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Influence of Possession Formation on Earnings Management of Quoted Chemical and Paints Firms in Nigeria

Musa Adeiza Farouk[1] and Shehu Usman Hassan[2]

Abstract

This study examines influence of Possession Formation and earnings management of listed Chemical and Paints in Nigeria. Possession Formation is proxied with managerial ownership, institutional ownership and Block-Holder Ownership, while Earnings management is represented by modified Jones (Dechow et' al 1995) model. Using 40 firm-year paneled observations, panel Ordinary least square (OLS) was estimated. The study employed the use of criteria to arrive at the sample size consisting of eight (8) listed Chemical and Paints firms in Nigeria out of nine(9). Secondary data source was extracted from the audited annual reports of the sampled firms from 2007-2011. Various test such as normality test, and multicolinearity test were conducted to diagnose the result. The findings revealed that, there is a positive and significant relationship between Managerial ownership, Institutional ownership and earnings management. While the relationship between the Block-Holders' ownership and earnings management was found to be negative and statistically significant at 1%, Therefore it is recommended amongst others that the users of financial statement information who are interested in the reporting of earnings should base their reliability of earnings on the Block-Holders' ownership as it has been proven empirically by our research that the higher the Block-Holder's the lesser the manipulated earnings.

1. Introduction

The Nigerian governance structure is characterized by the dominance of the largest shareholders who typically exercises significant influences on management decisions directly or indirectly.

[1] Department of Accounting, Ahmadu Bello University, Zaria – Nigeria.
Email: musafarouk@yahoo.com or mscmusafarouk@yahoo.com, Tel: +2348034063226, +2348079589428
[2] PhD, Department of Accounting, Ahmadu Bello University, Zaria-Nigeria.
Email: Shehu.hassanus.usman@gmail.com, Tel: +2348067766435, +2348057777085

Available literatures in this area suggest that Possession Formation decreases the incentives to manage earnings but also provides the opportunities and incentives to manipulate earnings.

Separation of ownership and control in firms is common in the modern day business environment as more firms are listed on the stock exchange market as public firms. In spite of this, the separation creates serious conflicts between the owners of the firm and the managers. Managers who are in power may have the motivation to transfer wealth in terms of bonus or other perks at the expense of the owner - the shareholders to get dividend (Watts and Zimmerman, 1986). In this regard, shareholders may incur cost to monitor the management from such unethical behavior. Agency theory suggests that the monitoring mechanisms can improve or enhance the alignment of management and shareholders' interest and mitigate any opportunistic behavior resulting from conflict of interests.

The practice of earnings management involves the deliberate dampening of fluctuations about "some level of earnings considered to be normal for a firm". (Barnea et al, 1976). Creative accounting is the transformation of financial accounting figures from what they actually are to what preparers desire by taking advantage of the existing rules and /or ignoring some or all of them (Naser, 1993). From this, it can be evidenced that the practice of earnings management can only be perpetrated by the managers, on whose shoulder lies the responsibility of reporting the firms earnings figures. Thus, since the relevance of accounting earnings to various stakeholders cannot be exaggerated; as there is heavy reliance on it by firm and their stakeholders to know their fate. The accounting field as a whole is not also left out in ensuring that the final product of the entire accounting process is safeguarded. While on the other hand, earnings management is known to reduce the desired reliability and hence its relevance (Bugshan, 2005). Therefore, if earnings need to maintain its importance, then, it will be necessary to employ methods that can be put in place to improve or maintain the practice of reporting quality earnings. Since the argument is that large shareholders (Managerial, Institutional and Block holders' ownership) have the ability to pressurize the mangers to improve earnings so that the value of market may improve, and owing to this pressure, managers may resort to earnings manipulations.

In view of these mixed and inconclusive results, the paper investigates to what extent Possession Formation is impacting on earnings management of listed Chemical and Paints firms in Nigeria.

Objectives of the Study

The major objective of the study is to examine the relationship and impact of Possession Formations on earnings management of listed Chemical and Paints firms in Nigeria. Therefore our specific objectives are:

i. To examine if there is any significant impact between managerial ownership and earnings management of listed Chemical and Paints firms in Nigeria.
ii. To ascertain if any significant effect exist between Institutional ownership and earnings management of listed Chemical and Paints firms in Nigeria.
iii. To determine whether there is any significant contribution between Block-Holders' ownership and earnings management of listed Chemical and Paints firms in Nigeria.

Based on this, the following hypothesis is formulated to test the impact of the following considered Possession Formation proxies on earnings management.

H_1: Managerial Ownership has no significant impact on Earnings management
H_2:Institutional Ownership has no significant effect on Earnings management
H_3:Block-Holders' Ownership has no significant contribution on Earnings management

The study has proven to be different because many researches in this area in Nigeria are few and is also unique considering the domain of the study. i.e The listed Chemical and Paints firms in Nigeria. The decision to focus on the Chemical and Paints firm is stem from the suitability context in which earnings management may be carried out easily. This is so because of the nature of competitions they (listed Chemical and Paints in Nigeria) get involved in bid to secure larger part of the market.

The remaining paper is structured as follows. In the next section we provide an overview of the literature review on Possession Formation and earnings management.

Section 3 describes the research methodology and variable measurement. Section 4 discusses the results from the models used while section 5 presents the conclusion and recommendation.

2. Literature Review

Financial Reporting is the act of making financial statement transparent (Public) in line with statutory standards and guidelines (FASB 1990). Watts and Zimmerman (1978) state that, one function of financial reporting is to constrain management to act in the shareholders' interest. Given the increasing complexity of business today, there is need for financial reports to include more comprehensive and reliable information as investors rely on information they receive from companies in making their investment decisions. Watt and Zimmerman (1986) explain that the managerial wealth maximization hypothesis of the positive theory of accounting offers one of the impetuses for deceptive financial reporting.

Academic literature extensively studied earnings management in response to incentives to achieve specific objectives. Properly structured corporate governance mechanisms are expected to reduce earnings Management because they provide effective monitoring of management in the financial reporting process. Some studies recorded that the managers' incentives to manage earnings is limited by certain corporate governance mechanisms (Dechow et al, 1996; Jiambalvo 1996). The corporate Possession Formation of a firm is considered as an essential managers' monitoring mechanism, so it may have a monitoring role in constraining the occurrence of earnings management. Existing studies suggests that the different Possession Formations entails different incentives or motivation to control and monitor a firm's management (Morck, Shliefer & Vishney 1988; Shleifer & Vishney 1986).

To investigate whether a firm's Possession Formation provides effective and efficient monitoring of earnings management, three type of ownership is considered for this paper which is: Managerial Institutional, Managerial Ownership, and Block Holders' Ownership.

2.1 Managerial Ownership and Earnings Management

Managers with high ownership interest in the firm are less likely to alter earnings for short term private gains at the expense of outside shareholders. Managers whose interest is consistent with shareholders are more likely to report earnings that reflect the underlying economic value of the firm (Dhaliwal, Salamon & Smith, 1982).

Jensen and Meckling (1976) theorized that as management ownership increases, their interests will be more closely aligned with owners and the need for intense monitoring by the board should decrease.

The level of managerial ownership affects both the informativeness of earnings and the magnitude of discretionary accounting accruals. Results from empirical works shows that managerial ownership is positively associated with earnings explanatory power for returns. For example, managerial ownership could have negative effect on earnings management (Warfield et al, 1995) or a positive effect due to entrenchment or expropriation effects (Cheng & Warfield, 2005). The analysis of Salsiah et al, (2008) also showed that managerial ownership is negatively associated with the magnitude of accounting accruals after examining the association between the level of managerial ownership and earnings management activities. Sandra (2012) in her research documented that, in all models, the managerial ownership is significantly negatively related with earnings management which is consistent with the alignment of interest hypothesis, the negative relationship suggests that the higher managerial ownership, the lower the magnitude of discretionary accounting accruals.

Form another dimension, other researchers documented that managerial ownership has no significant effect on increasing the integrity of the financial reporting (Abd Al Nasser, 2012), in the same vein, Hafiza & Susela(2005) in their study fail to find any significant association between managerial ownership and earnings quality. Also, Isenmila and Elijah (2012) in their research observed that managerial ownership is positive and statistically significant at 5% level.

When there is little separation between owners and managers, management face less pressure from capital market to signal the firm value to the market and they pay less attention to the short-term financing report (Jensen. 1986; Klassen, 1997) therefore, highly invested managers are more likely to manipulate earnings, since this lack of market discipline may lead insiders to make accounting choices that reflect personal motives rather than firm economies. In this situation, the entrenchment hypothesis states that high levels of insider ownership can become ineffective in aligning insiders to take value maximizing decisions, which may lead to earnings management to increase (Morck et al, 1988).

2.2 Institutional Ownership and Earnings Management

Empirical evidence supports the hypothesis of increased institutional investors' ownership as an effective corporate governance mechanism in constraining earnings management. It is considered as an important channel through which minority shareholders are protected against expropriation of controlling shareholders in emerging markets (Oehl, 2000). These literatures argue that institutions 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.

Abd Al-Nasser (2012) in his study fined a significant negative relationship between institutional investors' ownership and the likelihood of earnings management. Hadi (2012) findings suggest that the proportion of institutional investor's ownership negatively affect the magnitude of earnings management. Jean and Zhang (2002) find that institutional shareholding has a negative coefficient and it is significantly related with the positive discretionary accruals, and, this effect has increased significantly in the post-code period. The result implies that institutional investors are more effective in reducing positive discretionary accruals. But the institutional investors who only hold a fraction of shares in Chinese listed companies are not willing to invest in such monitoring resources or challenge the dominance power of the controlling shareholder. In the same vein Hamdi et al (2005), Omar and Hind (2012), Hafiza and Susela (2005) also found a negative relationship which they argue may be as a result of superior skills.

On the other hand, Soongso (2004) empirically revealed that a positive relationship exist between outside institutional shareholdings and earnings management.

Therefore, the magnitude of discretionary accruals and the standard deviations of Dechow-Dichev residuals decrease in the level of institutional ownership after controlling for firm size, book-to-market, risk, leverage, sales growth and regulatory environment. In the same vein, Sandra (2012), her investigation suggests that the coefficient of institutional ownership variable is positive and significant, consistent with hands-off hypothesis which suggests that institutional investors may increase managerial incentives to engage in earnings management. However, the result obtained does not corroborate in one of the model used as the coefficient of institutional ownership is negative, but statistically significant.

Thus, it is not possible to conclude that firms having institutional ownership have higher flexibility to use accruals to manage earnings. Hong-Bok (2009) investigated the percentage of shareholdings by institutional investors to test whether this factor has a monitoring effect on opportunistic behavior by CEOS. The result show no significant relationship between the percentages of shares held by institutional investors and earnings management. Monitoring variable (Institutional Investors Shareholding) is not linearly related to opportunistic behaviour.

2.3 Block-Holders' Ownership and Earnings Management

Block holder ownership may take the various form including individual investors, private equity firms, banks and trusts. Shleifer and Vishney (1986) suggest that large shareholders have a strong incentive to actively monitor and influence firm management to protect their significant investments. Large shareholders are expected to monitor managerial behaviour actions effectively, which reduce the scope of managerial opportunism to engage in earnings management (Dechow, Sloan & Sweeney, 1996). In addition there will be less pressure on management to meet short-term earnings expectations because controlling shareholders focus more on the long-term. Shehu and Jibril, (2012) concluded in their research that ownership concentration indeed moderates the practice of earnings management as the result shows a significant negative relationship between ownership concentration and earnings management. Sandra (2012) find, in all models, a negative relationship between ownership concentration and earnings management, suggesting that earnings management is significantly lower for firms with higher ownership concentration.

On the other hand, Isenmila and Elijah (2012) finds that the analysis of the slope coefficients of the explanatory variables indicative of the direction of relationship and their respective t-values or P-values indicative of their statistical significance reveal the existence of a positive relationship between external block ownership and earnings management. Also, prior literature found a strong link between Possession Formation and earnings management. Bolton et al, (2006) find that higher ownership concentration is associated with higher earnings management.

Despite the enactment of corporate governance which aims is ideally to control the behaviour of top corporate executives and also to protect the interest of company owners (Shareholders).

Problem still arises as a result of the separation between ownership and company management. Authority to use corporate resources is entirely at the disposal of the executive because the supplier of capital has delegated their authority of the management of the company to professional managers. Therefore, shareholders expect management to act in a professional manner to manage the company such that any decision taken by management should be centered on the interests of shareholders. But most often than not, decisions taken by management are not solely for the benefit of the company but the interest of the executives themselves. Moreover in several situations, decisions and actions taken only often become the benefits but also harms for the corporate executives. The use of earnings management, business failures, limited roles of auditors, the absence of a clear relationship between compensation and the performance of the system, emphasis on performance (accounting profit) at the expense of short-term long-term economic profits and so on (Keasey and Wright, 1997) are some examples of the behavior deviations manager. It is believed that, the nature and type of Possession Formation maintained by firm can play a significant role in monitoring firm's management, increasing quality of financial reporting. This study adopt the agency theory due to its importance in resolving conflicts that may arise between manager (agent) and shareholders (principal) of the companies.

3. Methodology and Variable Measurement

Correlation design was adopted for the study. We also employ the use of secondary source of data which was obtained from the firm's Annual financial reports from 2007 to 2011. With eight (8) firms and five (5) years period covered by the research gives a total observation of forty (40). Multiple Regression is used as our tool of analysis.

The design and period for the study is considered appropriate in that it is better in determining the relationship between Possession Formation and earnings management, Also the period under review fall within the period when managers compete for capital in the Nigerian Capital Market and managers therefore had incentives or motivations to manage earnings in order to attract investors and potential investors. This period is also considered adequate because the global financial crises did not left Nigerian Capital Market untouched and this motivated the managers to smooth their earnings.

The study is limited to listed Chemical and Paints firms in the Nigerian Stock exchange as at 31st December, 2011. The justification for choosing chemical and Paints firm's is premised on the fact that, it is still an area yet untouched and the financial statement make available all that is needed in arriving at discretionary accruals using modified Jones (Dechow, et al 1996) model. One out of the nine firms, one was left out as a result of unavailability of its annual reports. The exclusion of one of the firm will not pose any bias into the sample since the other eight (8) represent about 89% of the listed Chemical and Paints firm.

3.1 Variable Measurement

Measuring Earnings Management

In the study, we use accounting accruals to measure earnings management; this is because accruals include a wide range of earnings management techniques available to managers when preparing financial statement. In order to get the estimate for discretionary accruals, we first estimate total accruals. Using cash flow approach, total accruals of firm I in year t ($TACC_{it}$) are computed thus:

$$EARN_{it}-CFO_{it}=TACC_{it} \text{ ………………………………….. (i)}$$

Where:

EARN is the Earnings before extraordinary items and discontinued operations of firm I in year t.

CFO is the net cash flows from operating activities of firm I in year t.

Total accruals are regressed against its components (i.e change in revenue and property, plant and equipment) using the cross-section version of the original Jones Model to obtain the parameter estimates. The model is as follows:

$$TACC_{it}/TA_{it-1} = \alpha_1 (1/TA_{it}\text{-}1) + \alpha_2 (\Delta REV_{it}/TA_{it-1}) + \alpha_3 (PPE_{it}/TA_{it-1}) + e_{it} \text{ ……. (II)}$$

Where TA_{it-1} is the book value of total asset of firm I at the end of year t-1,

$\Delta REV_{it}/TA_{it-1}$ is sales revenues of firm i in year t less revenues in year t-1 scaled by TA_{it-1}

PPE_{it}/TA_{it-1} is gross property, plant and Equipment of firm I at the end of year t scaled by TA_{it-1} and e_{it} is the residual or error term.

Coefficient estimate of $\alpha_1, \alpha_2, \alpha_3$, obtained from the equation (2) are then used to calculate discretionary accruals ($DACC_{it}$). The changes in revenues is adjusted for the change in receivables (REC_{it}) for each sample firm, in order to provide some control for the effect of changing economic conditions on the level of non-discretionary accruals (Gaver, J.J; K.M. and Austin , J.R. 1995). The equation II treats revenue as entirely non discretionary. However, if earnings are managed by shifting revenues from future periods, then ΔREV_{it} would be endogenous to the model. In order to control for this endogeneity bias Dechow et al (1996) propose a modification to the Jones Model. The modified Jones is:

$$DACC_{it} = TACC_{it}/TA_{it-1} – [\alpha_1 (1/TA_{it}-1) + \alpha_2 [(\Delta REV_{it} - REC_{it} /TA_{it-1})] + \alpha_3 (PPE_{it}/TA_{it-1})] \ldots\ldots\ldots\ldots\ldots(III)$$

Where $\alpha_1, \alpha_2, \alpha_3$ are estimated coefficients from the second equation as in the literature, we use the absolute measure of discretionary accruals as a proxy for the extent of opportunistic earnings management.

Explanatory Variable Measurement

We investigate the impact of managerial ownership, Institutional ownership and Blockholders' ownership on earnings management

Variable	Nature of Variable	Proxy (ies)	Measurement
Earnings Management	Dependent Variable	Discretionary Accruals	Modified Jones (1996)
Possession Formation	Independent Variable	Managerial Ownership	% of Total Shares held by Directors
		Institutional Ownership	% of Total Shares held by Institutions
		Block-Holder Ownership	% of Total Shares held by High Block-Holdings

Managerial ownership is the percentage of total shares in issue held by employees, or by those with a substantial position in a company that provide significant voting power at an AGM.

Institutional ownership is the percentage of total shares in issue held as long term strategic holdings by investment banks or institutions seeking a long term return.

Block-holders' ownership is the percentage of total shares in issue held by high block holding in the firm.

3.2 Model Specification

In view of the discussion above, the various hypothesis and variables are combined into a function relation to explain the relationship between Possession Formation and earnings management. The empirical form of the model is set below:

$$DACC = \beta o + \beta 1\ MGOS + \beta 2\ INOS + \beta 3\ BLOS + e \ldots\ldots\ldots\ldots\ldots\ldots\ldots \text{(iv)}$$

Where:

DACC = Discretionary Accruals (Proxy for Earnings Management)
MGOS = Managerial Ownership (Proxy for Possession Formation)
INOS = Institutional Ownership (Proxy for Possession Formation)
BLOS = Block-holder Ownership (Proxy for Possession Formation)
$\beta_{1-}\beta_3$ = Coefficient of explanatory variables
β_o = Constant or Intercept
e = Error Term

4. Result and Discussions

In this section results are presented and discussed. An analysis of the descriptive statistics is presented followed by the regression result for our hypothesis test.

Table 1: Descriptive Statistics

	Minimum	Maximum	Mean	Std. Deviation	Kurtosis	Observation
DACC	-10.220	30.550	2.93963	6.610920	8.587	40
MGOS	0.001	0.650	0.23780	0.221371	-1.155	40
INOS	0.000	0.720	0.42925	0.191434	-0.114	40
BLOS	0.160	0.960	0.69200	0.205201	0.682	40

Source: Result output from SPSS 15

From Table 1 above, the minimum Discretionary Accruals is about 10%, while the maximum is about 31% and the average stood at about 294% for firms. The table also indicates that managerial ownership in the firms have the highest standard deviation, it is expected that this exogenous variable will contribute less to the endogenous variable under this study. The institutional ownership stood at an average of 43% under the period of the study whereas the Block-holder ownership is at an average of 69%. This can be justified by the fact that Block-holder ownership is made of managerial, Institutional and an Individuals who had Bloc investment. The kurtosis values were all close to 0 and 1 which are considered tolerably mild except for discretionary accruals which has kurtosis value of 8.587, implying higher than normal peak, should our model residual prove lack of constant variance, then it could be as a result of this one variable.

Table 2, Correlation Matrix

Variables	DACC	MGOS	INOS	BLOS
DACC	*1*			
MGOS	*0.289*	*1*		
INOS	*0.235*	*0.095*	*1*	
BLOS	*0.007*	*0.706*	*0.349*	*1*

Source: Result output from SPSS 15

The correlation matrix is employed to ascertain the relationship associated between the dependent variable and independent variables in the study. Table 2 indicates that there is a positive relationship between Discretionary Accruals and Managerial, Institutional, and Block-holder ownership. This implies that Possession Formation proxies are contributing positively to the earnings management of listed Chemical and Paints firm in Nigeria.

The correlations between the independent variables are all positive except one that is not significant. The significant relationship that exists between managerial, Institutional and Block-holder ownership must have been as result of some part of the managerial and Institutional ownership forming part of the Block-holders'. The tolerance value and the variance inflation factor are two good measures of assessing multicolinearity between the independent variables in the study. From the regression result, the variance Inflation factor were consistently smaller than ten (10) indicating complete absence of multicolinearity (e.g Neter et'al; 1996 and Cassey et'al; 1999) as cited in Shehu and Buba (2011). This shows the appropriateness of our study model being fitted with the three independent variables. Also, the tolerance values were consistently smaller than 1.00, thus further substantiates the fact that there is complete absence of multicolinearity between independent variables (Tobachmel and Fidell, 1996) as cited in Shehu and Buba, (2011).

Table 3: Summary of Regression Result

Variables	Co-efficient	t-Statistics	P-values	Tolerance / VIF
Constant		1.591	0.12	
Managerial Ownership	0.683	3.337	0.002	0.475 / 2.106
Institutional Ownership	0.383	2.477	0.018	0.832 / 1.201
Block-holders' Ownership	-0.609	-2.801	0.008	0.421 / 2.377
R		0.532		
R2		0.283		
Adj R2		0.224		
F-Statistic		4.748		
F-Significance		0.007		
Durblin Watson (D/W)		1.472		

Source: Result output from SPSS 15

EARNING MANAGEMENT = 1.591 + 3.337 (MGOS) +2.477 ($INOS$) - 2.801 ($BLOS$) + 5.83

Table 3 present the regression result with earnings management as the dependent variable computed using modified Jones (1991) by Dechow et' al (1996) discretionary accruals model while the explanatory variables are managerial ownership (MGOS), institutional ownership (INOS) and Block-holders' ownership (BLOS) respectively.

From the table, it is observed that the t-value for managerial ownership (MGOS) is 3.337 and a beta value of 0.683 which is significant at 1%. This signifies that managerial ownership is positively and strongly influencing earnings management of listed Chemical and paints firms in Nigeria. It implies that when there is 1% increase in Managerial Ownership, the earnings management will increase by ₦0.68. This may have stem from the argument put forward by the advocates of the entrenchment hypothesis that view managers with large stake of share as self-interested actors who pursue their own interests. Also if there is little separation between managers and owners, management are more relieved of pressure from capital market to signal the firm value to the market and they pay little attention to the short term financing report: in order to achieve their own interest, those managers are more likely to aggressively manipulate earnings numbers which may eventually lead to low quality of reported earnings.

The result therefore provides an evidence of rejecting hypothesis 1 of the study which states that managerial ownership has no significant relationship and impact on earnings management of listed Chemical and Paints firm in Nigeria. The findings is in line with the study of (Cheng and Warfield, 2005), (Isenmila and Elijah, 2012), (Morck et al, 1988). It is however in contrast to that of (Salsiah et al, 2008), (Sandra, 2012), (Al-Nasser, 2012).

Institutional ownership as depicted in table 3 shows that the t-value for Institutional ownership is 2.477 and a beta value of 0.383 which is significant at 5%. This signifies that institutional ownership is positively and strongly influencing earnings management in listed Chemical and Paints firms in Nigeria. It implies that when there is 1% increase in institutional ownership the earnings management will increases by ₦0.38. This may be as a result of the strategic alliance hypothesis which state that earnings quality of firms with high institutional investors is low and this contention is premised on the fact that institutional investors may force firm's management to focus on current earnings, rather than long-term earnings, to avoid reporting disappointing earnings to interested parties.

Also, managers may be afraid that institutional investors may withdraw their interest in the firm; therefore they will be forced to manage earnings to suit the institutional investors.

The result therefore provides an evidence to reject the hypothesis 2 of the study which states that Institutional ownership (INOS) has no significant relationship and impact on earnings management of listed Chemical and Paints firms in Nigeria. The finding is in line with the study of Soongsoo (2004), and Sandra (2012) and contrary to those of Al-Nasser (2012), Jean and Zhang (2002), Hamdi et al, (2005) and Shehu and Abubakar (2012)

The block-holder ownership showed a t-value of -2.801 and a beta value of -0.609 which is significant at 1%. This signifies that block-holder ownership (BLOS) is negatively and strongly influencing earnings management of listed Chemical and Paints firms in Nigeria. It implies that when there is 1% increase in block-holder ownership the earnings management will decreases by ₦0.61. This may be as a result of reduced pressure on management to meet short-term earnings expectations because controlling shareholders focus more on the long term benefits.

The result therefore provides an evidence to reject our hypothesis 3 of the study which states that block-holders' ownership has no significant relationship and impact on earnings management of listed Chemical and Paints firms in Nigeria. This finding is in line with Shehu and Jibril (2012) and Sandra (2012), while that of Isenmila and Elijah (2012) is in contrast with our findings.

Cumulatively, in table 3, it is observed that the coefficient of determination for the regression as depicted by the Adjusted R^2 value of 0.22 suggest that about 22% of the systematic variation of the dependent variable is accounted for by the explanatory variables.

The F-statistic of 4.7 shows that the model of the study is well fitted; this can be confirmed by the significant value of 0.007 which shows that the cumulative impact of the regressor is significant at 1%. This implies that Possession Formation has strongly and significantly impacted on the earnings management of listed Chemical and Paints firms in Nigeria.

The Durbin Watson statistics of 1.47 which fall within the value of 1.338 to 1.659 as indicated in Table D.5A of Gujarati 4th edition shows that is not a problem.

5. Conclusion and Recommendation

The study investigates the impact of Possession Formation and earnings management of listed Chemical and Paints firms in Nigeria. The three Possession Formations used were managerial ownership (MGOS), Institutional ownership (INOS), and Block-holders' ownership (BLOS) to proxy Possession Formation. We however, find that both managerial and institutional ownership has a positive and significant relationship and impact on earnings management. While block-holders' ownership is indeed useful in preventing the management's tendencies for opportunistic behavior (earnings management). Therefore, it is recommended that users of financial information who are interested in reported earnings should base their earnings reliability on the block-holder ownership as it has been proven empirically by our research that the higher the block-holders' the lesser the earnings reports is manipulated. Also the existence of weak Corporate Governance practice must have been responsible for managerial and institutional ownership involvement in earnings management, therefore much have to be done by putting an effective and Efficient Corporate Governance mechanisms in place in order to mitigate the natural tendencies for earnings manipulation in listed Chemical and Paints firms.

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Appendix

Descriptive Statistics

	N	Range	Minimum	Maximum	Mean	Std.	Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error
Discretionary Accruals	40	40.770	-10.220	30.550	2.93963	5.610920	8.587	.733
Managerial Ownership	40	.649	.001	.650	.23780	.221371	-1.155	.733
Institutional Ownership	40	.720	.000	.720	.42925	.191434	-.114	.733
Blockholders' Ownersl	40	.800	.160	.960	.69200	.205201	.682	.733
Valid N (listwise)	40							

Correlations

		Discretionary Accruals	Managerial Ownership	Institutional Ownership	Blockholders' Ownership
Discretionary Accruals	Pearson Correlation	1	.289	.235	.007
	Sig. (2-tailed)		.070	.144	.965
	N	40	40	40	40
Managerial Ownership	Pearson Correlation	.289	1	.095	.706**
	Sig. (2-tailed)	.070		.559	.000
	N	40	40	40	40
Institutional Ownership	Pearson Correlation	.235	.095	1	.349*
	Sig. (2-tailed)	.144	.559		.027
	N	40	40	40	40
Blockholders' Ownership	Pearson Correlation	.007	.706**	.349*	1
	Sig. (2-tailed)	.965	.000	.027	
	N	40	40	40	40

**. Correlation is significant at the 0.01 level (2-tailed).

*. Correlation is significant at the 0.05 level (2-tailed).

Model Summary[b]

Mode	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.532[a]	.283	.224	5.824445	.283	4.748	3	36	.007	1.472

a. Predictors: (Constant), Blockholders' Ownership, Institutional Ownership, Managerial Own

b. Dependent Variable: Discretionary Accruals

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	483.197	3	161.066	4.748	.007[a]
	Residual	1221.270	36	33.924		
	Total	1704.466	39			

a. Predictors: (Constant), Blockholders' Ownership, Institutional Ownership, Managerial Ownership

b. Dependent Variable: Discretionary Accruals

Coefficients[a]

Mode		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	5.992	3.766		1.591	.120		
	Managerial Owners	20.406	6.114	.683	3.337	.002	.475	2.106
	Institutional Owner	13.224	5.340	.383	2.477	.018	.832	1.201
	Blockholders' Own	-19.626	7.007	-.609	-2.801	.008	.421	2.377

a. Dependent Variable: Discretionary Accruals