Ownership Concentration and Earnings Management Practice of Nigerian Listed Conglomerates

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Abstract

This study examines ownership concentration and earnings management practice of the Nigerian listed conglomerates. It proxied earnings management using the modified Jones (Dechow et'al, 1995) model. Using 30 firm-year panelled observations, we estimated panel OLS and controlled for fixed/random effects. The result shows a significant negative relationship between ownership concentration and earnings management. The Hausman specification test shows that the panel result after controlling for random, best suits the population as the fixed effect hypothesis was rejected by the Wald/Ch^2 test. Of the control variables, only returns on assets is significant. Leverage and firm size were not significant. We hence concludes that ownership concentration indeed moderates the practice of earnings management in Nigerian listed conglomerates. Further studies may be carried out to include earnings management with real cash-flow consequences.

1. Introduction

The importance of accounting earnings to stake-holders of any given firm cannot be over emphasized; as the entire fate of the firm and consequently of its stake holders relies on it. Additionally, the accounting field also has a stake to safeguard, owing to the fact that earnings is the final product of the entire accounting process. It will thus be of interest for accounting scholars to ensure that their most important variable continue to maintain its relevance in the decision making of various users for varying applications. Literatures argued that earnings is said to be relevant if only it can be relied upon (Ijiri, 1966). On the other hand, earnings management is revealed to reduces this needed reliability and hence its relevance (Bugshan, 2005). For earnings to maintain its importance, there is hence the need to devise ways that can be used to enhance the practice of reporting quality earnings earnings. After the recent world major financial crises in 2008, there is ever increasing need to look up for indicators of earnings reliability.

The practice of earnings management involves altering the earnings figures being reported, through the use of the judgemental discretions as allowed by the generally accepted accounting principles (GAAP), so as to either misled the users into believing what is actually not true in respect of the earnings' figures, and hence secure favourable response (like increased demand for the firm's shares); or to influence contractual outcomes which depend on the reported earnings (Healy and Wahlen, 1999). From this, it can be evident that the practice of earnings management can only be carried out by the managers, on whose shoulders lies the responsibility of reporting fthe firm's earnings figures. Also, looking at the agency theory relations, the part that explained how managers interests are at conflict with that of the share holder, it is clear that managers manager will always try to influence the contractual outcomes in their favour. This is so because managers are employees of the shareholders and their performance is usually measured using the earnings they reported, and based on it, they receive their rewards.

Increasing pressures on management to meet up earnings expectations and hence boost the firms'market value, has propelled the managers to resort to reporting managed earnings (Loomis, 1999). This practice questioned the reliability of earnings and hence the need to monitor managers against earnings management.

As literature posits, managers of firms that are highly concentrated stand the chance to be highly monitored (Ramsey and Blair, 1993). A firm is said to be highly concentrated if a significant portion of its equity is in the hands of few individuals (Roodposhti and Chasmi, 2010). Few individuals with more stake have more reason to be worried about their invetments and hence monitor the management of the firm's affairs. Evidence documented in favour of this hypothesis exist (e.g Ramsay and Blair, 1993). However, other studies documented evidence suggesting that ownership concentration actually induces earnings management (e.g Halioui and Jerbi, 2012). The argument here is that, large share holder have the capacity to pressure the managers to improve earnings so that their market value may improve, and due to this excessive pressure, the managers will the have to resort to earnings management. In view of these mixed and inconclusive results, which are of foreign origin, we intend to find out to what extent that ownership concentration actually impact on earnings management in an emerging economy such as Nigeria?

Based on the above, we hypothesized here that: Ownership Concentration has no significant impact on earnings management.

By focusing on conglomerate firms, we identify a suitable context in which earnings management may be more easily carried out. This is so, if one considers the inter-woven relationships between the mother firms and their subsidiaries both of which are listed in exchange. Most of the world's monumental frauds and remarkable remarkable earnings management incidences were carried out by conglomerate giants such as Enron and worldcom.

The remaining paper is structured into 4 sections. Section 2 presents a review of existing literature. Section 3 covers the methodology, while section 4 reports and discusses the result. Finally, section 5 presents a conclusion and recommendations of the study.

2. Literatur Review and Theoretical Frame-Work

Ownership concentration measures the existence of large share holders in a firm (Thomsen and Pedersen, 2000, as cited in Roodposhti and Chasmi, 2010). The expectation for firms with highly concentrated ownership are of two differing views. While some scholars are of a view that ownership concentration is negatively related to earnings management, others concluded with evidence that positive relationship exists as it indeed induces managers to engage into earnings management. Researches that documented the negative relationship include the work of Ramsay and Blair (1993); Zhong Gribbin and Zheng (2007). Chen and Elder and Hung (2010); Roodposhti and Chasmi (2010), and so on. On the other hand, studies that documented positive relationship between ownership concentration and earnings management includes the works of Halioui and Jerbi (2012); Abdoli (2011); Morck, Scheifer, and Vishny (1988); McConnell and Servaes (1990); Aharony, Lee and Wong (2000) and the work of Wang Xu and Zhu (2001).

From another dimension, other researches documented that the impact which ownership concentration has on earnings management could take the form of curve-linear relationship. Example here is the findings of McConnell and Servaes (1990). As cited in Ding, Zhang and Zhang (2007), the findings of McConnelland Servaes (1990) revealed a negative relationship at first, up to a certain limit and then a positive relationship afterwards. The explanation was that the concentration of ownership is slow and steady and such, the holders are not fully entrenched at the begining. Therefore, their presence will initially serve as alignment. As soon as they are fully entrenched, with enough voting right, they start to perpetrate actions that is in conflict with the interest of the minority. Contrary to the above, Ding, et'al (2007) reported that the entrenchment should be at the on-set. They argued that unlike the managers who get entrenched as time passes (with increased holdings), the concentrated owners should be readily entrenched even with smaller concentration. The added concentration will only serve to entrench them further, up to a point. After full entrenchment, Ding, et'al argued that the concentrated owners will then get total control of the firm and thus make the interest of the firm their paramount objective. This will hence give way to the alignment effect. Their result, using 273 Chinise listed and privately owned firms confirmed this. The common characteristic of all the studies mentioned above is that they were conducted in foreign countries, mostly developed and none of them used an African country.

158

Using Nigerian firms and covering periods that transcends the two eras of before the world's most significant/ far-reaching financial crisis, may give a different result. In addition, the methodologies adopted by the last category of findings involves the use of non-linear regression, thereby preemptively pressuming non-linearity without any recourse to a theory that assumes the existence of such relationship. In the absence of basing their assumptions on any thesis, such findings can be attributed to so many possibilities, of which data outlier could be one.

Two competing theories exists in respect of explanation regarding the two aferementioned opposing findings (which confirms linear relationships). The first one is the agency theory as propounded by Jensen and Mecklings (1976). According to this theory, the conflict of interest between owners and managers give birth to the managers' opportunistic tendency such as earnings management. As such, the managers needs to be monitored. Inasmuchas owners with high stake in a firm have more to loose should something bad is to happen as a result of managers' opportunism, the concentrated owners have every reason to monitor the managers as the cost of monitoring here may outweight the agency cost (Ramsey and Blair, 1993). With this, the agency theory predicts a negative relationship between ownership concentration and earnings management. This tendency is what literature termed as alignment effect of ownership concentration (Ding, et'al, 2007).

On the other hand, Stulz (1988) forwarded a theoretical model of the entrenchment effect between managerial ownership and earnings management. Subsequent researches hypothesized that this is also applicable to ownership concentration (e.g La-Porta et'al, 1999). Ding et'al (2007) reported that La Porta, et'al .(1999) documented evidence which shows that concentrated ownership is prevalent in most parts of the world, and that most of the world's largest corporations that can be found in the world's 27 wealthiest economies are held by few individuals. Ding et'al (2007) further expatiated that under the context of entrenchment effect, the agency problem is between large and small share holders. By articles of association, shareholders are entitled to a share of a company's cash flow, in proportion to their interests in the company. But when agency costs exists, minority shareholders face the risk of having this right of theirs denied as a result of expropriation by the controlling shareholders, who normally have easy control of the company's managers. Ding, et'al (2007) expounded that the concentrated owners usually pursue their interest which may need not to be the same with that of the minority share holders. They also respectively cited Claessens Djankov., Fan, and Lang (2002), and Leuz, Nanda, and Wysocki (2003), where they explained that "Entrenched controlling owners are less subject to stock market discipline and governance input by minority shareholders, and thus have substantial discretion in pursuing their own interest rather than the company's (Claessens *et al.* , 2002)". As a result of this, "...the opportunistic activities of entrenched controlling owners will eventually harm the health of the company, but as the same owners also control the preparation of financial statements, which are the primary means of communicating corporate financial information, they will try to hide the company's real economic situation by increasing reported profit (Leuz et'al, 2003)". With this, the entrenchment hypothesis predicts a postive relationship between ownership concentration and the practice of earnings management.

Going by the above discourse, the study adopts agency theory as the theory that seems to best fits our variables of interes. We thus proposes a negative relationship between ownership concentration and earnings management.

3. Methodology

When testing our hypothesis, abnormal accruals estimated using modified Jones (Dechow, Sloan and Sweeney, 1995), was used as our dependent variable (a proxy for earnings management). As our main explanatory variable, ownership concentration was used. leverage level, returns on assets and natural log of total assets are used as control variables. Since we used panel regression, we controlled for fixed and and random effect and also carried out a Hausman specification test, as recommended by Dougherty (2006:pp408). To ascertain compliance with an important regression assumption, we tested for heteroskedasticity and multi-colinearilty.

The population of the research are all the conglomerate firms listed in Nigerian stock-exchange as at 31st december, 2009. The justification for choosing conglomerates is that researches revealed that large-scale multi-faceted earnings management is mostly associated with conglomerates owing to their peciliar structure (e.g transfer of profitable or toxic assets to/from the subsidiaries, related party transactions, and so on). For details, see Mehta and Srivastavaare (2009). In addition, unlike financial, mining, constructions and some other kinds of firms, financial statements of conglomerate firms discloses all the observations the research required for computing discretionary accruals using modified Jones (Dechow, et'al., 1995) model.

Two of the eight firms were screened out on the ground that some of their annual reports were not obtainable at the time of data collection. Upon investigation, the research found out that they are sanctioned for not declaring their 2010 annual reports (VON wesite publication in december 2011). These are Scoa Nigeria Plc and Transnational Corporation Nigeria Plc. The study used secondary data obtained from the published annual reports of the remaining six firms that finally constituted the study population. This restriction (to six out of eight firms) may not possibly introduces a survivorship bias into the sample resulting in the inclusion of larger and more successful firms; considering that about 75% of the conglomerates firms's population are captured.

Since time series modified Jones model is adopted, the 6 periods covered by the research are framed as 2004/2005, 2005/2006, 2006/2007, 2007/2008, 2008/2009 and 2009/2010. With 6 firms, we have 30 firm-years observation. The periods seems appropriate for the study because, Nigerian capital market witnessed a historic competition for capital during this period and thus managers had incentive to manage earnings to attract investors. Also, global economic meltdown happened within the period and this gives managers incentives to manipulate earnings so as to smooth the impact of the meltdown. In addition, limiting the period to cover 7 years helps in neutralising the time contraint which the researchers face in scrutinizing and collecting accurate data. Data for the study were collected from annual reports of the firms that constituted the final population of the study.

Model Overview

Researchers widely uses accruals as measures of earnings management. It is argued that using these accruals, managers are able to shift earnings in different reporting periods (Wasimullah, Toor and Abbas, 2010). Healy (1985) proxied earnings management using total accruals. As cited in Wasimullah, et'al. (2010), one year later, De-Angelo (1986) contended that a better measure earnings management should be change in total accruals. This is to suggest that first year accruals are non discretionary and any change in first year accruals in the following year, is discretionary accruals. Jones (1991) relaxed the assumption of De-Anglo five years later, and reasoned that non-discretionary component of accruals do not remain static. She proposed a regression model which describes discretionary component of accruals as varying in relation to the economic conditions which can be controlled using change in sales and change in property, plant and equipment. In 1995, Dechow, et'al. (1995), proposed a modification in Jones (1991) by subtracting change in receivables from change in sales. This allows for capturing the possibility of management to manage revenues related to account receivables (credit sales) in the inter-reporting periods. This model according to Wasimullah, et'al. (2010), seems to be the most widely used in research as it has been tested and found to measure discretionary accrual with lesser error compared with the models before it. Accrual models after it, such as Dechow, Richarson and Tuna model of (2002), have not yet been widely confirmed as to its reliability. We first estimated total accruals using balance sheet approach. We then estimate the regression of the impact of non-discretionary accrual proxies on total accruals. The residual from the regression represent the discretionary portion of the accrual earnings (Bugshan, 2005).The discretionary accrual according to the modified Jones (Dechow, et'al., 1995) model is calculated in the following steps:
The first step, is the estimation of total accruals. Following Healy, (1985) we state total accrual as follows:

$TA_{it} = TAC_t \quad = \quad \Delta CA_t - \Delta CL_t - \Delta CASH_t + \Delta DCL_t - DEP_t$ (1)

Where,

TAC_t	=	Total accruals at time t
ΔCA_t	=	Change in current assets at time t
ΔCL_t	=	Cash flow from operation at time t
$\Delta CASH_t$	=	Change in cash at time t
ΔDCL_t	=	Change in debt included in current liabilities at time t
DEP_t	=	Depreciation and ammortisation expenses at time t

In the second step, the parameters and the residuals are estimated by using the modified Jones (Dechow, et'al. 1995) for all firms in the industry. The model is specified as follows:

$TA_{it}/A_{it-1} \quad = \quad \alpha_0 + \alpha_1[1/A_{it-1}] + \alpha_2[\Delta REV_{it}/A_{it-1} - \Delta AR_{it}/A_{it-1}] + \alpha_3[PPE_{it}/A_{it-1}] + \varepsilon_{it}$ (2)

Where:

TA_{it}	=	Total accruals for firm i in year t,
α_0	=	Constant term

A_{it-1}	=	Total assets for firm i in year t-1,
ΔREV_{it}	=	Change in net revenues for firm i in year t,
ΔAR_{it}	=	Change in accounts receivable for firm i in year t,
PPE_{it}	=	Gross property plant and equipment for firm i in year t,
ε_{it}	=	Error term (discretionery accruals) for firm i in year t.

The parameter estimates, α_1, α_2, and α_3 in this case, are industry specific rather than firm specific.
Following Roodposhti and Chasmi (2010), we measured ownership concentration as:

OWNCON = Number of shares held by highest block-holding/Total shares outstanding   (3)

In line with the work of Wasimullah et'al (2010), leverage and returns on assets have impact on discretionary accruals. Also, following Roodposhti and Chashmi (2010), we controlled for size using natural logarithm of total assets. These are specified according to aforementioned researches as follows:

LEV   =   FINLIAB/EQUITY+FINLIAB   (4)

Where:

LEV	=	Leverage,
FINLIAB	=	Longterm financial liabilities plus debt included in current liabilities
EQUITY	=	Total ordinary share holdings

Returns on assets is measured as:

ROA   =   NI/TA   (5)

Where:

ROA	=	Returns on assets
NI	=	Net income
TA	=	Total assets
LogTA	=	Natural logarithm of total assets.

Having obtained the values representing earnings management, ownership concentration and the control variables, a linear regression is applied to determine the impact of ownership concentration on earnings management. The regression model is as shown below:

$EMGT_{it}$= $\alpha_{0it} + \beta_1 OWNCON_{it} + \beta_2 LEV_{it} + \beta_3 ROA_{it} + \beta_4 LogTA_{it} + \mu_{it}$ (6)

Where;

$EMGT_{it}$=		Earning management for firm "i" at time "t" (estimated in equation 2),
$_{it}$	=	Firm "i" at time "t"
$\alpha_{0,}$	=	Constant term
μ	=	Error term

β_1, β_2, β_3 and β_4, are the coefficients of the explanatory variables. Other variables remained as previously defined.

4. Results and Discussions

The study looked at the impact of ownership concentration on earnings management practice of Nigerian listed Conglomerates. A brief analysis of the descriptive statistics is presented in the table below. Following it is the regrssion result for our hypothesis test.

Table 1: Descriptive statistics

		EMGT	OWNCON	LEV	ROA	LogTA
N	Valid	36	36	36	36	36
	Missing	0	0	0	0	0
Mean		.0697566	.6818	.2497	.0868	15.9127
Median		-.0225474	.6785	.1636	.1199	15.8747
Std. Deviation		.47928128	.21858	.21848	.21165	1.06725
Variance		.230	.048	.048	.045	1.139
Skewness		.625	-1.032	.610	-1.751	.216
Std. Error of Skewness		.393	.393	.393	.393	.393
Kurtosis		-.441	1.591	-1.004	6.454	-1.256
Std. Error of Kurtosis		.768	.768	.768	.768	.768
Minimum		-.78432	.07	.00	-.73	14.20
Maximum		1.06842	.93	.72	.50	17.63

Source: Authours'computation using SPSS15

From the table above, the median values in all the variables are not exactly situated at the centre of each of the respective distributions. They all lies below their respective means. This is tentatively insinuating non symetry of the data. However the non-symetry seems to be mild, as the standard deviations in all cases falls within the range of ±1 standard deviations from the mean. The skewness and kurtosis are also tolerably mild, as thet are close to 0 and 1; except for returns on assets which has kurtosis figure of 6.45, insinuating higher than normal peak. Should our model residual prove to lack constant variance, then it could be as a result of this one varible.

The table below depict the result of our hypothesis test. We reported here only the final result which we selected after the Hausman specification test. The result of this specification test, lead us to select the panel regression result we estimated after controlling for random effects. A summary of this result is as shown below:

Table2: Impact of Ownership concentration on Earnings management

$EMGT_{it} =$	$\alpha_{0it} + \beta_1 OWNCON_{it} + \beta_2 LEV_{it} + \beta_3 ROA_{it} + \beta_4 LogTA_{it} + \mu_{it}$	
Variables	*Coefficients*	*t-values (Zscore)/significance*
Intercept	*2.906*	*1.66****
OWNCON	*-1.654*	*-4.49****
LEV	*.255*	*.67*
ROA	*.641*	*2.02***
LogTA	*-.115*	*-1.20*
R2 Within the group	*.22*	
R2 Between the group	*.94*	
R2 Overall	*.49*	
Wald Chi2/ significance	*29.25****	

   Source: Computation using Stata9. ***=significance level at 1%, **= significance level at 5%

From the result above, our varible of interest, OWNCON have a significant nagative impact on the dependent variable, EMGT. The t-value is significant even at 1%. This means that the coeeficients of OWNCON are actually distributed around their true values and comparing this t-value calculated with the critical value will confirm that the mean of the true values of OWNCON is no where near zero. As such, they have significance in predicting our regressand (EMGT). The negative relationship obtained is consistent with the agency theory of Jensen and Mecklings (1976), which posits that concentration of ownership help aligns the interest of the managers with that of the firm, since the concentrated owners have the capability of influencing who is on the company board and consequently the company management team. The finding also supports the evidence documented by Ramsey and Blair (1993), where they concluded that owners of large holdings in a firm can afford to bear the fixed cost of monitoring the firm's managers, so as to safe guard their investment from the managers' opportunistic tendency. The result also contradicts the findings of Morck, Scheifer and Vishny (1988) and that of Halioui and Jerbi (2012).

Given the above, it can be argued that here in Nigeria, the entrenchment hypothesis does not have ground. The hypothesis predict that when large ownership is present, as they dorminate the voting right in a firm, they also dorminate the cash-flow rights. Thus, in situation where the expropriation of the concentrated owners seem to result in poor earnings reports, these concentrated owners have the capacity to pressure the managers to manipulate the earnings to be reported, in order to hide the poor result.

Looking at our control variables, LEV is positively related to earnings management (as predicted by positive accounting theory of Watts and Zimmerman, 1979). ROA is also positive, while LogTA is negative. However, only ROA is significant. The overall R^2 shows an explanatory power of the model at about 49%. The Wald Chi^2 test shows that our explanatory variables are jointly significant even at 1%. In addition, the Breuch-Pagan/Cook-Weisberg test for heteroskedasticity has statistically proved that the residuals from the estimates are homoskedastic. This is further confirmed by the the scattered plot of the residuals against the fitted values. The result shows a constant variance across the residuals. This means we do not have to worry about auto-correlation marring our result. The result of this test can be found in the appendices section of the work. Also, a test for multi-colinearily was carried out. The result shows that our explanatory variables are devoid of any harmful multi-colinearity for which we should be alarmed, as the estimated variance inflation factor (VIF) and 1/VIF in all cases are respectively below 10 and above 0.1. with significantly significant results- t-values/Z-score and Chi^2, we hereby conclude that ownership concentration indeed has a significant impact on earnings management.

5. Conclusion

This study investigates the impact of ownership concentration on earnings management, in Nigerian listed conglomerates. The study has empirically documented that ownership concentration is indeed useful in preventing the management's tendency to manage earnings. As prior studies documented, manager employs the use of accounting discretion to manage earnings for various purposes, most of which aimed at serving their own interest. As this tendency questions the reliability of the reported earnings, users seeking to use reported earnings should look up ownership concentration as an indicator of earnings reliability. The higher the concentration, the less likely that the earnings report is manipulated and hence the more its reliability.

This research is not without limitations. One of which is that opportunistic behavior of managers is very difficult to be measured and tested directly. As such, the research only capture this opportunism by employing the use of accrual modelling. Another limitation is that time constraint and the tasking nature of first-hand data collection did not permited exhaustive search for data relating to other industries which could have made the result to have a more far reaching application. With these, the paper suggests further researches that may encompass more industries as well as cover additional earnings measurement techniques like real earnings management.

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Appendices

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DATASET NAME DataSet1 WINDOW=FRONT.
FREQUENCIES
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  /STATISTICS=STDDEV VARIANCE MINIMUM MAXIMUM MEAN MEDIAN SKEWNESS SESKEW
  KURTOSIS SEKURT
  /ORDER= ANALYSIS .

Frequencies

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AND EARNINGS MGT.sav

Statistics

		TAC2	SCCONST	REVREC	PPE
N	Valid	36	36	36	36
	Missing	0	0	0	0
Mean		.3458	.0000	.1633	1.1310
Median		.2295	.0000	.2772	1.0668
Std. Deviation		.53541	.00000	1.05394	.53996
Variance		.287	.000	1.111	.292
Skewness		1.440	.902	-1.605	.758
Std. Error of Skewness		.393	.393	.393	.393
Kurtosis		2.408	.044	3.688	.913
Std. Error of Kurtosis		.768	.768	.768	.768
Minimum		-.45	.00	-3.22	.01
Maximum		1.94	.00	1.83	2.69

FREQUENCIES
  VARIABLES=EMTAC2 OWNCON LEV ROA LogTA /FORMAT=NOTABLE
  /STATISTICS=STDDEV VARIANCE MINIMUM MAXIMUM MEAN MEDIAN SKEWNESS SESKEW
  KURTOSIS SEKURT
  /ORDER= ANALYSIS .

Frequencies
[DataSet1] C:\Program Files\SPSS Evaluation\DATA DEPT JOURNAL PAPER MARCH 2012 OWNCON
AND EARNINGS MGT.sav

Statistics

		Unstandardized Residual	OWNCON	LEV	ROA	LogTA
N	Valid	36	36	36	36	36
	Missing	0	0	0	0	0
Mean		.0697566	.6818	.2497	.0868	15.9127
Median		-.0225474	.6785	.1636	.1199	15.8747
Std. Deviation		.47928128	.21858	.21848	.21165	1.06725
Variance		.230	.048	.048	.045	1.139
Skewness		.625	-1.032	.610	-1.751	.216
Std. Error of Skewness		.393	.393	.393	.393	.393
Kurtosis		-.441	1.591	-1.004	6.454	-1.256
Std. Error of Kurtosis		.768	.768	.768	.768	.768
Minimum		-.78432	.07	.00	-.73	14.20
Maximum		1.06842	.93	.72	.50	17.63

CORRELATIONS
 /VARIABLES=EMTAC2 OWNCON LEV ROA LogTA
 /PRINT=TWOTAIL NOSIG
 /MISSING=PAIRWISE .

Correlations

[DataSet1] C:\Program Files\SPSS Evaluation\DATA DEPT JOURNAL PAPER MARCH 2012 OWNCON AND EARNINGS MGT.sav

Correlations

		Unstandardized Residual	OWNCON	LEV	ROA	LogTA
Unstandardized Residual	Pearson Correlation	1	-.615(**)	.150	.169	.170
	Sig. (2-tailed)		.000	.383	.325	.320
	N	36	36	36	36	36
OWNCON	Pearson Correlation	-.615(**)	1	.045	-.006	-.525(**)
	Sig. (2-tailed)	.000		.793	.974	.001
	N	36	36	36	36	36
LEV	Pearson Correlation	.150	.045	1	-.294	-.596(**)
	Sig. (2-tailed)	.383	.793		.082	.000
	N	36	36	36	36	36
ROA	Pearson Correlation	.169	-.006	-.294	1	.347(*)
	Sig. (2-tailed)	.325	.974	.082		.038
	N	36	36	36	36	36
LogTA	Pearson Correlation	.170	-.525(**)	-.596(**)	.347(*)	1
	Sig. (2-tailed)	.320	.001	.000	.038	
	N	36	36	36	36	36

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

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

REGRESSION
 /MISSING LISTWISE
 /STATISTICS COEFF OUTS R ANOVA COLLIN TOL
 /CRITERIA=PIN(.05) POUT(.10)
 /NOORIGIN
 /DEPENDENT TAC2
 /METHOD=ENTER SCCONST REVREC PPE
 /RESIDUALS DURBIN
 /SAVE RESID .

Regression

Variables Entered/Removed(b)

Model	Variables Entered	Variables Removed	Method
1	PPE, REVREC, SCCONST(a)	.	Enter

a All requested variables entered.

b Dependent Variable: TAC2

Model Summary(b)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.618(a)	.382	.324	.44026	1.075

a Predictors: (Constant), PPE, REVREC, SCCONST

b Dependent Variable: TAC2

ANOVA(b)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3.831	3	1.277	6.588	.001(a)
	Residual	6.203	32	.194		
	Total	10.033	35			

a Predictors: (Constant), PPE, REVREC, SCCONST
b Dependent Variable: TAC2

Coefficients(a)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta	Tolerance	VIF	B	Std. Error
1	(Constant)	-.245	.176		-1.389	.174		
	SCCONST	684361.049	450910.247	.239	1.518	.139	.780	1.282
	REVREC	.194	.072	.382	2.708	.011	.972	1.029
	PPE	.359	.157	.362	2.284	.029	.767	1.304

a Dependent Variable: TAC2

Collinearity Diagnostics(a)

Model	Dimension	Eigenvalue	Condition Index	Variance Proportions				
		(Constant)	SCCONST	REVREC	PPE	(Constant)	SCCONST	
1	1	2.693	1.000	.02	.04	.01	.02	
	2	.976	1.661	.00	.00	.95	.00	
	3	.245	3.313	.20	.85	.00	.03	
	4	.086	5.609	.78	.11	.04	.95	

a Dependent Variable: TAC2

Residuals Statistics(a)

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	-.0469	1.0689	.3458	.33083	36
Residual	-.78432	1.06842	.00000	.42097	36
Std. Predicted Value	-1.187	2.186	.000	1.000	36
Std. Residual	-1.781	2.427	.000	.956	36

a Dependent Variable: TAC2

Sunday March 18 01:20:09 2012   Page 1

```
           _____  _____  _____  _____  _____ tm
          /     / /     / /     / /     / /     /
         /     / /     / /     / /     / /     /
        _____/ /_____/ /     / /     / /_____/
                Statistics/Data Analysis

                        User: OLS PANEL
                     Project: DEPARTMENT JOURNAL

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                                 979-696-4600        stata@stata.com
                                 979-696-4601 (fax)

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                          Università Tor Vergata

   Notes:
         1.  (/m# option or -set memory-) 1.00 MB allocated to data

1 . use "C:\Stata 9.1\impact of ownership conc on earnings mgt of conglomerates.dta
 > "

2 . reg emgt owncon leverage roa logta
```

Source	SS	df	MS
Model	3.90336657	4	.975841643
Residual	4.13650717	31	.133435715
Total	8.03987374	35	.229710678

```
      Number of obs =      36
      F(  4,    31) =    7.31
      Prob > F      = 0.0003
      R-squared     = 0.4855
      Adj R-squared = 0.4191
      Root MSE      = .36529
```

emgt	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
owncon	-1.653885	.3681566	-4.49	0.000	-2.404746	-.9030248
leverage	.2549665	.3824346	0.67	0.510	-.525014	1.034947
roa	.6411849	.318095	2.02	0.053	-.0075742	1.289944
logta	-.1149229	.0961312	-1.20	0.241	-.3109838	.081138
_cons	2.90652	1.755528	1.66	0.108	-.6739032	6.486942

```
3 . estat hettest

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

           chi2(1)      =       1.68
           Prob > chi2  =     0.1948

4 . vif
```

Variable	VIF	1/VIF
logta	2.76	0.361980
leverage	1.84	0.544910
owncon	1.69	0.591055
roa	1.19	0.838039
Mean VIF	1.87	

```
5 . xtreg emgt owncon leverage roa logta, fe
 i() required
 r(198);

6 .
```

```
Sunday March 18 01:34:22 2012   Page 1
```
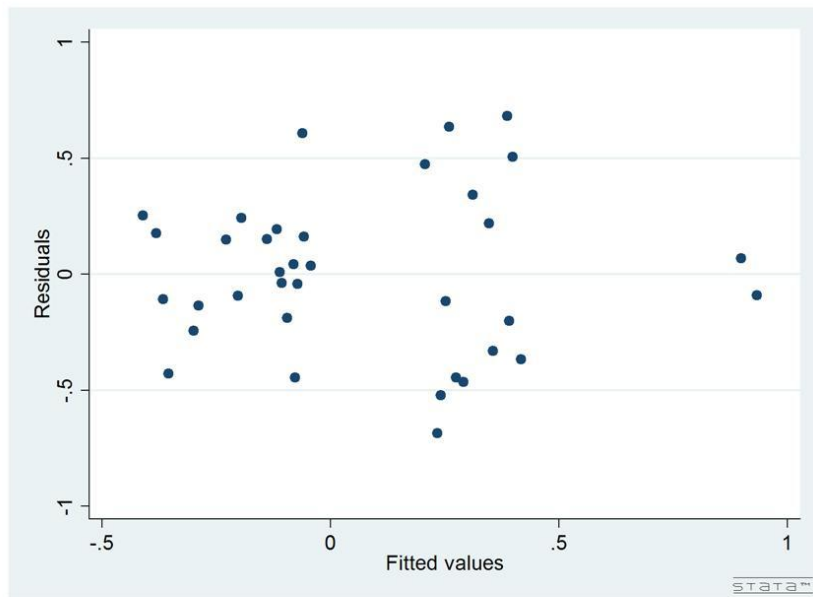
```
                                                                                      tm
                                                        /__ __ __/ __/ __ __/ __/ /__/
                                                       /__ / /__/ / /__/
                                                           Statistics/Data Analysis

                                            User: FIXED AND RANDOM EFFECT TESTS{space -8}
                                                      Project: DEPARTMENT JOURNAL

                                         tm
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                                     College Station, Texas 77845 USA
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                                     979-696-4601 (fax)

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                             Università Tor Vergata

      Notes:
           1.  (/m# option or -set memory-) 1.00 MB allocated to data

1 . use "C:\Stata 9.1\impact of ownership conc on earnings mgt of conglomerates.dta
  > "

2 . tsset id year, yearly
          panel variable:  id, 1 to 6
           time variable:  year, 2005 to 2010

3 . xtreg emgt owncon leverage roa logta, fe

  Fixed-effects (within) regression          Number of obs      =        36
  Group variable (i): id                     Number of groups   =         6

  R-sq:  within  = 0.2242                     Obs per group: min =         6
         between = 0.8743                                    avg =       6.0
         overall = 0.4619                                    max =         6

                                             F(4,26)            =      1.88
  corr(u_i, Xb)  = -0.5423                    Prob > F           =    0.1443
```
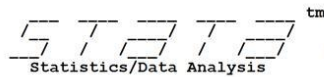
emgt	Coef.	Std. Err.	t	P>|t|	[95% Conf. Interval]	
owncon	-1.932767	.9299437	-2.08	0.048	-3.844294	-.0212407
leverage	.0271891	.5437301	0.05	0.961	-1.090464	1.144842
roa	.7539342	.3943726	1.91	0.067	-.0567104	1.564579
logta	-.0989657	.1859086	-0.53	0.599	-.4811064	.283175
_cons	2.889421	3.187722	0.91	0.373	-3.663035	9.441877
sigma_u	.14146922					
sigma_e	.38741217					
rho	.1176563	(fraction of variance due to u_i)				

```
  F test that all u_i=0:     F(5, 26) =      0.31               Prob > F = 0.9012

4 . estimates store fixed

5 . xtreg emgt owncon leverage roa logta, re

  Random-effects GLS regression              Number of obs      =        36
  Group variable (i): id                     Number of groups   =         6

  R-sq:  within  = 0.2160                     Obs per group: min =         6
         between = 0.9416                                    avg =       6.0
         overall = 0.4855                                    max =         6

  Random effects u_i ~ Gaussian              Wald chi2(4)       =     29.25
  corr(u_i, X)       = 0 (assumed)           Prob > chi2        =    0.0000
```

Sunday March 18 01:34:22 2012   Page 2

emgt	Coef.	Std. Err.	z	P>|z|	[95% Conf. Interval]	
owncon	-1.653885	.3681566	-4.49	0.000	-2.375459	-.9323115
leverage	.2549665	.3824346	0.67	0.505	-.4945915	1.004525
roa	.6411849	.318095	2.02	0.044	.0177301	1.26464
logta	-.1149229	.0961312	-1.20	0.232	-.3033366	.0734908
_cons	2.90652	1.755528	1.66	0.098	-.5342519	6.347291
sigma_u	0					
sigma_e	.38741217					
rho	0	(fraction of variance due to u_i)				

6 . estimates store random

7 . hausman fixed random

	—— Coefficients ——			
	(b) fixed	(B) random	(b-B) Difference	sqrt(diag(V_b-V_B)) S.E.
owncon	-1.932767	-1.653885	-.2788823	.8539649
leverage	.0271891	.2549665	-.2277774	.3865051
roa	.7539342	.6411849	.1127493	.2331209
logta	-.0989657	-.1149229	.0159572	.1591252

b = consistent under Ho and Ha; obtained from xtreg
B = inconsistent under Ha, efficient under Ho; obtained from xtreg

Test: Ho: difference in coefficients not systematic

chi2(4) = (b-B)'[(V_b-V_B)^(-1)](b-B)
= 0.80
Prob>chi2 = 0.9381

8 .