativeness of Accounting earnings of listed Deposit Money Banks in Nigeria. This implies that for every one percent (1%) increase in managerial ownership, the informativeness of Accounting Earnings of listed Deposit Money Banks in Nigeria will decrease by 0.57. This may be that the managers may embark on selfish interest rather than the interest of all, which may eventually become detrimental to the informativeness of the earnings.

The finding is in line with those of Bebchuk (1999), Stiglitz (1985), Bennedsen and Wolfenzon (2012) but contrary to those of Warfield, *et al* (1995), Bathala and Rao (1995).

ii Institutional Ownership and Informativeness of Accounting Earnings

The regression result reveals that Institutional ownership as depicted in Table 4.3 have a z-value of 1.47 and a beta value of 0.0598 with a significant value of 0.142. This signifies that institutional ownership has no any significant influence on Informativeness of Accounting earnings of listed Deposit Money banks in Nigeria. This implies that for every

one percent (1%) increase in the institutional ownership of the listed deposit money banks in Nigeria, the Informativeness of Accounting earnings of such Banks may have no significance changes.

iii. Ownership Concentration and Informativeness of Accounting Earnings

The Ownership Concentration has a z-value of 2.31 and a beta value of 0.1544 with a significant value of 0.021. This signifies that Ownership Concentration (ONCON) is positively and significantly influencing the Informativeness of Accounting Earnings of listed Deposit Money Banks in Nigeria. It implies that for every one percent (1%) increase in Ownership Concentration of Banks, the Informativeness of Accounting earnings will increase by 0.15. This may be as a result of the fact that concentrated owners are expected to serve as monitors of the managers in preventing them from opportunistic tendencies, and protecting the accounting numbers which will then ultimately represent the true underlying economic situation.

The finding is in line with those of Haw, Hwang and Wul (2004), Leuz et al (2014), Cohen and Langberg (2008), Ball et al (2000), Francis et al (2005), La Porta, et al (1998) but contrary to those of Silanes and Shliefer (2014), Wang (2014), Demsetz and Lehn (1985), Stiglitz (1985).

4.5 Hypothesis Testing and Robustness Test

In this section, the univariate analysis is carried out in bid to examine the hypotheses stated in chapter one of the study. Also, robustness checks were conducted to examine the

outputs under varying circumstances. The robustness test gives greater reliability and credibility to the overall findings of the study. The regression result used for the hypotheses test is presented in the Table 4.4.

Table 4.4: Variable Coefficients

Variables	Z-Values	Sig. Values
Managerial Ownership	-2.68	0.007
Institutional Ownership	1.47	0.142
Ownership Concentration	2.31	0.021
Bank Growth	6.71	0.000
Bank Size	0.55	0.579

Source: Result output from Stata 9.1 printout

Table 4.4 shows that two of the independent variables (Institutional Ownership and Ownership Concentration) are positive, while one is negative (Managerial Ownership). All the independent variables are significant at 1% and 5% except for Institutional Ownership that is insignificant. This reveals that all the Ownership Structure variables used in the study explain the attitude of Informativeness of Accounting Earnings of listed Deposit Money Banks in Nigeria except for Institutional ownership that is not too strong in its Influence as a result of its level of significance.

The result for each hypothesis are presented below:

Hypothesis 1

H₀₁: Managerial ownership has no significant impact on Informativeness of Accounting Earnings of listed Deposit Money Banks in Nigeria

Managerial ownership measured as the proportion of shares held by managers to the total shares is found to be statistically significant and negatively associated with the Informativeness of Accounting Earnings at 1% level of significant, indicating that when there is increase in the level of shares held by management, it has significant negative influence on the Informativeness of Accounting Earnings of listed Deposit Money banks in Nigeria. Therefore, managerial ownership has significantly affected the Informativeness of Accounting Earnings.

In view of the above result stated with respect to managerial ownership showing that the variable is statistically significant in influencing the informativeness of accounting earnings, this therefore, provides evidence of rejecting null hypothesis (1) one of the study. Thus, for hypothesis 1, H_{01} is rejected.

H_{02} : Institutional ownership has no significant influence on Informativeness of Accounting Earnings of listed Deposit Money Banks in Nigeria.

Institutional ownership is measured as the percentage of shares held by institutions to the total shares held is found to be positive but insignificant, which means that it has no significant relationship with the Informativeness of Accounting Earnings of listed Deposit Money Banks in Nigeria. Therefore, Institutional ownership has not significantly affected the Informativeness of Accounting Earnings.

As a result of the above result presented as regards to Institutional ownership which shows that the variable is statistically insignificant in influencing the Informativeness of

Accounting Earnings, this therefore provides an evidence of failing to reject null hypothesis (2) two of the study. Thus, for hypothesis 2, H_{02} is failed to be rejected.

H_{03} : Ownership Concentration has no significant effect on Informativeness of Accounting Earnings of listed Deposit Money Banks in Nigeria

Ownership Concentration is measured as the percentage of shares held as block-holdings, i.e those that have share up to 5% and more in the banks to the total shares held. This is found to be statistically significant which means that it is significantly associated with the Informativeness of Accounting Earnings of listed Deposit Money Banks in Nigeria. Therefore, Ownership Concentration has significantly affected the Informativeness of Accounting Earnings.

In line with the above outcome reported as regards Ownership Concentration which shows that the variable is statistically significant in influencing the Informativeness of Accounting Earnings, there is therefore enough evidence of rejecting the null hypothesis (3)three of the study. Thus, for hypothesis 3, H_{03} is rejected.

4.5.1 Robustness Test

In order to make better the validity of all statistical inferences to be drawn for the study, this section present the result of robustness test conducted. The robustness test includes heteroscedasticity test and hausman specification test.

i Heteroscedasticity Test: A large chi-square would indicate that heteroscedasticity was present. In the result obtained from the heteroscedasticity test conducted in this work, the chi-square value was large and the p-value is small, indicating heteroscedasticity was present and this shows violation of assumption number four of classical linear regression model which state that there must be constant variance, that is, the disturbances u_i appearing in the population regression function are homoscedastic. Therefore, as a result of the presence of heteroscedasticity, the researcher decided to conduct Fixed and Random effect model which will take care of the individual differences within units. This will enable whatever conclusions we drawn or inferences made to be free from mislead.

ii The Hausman test: In order to decide between the fixed effect model output and Random effect model output which is the best, researcher often rely on the Hausman (1978) specification test. The Hausman test is designed to detect violation of the random effects modeling assumption that the explanatory variables are orthogonal to the unit effects. If there is no correlation between the independent variable(s) and the unit effects, then estimates of β in the fixed effects model should be similar to estimates of β in the random effects model. The Hausman test statistic H is a measure of the difference between the two estimates. Under the null hypothesis of orthogonality, H is distributed chi-square with degrees of freedom equal to the number of regressors in the model. A finding that $p < 0.05$ is taken as evidence that, at conventional levels of significance, the two models are different enough to reject the null hypothesis, and hence to reject the random effects model in favor of the fixed effects model. If the Hausman test does not indicate a significant difference ($p > 0.05$), however, it does not necessarily follow that the random effects estimator is “safely” free from bias, and

therefore, to be preferred over the fixed effects estimator. Therefore, the result obtained from the hausman specification test conducted indicates that ($p > 0.05$) and as such the random effect model should be used in favour of the fixed effect model.

iii. **Multicollinearity test:** This was conducted to check whether there is a correlation between the independent variables which will mislead the result of the study. The tolerance value and the variance inflation factor (VIF) are two advanced measures of assessing multicollinearity between the explanatory variables. The variance inflation factor and tolerance are computed using STATA and were found to be consistently smaller than ten(10) and one(1) respectively, indicating absence of multicollinearity (Neter, Kutner, Nachtsheim, & Wasserman, 1996; Cassey & Anderson, 1999). This shows the appropriateness of fitting the study model with three independent variables and two control variables. In addition, the absence of multicollinearity between the explanatory variables were further substantiated by the tolerance values which were consistently smaller than 1.00. (Tobachnick & Fidell, 1996).

Discussion of Findings

The main objective of this study is to assess the influence of ownership structure on the Informativeness of Accounting Earnings of listed Deposit Money Banks in Nigeria. Earnings return relations is adjudged to be the best measure of Earnings Informativeness, while managerial ownership, Institutional Ownership and Ownership Concentration are generally accepted as a good measure of Ownership Structure. When the three concepts are correlated, changes in one concept leads to changes in the other that is changes in the Informativeness of Accounting Earnings should correspond with changes in Ownership Structure. The study revealed that all the three independent variables but one under

consideration, namely; Managerial Ownership, Institutional Ownership and Ownership Concentration are statistically significant at 1 percent and 5 percent except for Institutional Ownership leading to rejection of the stated hypotheses for Managerial Ownership and Ownership concentration, while Institutional ownership hypothesis was accepted. What these findings suggest is that Ownership Structure plays a vital role in determining Earnings Informativeness.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

The study examines the influence of Ownership structure on Informativeness of Accounting Earnings of listed Deposit Money Banks in Nigeria. Multiple regression model was employed with the motive of explaining and predicting empirically the Informativeness of Accounting Earnings due to changes in Ownership Structure. The model used for the study estimates the association and impact of three explanatory variables (managerial ownership, Institutional ownership, Ownership Concentration) on one dependent variable (Informativeness of Accounting Earnings) by means of fixed and random analysis techniques.

The Independent variables of the study are managerial ownership, Institutional ownership, Ownership Concentration which all represent Ownership Structure. Those three Ownership Structures proxies form the bases of our hypotheses 1 – 3(one to three) of the study. While the Informativeness of Accounting Earnings was proxied with earnings- return relation as used by Fan and Wong (2012).

The findings of this study are based on balanced panel data collected for the period of 2014-2020 from a sample of 10 listed Deposit Money Banks in Nigeria stock exchange as at 31st December 2020.

First, the managerial ownership has significant impacts on Informativeness of Accounting Earnings because large percentage of shares held by directors (managers) may make them become entrenched as put forward by the advocate of entrenchment hypothesis and hence they become ineffective in aligning insiders to take value maximizing decisions,

which may lead to earnings management to increase and therefore the accounting become less informative.

Second, we found a positive but insignificant relationship between the institutional ownership and Informativeness of Accounting Earnings. Therefore, when the proportion of shares held by institutions increases, the Informativeness of Accounting Earnings will not be significantly affected.

Finally, we found a significant impact between Ownership Concentration and Informativeness of Accounting Earnings. Therefore, indicating that firms with a higher Ownership Concentration may influence the Informativeness of Accounting Earnings positively.

5.3 Conclusions

From the findings above, the study concludes as stated below:

First, the study has statistically and empirically provided evidence on the usefulness of three independent variables that represents the Ownership Structure; managerial ownership, Institutional ownership, Ownership Concentration in explaining and predicting Informativeness of Accounting Earnings of the sampled Banks.

Amongst the three independent variables used in the study, it was only institutional ownership that do not significantly impact on informativeness of accounting earnings, and as such institutional investors has no influence on earnings informativeness.

On the overall, the study concludes that Ownership Structure has significantly influenced the Informativeness of Accounting Earnings.

5.4 Recommendations

In light of the various findings of this study, the following measures are hereby recommended for listed Deposit Money Banks as a means of enhancing their Ownership Structure and most importantly Earnings Informativeness.

The managers who are at the helm of affairs do control majority of shares allotted in the company, as it gives them too much power and control over other shareholders which may be responsible for the opportunistic behaviours by the managers in a bid to get short-term private gains. As a result of this, it is recommended that fewer amounts of shares should be held by the managers of the banks.

Management of listed Deposit Money Banks in Nigeria can improve the Earnings Informativeness of their banks by increasing the Proportion of Equity held in block in their respective Financial Institutions. Although, this might seem like giving the total control to the Block holders, the benefits that will accrue to the Banks far outweighs the cost. This will help ensure that all Accounting Earnings are in order; and it will also give the users of the financial statements more trust and confidence in terms of the quality of the reported Earnings. Finally, it is recommended that the management, Investors and Potential Investors of listed Deposit Money Banks should put much attention on the Blockholes Shareholders as it has significant influence on the Informativeness of Accounting Earnings.

Less attention should be given to Institutional Investors as they have no significant role in determining the informativeness of accounting information.

5.5 Limitations of the study

Like any other research, the result of the study is subjected to some limitation due to the following factors.

- i. The study is only limited to a particular sector, that is the listed Deposit Money Banks in the Nigerian Stock Exchange. Therefore, the findings and recommendations are only applicable to Deposit Money Banks as the Ownership structure may differ in other sectors or Industry.
- ii. The study would have used the monthly returns of the selected money deposit banks, but due to unavailability of the monthly financial reports of some of the Banks, the study is constrained using annualized returns to proxy earning informativeness.

5.6 Suggestions for further research

This research examines the influence of Ownership Structure on Informativeness of Accounting Earnings of listed Deposit Money Banks in Nigeria and is believed to have lay concrete foundation for further research in the following areas.

The study only makes use of three Ownership Structure (Managerial ownership, Institutional ownership, Ownership Concentration). Therefore, it is suggested that further studies in this area should focus on Foreign Ownership, Family Ownership, State Ownership in their Ownership Structure.

- ii. This study made use of Fan and Wong (2012) with little modification. While Fan and Wong uses cross country data with monthly earnings-return relationship as a proxy for informativeness of accounting earnings, but ours is one country and annualized returns was used. We therefore suggest that further studies in this area should make use of more than one

country of Africa and beyond which may explain better intercontinentally the Informativeness of Accounting Earnings.

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