

THE IMPACT OF INSTITUTIONAL OWNERSHIP STRUCTURE ON EARNINGS QUALITY OF LISTED FOOD/BEVERAGES AND TOBACCO FIRMS IN NIGERIA

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ABSTRACT

This study focused on the impact of institutional ownership on earnings quality of listed Food/Beverages and Tobacco firms in Nigeria over the period 2005-2013. The study utilized documentary data obtained from the annual reports and accounts of the companies for the period of the investigation. The data was first analyzed by means of descriptive statistics and subsequently, correlation analysis was carried out using Pearson correlation technique. A panel data regression technique was employed to estimate the models since the data has both time series and cross sectional attributes. The results reveals that one of the variables used, that is institutional ownership show a significant result while firm size use as control variable fail to show a significant result. The study concludes that the shares institutional investors have in the firm is an important monitoring and control device, which help to prevent abuses and other irregularities by the managers; it has improved the earnings quality of the firms; prevent fraud; maximize shareholders' wealth and enhanced the value of the firms. The size of the firms which is the control variable has not shown any significant positive effect on earnings quality of the listed food/beverages and tobacco firms in Nigeria this could be proved by the insignificant level and correlation with the independent variable. The study therefore, recommend among others: That to ensure that institutional ownership continues to impact positively on earnings quality of listed food/beverages and tobacco firms in Nigeria. The SEC should make it mandatory for institutional investors to have stake in most of the food/beverage and Tobacco firms operating in the country in order to reduce the opportunistic behaviour of the firm's managers. Regulatory authority such as SEC should monitor the activities of institutional shareholders who are operating in the country.

Keywords: Earnings Quality, institutional Ownership and Firm Size.

INTRODUCTION:

Institutional ownership can be viewed as the shareholders of a firm who are corporate entities. From the extant of previous studies which concluded that the institutional shareholding is a familiar practice in companies (Miglo, 2007 and Bissessur, 2008). Since the law allows corporations (artificial persons created by law) to enter into transactions and also to own properties in their registered corporate names. Usually, such institutional owners are organised and thus have the necessary machinery in place, to constantly engage the managers. The institutional investor too have principals to report to, about the manner in which they handle their firms' resources, and as such, they will monitor their investments in other firms with due diligence (Ramsay & Blair 1993). As the argument goes, once the institutional shareholders become the majority holders, they will pursue the agency conflict which will shift from the agents (managers) versus principals (share-holder), to majority (institutional owners), and the majority will keep trying to transfer wealth to themselves at the expense of the minority (Stulz, 1988). This tendency can be said to be against the overall interest of the firm since the overall interest of the firm comprises the interest of the majority plus that of the minority shareholders. As such, the entrenchment effect can be manifested in various forms such as reporting false status of the firm's earnings figures (Ding, et'al., 2007). Considering the importance placed on earnings of any given firm as a single most important variable of the firm in which every stake-holder's fate relies upon, it is worthwhile to look at what actually preserves it, for the general benefit of stakeholders and other users.

In the same vein institutional investors with relatively shareholding in a firm have incentives to intervene in corporate operations suggested by traditional agency theories. Traditional agency theories revealed that when ownership of a firm is concentrated in the hand of institutional shareholders, they should have incentive to monitor the managers' action through direct intervention to reduce agency problem Edmans & Manso (2010). In order to solve agency problem between the shareholders (principal) and management (agent), institutional shareholders was suggested as a strong monitoring mechanism in improving performance of the firms La Porta, (2002). External financing through institutional shareholders has resulted to more profit reinvestment among firms. Some scholars have demonstrated a link between credit market development and economic growth through the use of institutional shareholding (Demirguc-kunt & Maksimovic, 1998 and Cull & Xu ,2005).

Earnings quality means the degree to which management's choice affect reported income (the discretionary aspect), while some tie it to proximity in time between revenue recognition and cash collection on one hand and expense recognition and cash expenditure on the other (i.e conservatism aspect). In Siegel (1991) elements such as the degree to which the economic reality of the firm is reflected are also mentioned as characteristics that raise the quality of profits and factors such as estimated discretion, are mentioned as characteristics which lower the earnings quality. It is thus fathomable here those factors such as management efficiency, monitoring and aligning mechanisms are important determinants of earnings quality. The fact, managers are allowed to use discretions in some aspects of earnings' estimation, which justify the fact that, these discretions need to be monitored Rowchowdhury (2006). This is so, when it is considered that the agency theory relationship that is involved. As the theory expounded, the agent (manager) will always seek to transfer wealth to himself at the expense of the company. Given the discretion allowed to the managers by the Generally Accepted Accounting Principles (GAAP), the manager uses the discretions allowed to transfer wealth to him through doing everything possible to secure his various rewards plans. However, with effective monitoring, the agency perspective is that a reduced opportunism (agency cost) can be realised. On the side of the alignment effect, the agency theory proposes a situation where by the interest of the managers are synchronized/aligned into/with the interest of the business firms they manage. This is envisaged where the managers own a portion of the firms' equities, and the more the holdings the more the alignment and hence the less likely they engage in incurring agency cost, in the form of reporting low quality earnings since it will also affect them as owners (Ding, Zhang & Zhang, 2007). It should be noted here that, a conflicting view exist, as to these relationships discussed above that is the agent (manager) will always seek to transfer wealth to himself at the expense of the company. On the other hand, the agency perspective is to reduce opportunism (agency cost).

However, in spite of the significance characteristic of institutional investors, one of their roles is to monitor the activities of the managers in order to protect their investment in the firms. Base on these institutional investors follow two strategies to increase the value of their holdings. The first is to sell their shares in poorly performing firms and invest in companies that are performing (transient institutional shareholders). The second is to directly influence corporate management through a disciplinary role on managers. Then, they are characterized by holding huge shares in the firms'. In this context, it was believed that because of the high costs of monitoring only institutional investors in particular can engage in monitoring and control the management activities in the firm. Consequently, most of the studies carried out on institutional investor have viewed them as a homogenous

group. However, institutional investors have different features from each other. Indeed, two main factors may explain their heterogeneity. Their investment horizon can vary from short to long term. In case of companies they play a dual role in the company (shareholder and monitor).

To the best of our knowledge there are many studies that have been conducted on the impact of institutional ownership on earnings quality of listed food/beverage and Tobacco firms, but most of the studies are from different part of the globe. Therefore they are not conclusive and could not provide adequate evidence on the impact of institutional shareholding on earnings quality of listed food/beverage and Tobacco firms in Nigeria. Lack of enough study on the area have clearly shown a gap and that gap needs to be filled within the literature. In addition the firm characteristics are not similar, thereby, proposes the need to conduct studies based on the nature of their firm characteristics. The study on the impact of institutional ownership on earnings quality of listed food/beverage and Tobacco firms seems to have received very little attention in Nigeria. At the moment, we are not aware of any study on the impact of institutional ownership on earnings quality of listed food/beverage and Tobacco firms. However, the relationship between the levels of institutional shareholders has been a debatable issue over long period of time. This is because the studies conducted on their relationship have continued to give contradicting results. As some find positive relationship while others concluded that there is a negative relationship. The main objective of the study is to examine the impact of institutional ownership on earnings quality of listed Food/Beverages and Tobacco firms in Nigeria. In trying to achieve the stated objective above, it has been hypothesized that, there is no significant impact of institutional ownership on earnings quality of listed Food/Beverages and Tobacco firms in Nigeria.

In order to accomplished the stated objective, this paper is organize into five section, this section being the introduction, section two dwell richly on the review of related literature. Section three is centred on methodology. Section four presents and discusses the results of the data analysis. Section five concludes the paper by highlighting the possible findings and their policy implication.

LITERATURE REVIEW AND THEORETICAL FRAMEWORK:

Institutional ownership can be viewed as the number of shares held by institutional investors divided by the total number of shares outstanding in the firm (Zhang, 2007). In the word of Hashim (2008) institutional ownership was viewed as “the proportion of shares owned by the largest corporate investors to total number of shares issued”. In addition, to the explanation given above, in order to have a clear view on the type of institutional investors Bushee (2001) classified them into three: Transient institutional investors, this are group of investors who have a high portfolio turnover and they are group that highly diversified their shareholdings. Their interest in a firm is confined to searching for short-term trading profits. They do not have an incentive to monitor the firm managers and are less concern about information gathering that would further long-run value: Quasi-indexers, these are another group of institutional investors that have low turnover, they have a long horizon, and a buy-and-hold investment strategy. Bushee (2001) further notes that quasi-indexers and the last group that is dedicated institutions, they are the group of institutional investors that provide long-term stable ownership to firms. Their aim is geared towards long-term income and capital appreciation in the firms. They are often classified as active institutional investors. Active institutional ownership can also be viewed as the number of shares held by active institutional investors divided by the total number of shares outstanding in the firm and they are those characterized by large average investments in firms with extremely low turnover and are consistent with relationship of investing and a commitment to provide long-term capital.

According to (SFAC No. 1) Earnings quality can be viewed as the higher quality earnings which provide more information about the features of a firm's financial performance that are relevant to a specific decision made by a specific decision-maker. In this explanation there are three features that explain the earnings quality: earnings quality is base on the condition of decision-relevance of the information from the firm to the investors: the second aspect is base on the quality of a reported earnings number depends on whether it is informative about the firm's financial performance to the investors and the third aspect is base on the relevance of underlying financial performance to the decision and the ability of the accounting system measure financial performance of the firms. More so, Penman & Zhang (2002) document earnings quality as that reported earnings, before extraordinary items that are readily identified on the income statement, is of good quality if it is a good indicator of future earnings. Thus from this we assume that, when there is high-quality earnings in the firm, we assume those earnings to be “sustainable earnings” on the other hand when there is unsustainable earnings, we deem those earnings to be “unsustainable earnings” and therefore it means that earnings should have poor quality. The Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) avoid explaining earnings quality in their common Conceptual Framework, but list a number of

qualitative characteristics that should achieve a high earnings quality, which include: relevance, faithful representation, comparability, verifiability, timeliness, and understandability (IASB, 2010).

Boutchcova & Megginson (2000) determined the association between institutional investors and earnings quality in a newly privatize firm. They use a sample of 118 firms from 29 countries for the period 1961-1995. They used Dechow & Dechow(2002) model modified by Ball (2005) for measuring earnings quality. The result of the study show a significant positive effect between institutional ownership and earnings quality of a newly privatize firm. Yang et al (2002) shows that in a well governed institutional environment in such a country like China, the effect of foreign institutional investors and stabilize market price was examine. They report a negative relationship. Daily, Dalton & Cannella (2003) examine the relationship between majority shareholders and the minority shareholders in UK using British Telecom (BT), Pensions companies. They document a positive relationship. Mitra & Cready (2005) use a sample of 136 companies belonging to Standard and Poor (S and P) 500 group and 237 belong to non S and P category for the period 1991-1998 and extended to the prior research that considered the role of management in relation to opportunistic behaviour. The result of their study indicates that active monitoring from the institutional investors has help in preventing opportunistic reporting behaviour. This has also improved the quality in the financial reporting process; therefore institutional shareholders intervene in mitigating the self-serving behaviour of corporate managers in financial reporting. Rebai, (2011) investigates whether institutional investors may impact on firm performance of the firm's for 123 American firms for the period 2003-2005. Employing regression analysis, Rebai report that, while transient investors (investment funds) inspire managers to spend less on Research and Development, Holding Company and long-term institutional investors (pension funds) are passive. The findings collaborate the position of Gillan & Starks, (2003) on the influence of emerging market. Baralexis, (2004) examine the impact of institutional shareholders on earnings of the firms using a sample of 121 American firms over the period of 2002-2005. The result of the study shows a strong positive effect on earning of the firm's. This implies that higher institutional shareholders in companies are better in enhancing their earnings quality report the shareholders would received from the companies. The finding complements that of Bushee, (1999).

Sharon, (2008) explores how firms' ownership structures affect their earnings quality and long-term performance, using firm-year observations on COMPUSTAT for the period 1978-2005 from private firms initial public offer (IPO). The findings indicate that PE-backed firms generally have higher earnings quality than those that do not have PE sponsorship. Woonchan, Youngjae & Taeyoon, (2005) examine determinant of institutional ownership in business conglomerates in Korea using *OLS* regressions, the result of their study shows a positive significant relationship. Joh (2003) also examine relationship between voting and cash-flow rights during the pre-crisis period (1993-1997) in Korea, the result of the study show a significant positive relationship. Kim (2004) also show that firms with low institutional ownership and high disperses ownership tended to have low market values, using 216 firms in as measured by Tobin's *q*, in 2001. The study covered all the major multinational firms operating in Greece for the period 1997-1998 and the finding show the level of disperses between voting and cash flow rights is significantly higher than the levels previously reported in the literature on Korean firms when non-public firms was included.

Sam (2005) also investigates the relationship between patterns of stock ownership and the quality of the firm's financial reporting using standard and poor (S&P) 500 firms in the U.S. for the period 1997-2000. They proxy ownership and quality of firm's financial report by accrual-based earnings quality and to measure Standard & Poor's Transparency and Disclosure (T&D) ratings, they used T and D rating based on 98 disclosure items and classified them into three categories: institutional ownership and investor rights has (28 attributes); financial transparency and information disclosure (35 attributes); board and management structure and process (35 attributes). The findings of the study shows a U shape as institutional ownership is negatively associated with earnings quality and the T&D ratings while a positive relationship is observed for institutional stock holdings. Sarmistha (2006) examine the effect of institutional ownership and firm performance in four East Asian countries (Indonesia, Malaysia, Singapore and Thailand). They report that external block-holders may reduce the scope of managerial opportunism resulting in lower direct agency conflicts between management and shareholders. This shows that since external monitoring would impact on the performance of the firms by contributing in term of lowering the opportunistic behaviour of the managers as well as checks and balances to the executive directors, particularly in improving firm value, it means the shareholders would receive sustainable earnings quality report from the firms. The work of (Ilhan, Ranjan, Frederik. Schlingemann & Venkat, 2011) provide additional evidence of positive impact of institutional ownership on firm performance of the firm's. The study covers 1,881 companies in France during the period 1982-2006, and applied the measure of value like Tobin's *Q*. The findings are consistent under all the measures of value. Therefore it has improved

the earnings quality reported to the shareholders of the firm's. This finding complements that of Aggarwal, Erel, Ferreira and Matos, (2010).

In contrast, Redwhan & Ku (2009) investigate whether institutional ownership surplus free cash flow will improve earnings quality by using earnings persistence, earnings predictability, and earnings informativeness of financial and stock price data in Malaysia for the period 2008-2009. Employing regression analysis, Redwhan & Ku find an inverse association as quality of financial reporting impaired institutional ownership as equity ownership increases. Furthermore, work of Betra (2002), Sirger & Utama (2008) and Lin et al. (2009) document similar findings in which they provide no empirical support of the high equity holdings by institutions enhances the reliability of financial information. Agrawal & Knoeber (1996) examine the relationship between institutional ownership on earnings of the firm's based on a list of 383 in US firms and they report insignificant relationship. In the word of Craswell et al. (1997) who ascertain whether there is a significant relationship between institutional ownership and firm performance firm's using 360 firms in Australian for the year 1986 and find no significant correlation between institutional ownership and firm performance. This shows that since institutional share holders performed the work of monitoring firms, their effective monitoring and lack of effective one has a U sharp as to whether the former will improve earnings figure of the companies or otherwise. The work of Fortune (1987) provides additional evidence of negative impact on earnings of the firm's. The study covers 800 two cross-sectional firms in Australian for the period 1986-1989 respectively and they report no significant correlation between institutional ownership and earnings value of the firm's. Similarly in examining a sample of 867 acquisitions of publicly traded firms in the US for the period 1978-1988, Loderer & Martin (1997) also examine whether institutional ownership may have positive impact on earnings of the firm and find no significant relationship. This finding complements that of (Hartzell & Starks 2003, Wang & Shailer, 2008).

Sharon (2008) notes that firm size is view as the natural log of total assets. In addition to institutional ownership variables, control variables was included to control for regulatory environment as regulation constrains management's actions, presumably making it more difficult for manager to pursue opportunistic behaviour and other non value maximizing actions. Warfield & wild (1995) in their study stress the need to mitigate managers' opportunistic behaviour, the incentives or opportunities to manage the firm and expropriates firm resources are reduced. In order to control for regulatory environment, they include a firm size given that large firms are subject to continuous security market monitoring and are subject to greater external scrutiny (Almazan et al. 2003) measure firm size, in terms of natural log of firms, total assets. Coe and Lerner (2007) notes buyout sponsors time and their findings shows that a significant higher percentage of firms that are majorly owned by private equity sponsors are owned by larger sponsors, therefore private equity sponsor size have been identify as a better proxy for private equity sponsors reputation, consistent to the above study was the one conducted by Sulela (2008) who carried out a study on corporate governance, ownership structure and earnings in Malaysia firms, they use firm size in relation to control variables under study, and their findings indicates that firm size is significantly related to institutional ownership.

There are several theories that explain the relationship between institutional ownership and earnings quality of the firm's in the literature of accounting. There are three theories that are related to the study namely stewardship theory, stakeholders theory and agency theory. However for the purpose of this study, agency theory will be preferred. These three theories they can be used to explain the impact of institutional ownership on earnings quality of listed food/beverages and Tobacco firms in Nigeria. The Stewardship theory stressed that, managers should maintain good stewards of the assets entrusted on them by the companies they manage instead of misappropriating in order to keep their fiducially duty to the shareholders of the company Chang (1999). The theory also stressed that, managers are good stewards of their firm's therefore; they should work diligently to attain high corporate profit and increase the return of the shareholders (Donaldson and Davis 1994). They should also work closely with their principles to achieve the goal of the organization (Davis et al 1997). This theory expects the management and directors to be accountable to the owners over their resource that they manage. The Stakeholders theory viewed that, companies have the responsibility of being accountable for their stewardship to the numerous stakeholders which include shareholders, debenture holders, pressure group, regulatory authorities, government agencies, general public among others over the resources entrusted on them. Therefore, the stakeholders' theory is more concerned about resolving problems that may occur between the stakeholders and managers. (Jessen & Meckling, 1976 and Chang, 1999).

The Agency theory view directors as the agent of the shareholders and therefore, there is a need for them to act in the best interest of the shareholders. In this situation, sometimes the agent may not act in the best interest of the shareholders which result in an agency loss situation. The agency theory stress the separation of ownership

(principal) and managers (agent) in an organization, therefore it is believed that managers may sometimes pursue opportunistic behaviour which may conflict with the goal of the owners (principals) and therefore destroy the wealth of the shareholders. Advocates of the agency approach view the manager (directors) as an economic institution that will mitigate the problems and serves as the guardian to shareholders (Hermalin & Weisbach 2000, Fama & Jensen 1988). Tsai and Gu (2007) They suggest that institutions may serve as a good monitoring in mitigating the agency problem between shareholders (principal) and managers (agent). They examine their relationship for the period 1999–2003 using North American casino industry, the relationship between institutional ownership and earnings of the firm reveals that investing institutionally in casino firms may help casino industry investors mitigate the agency problem caused by the separation of management from ownership.

In the Nigerian Food/Beverage and Tobacco sector, the separation of ownership from the management indicates the need for principal-agent relationship, this entails that, employees, cooperate insiders, professional managers, and board of directors are the agents and the equity holders are creditors, clients and regulators are the principal. Sanda, et al, (2005) noted that, when there is a presence of information asymmetry, they may pursue their own interest at the detriment of the principal. The study therefore adopts the agency theory in line with other similar studies, to add and to demonstrate the need and to explain the need for further application of the theory to the Nigerian context.

RESEARCH METHODOLOGY:

The study examines the impact of institutional shareholders on earnings quality of listed Food/Beverages and Tobacco firms in Nigeria over a period of the study (2005-2013). The study makes use of documentary data obtained from annual reports and accounts of the firms as well as the Facts book of Nigerian Stock Exchange (2013). A total of sixteen firms consisting of 7 Up Bottling Co Plc, Beverage West Africa plc, Cadbury Nigeria Plc, Flour Mill of Nigeria Plc, Ferdinand, Foremost Dairies, National Salt Co(Nig) Plc, Nestle Nigeria Plc, Nigeria Bottling Company Plc, P S Mandrides & Co Plc, Union Dicon Salt Plc and UTC Nigeria PLC were studied. Excluding Big Treat plc, Tantalizer, Honeywell, Mul-Trex Integrated Foods plc, which was listed in 2007, 2008, 2009 and 2010 respectively, was excluded from the sample. Multiple regression technique using panel methodology was found to be adequate in regressing the data. The panel data combine the character of time series as well as cross sectional data which justified the reason for been used as panel methodology. The general panel model data can be better presented in the following form Tahir.

$$Y_{it} = \alpha_i + \beta X_{it} + e_{it} \quad \text{eqn1}$$

Where;

Y_{it} it is the value of independent variable for each individual company i at time t .

α_i it is the individual effect to be taken by the constant overtime and to the specific individual cross sectional unit i ; X_{it} it contain the set of explanatory variables for the individual company i at time t in the estimation. e_{it} it is the random error term of the disturbance.

The variables of the study consist of the dependent and independent variables and control variables. Both the dependent and independent variables are define as; INT= percentage of share held by the institutional shareholders to the total number of share. $FMSZ$ = natural log of total assets (will be use as control variable).

In line with these variables, the empirical results are base on this regression model;

$$EQTY = \alpha + \beta_1 INT + \beta_2 FMSZ + \varepsilon_i \quad \text{eqn2}$$

The data collected were analyzed using descriptive statistics to show a means distribution and standard deviation of both the dependent and independent variables. Correlation analysis using Pearson correlation technique was used to establish the relationship between the variables. The regression model was estimated using ordinary least square (OLS). Abor (2005) opines that it provide a consistent estimate of α (intercept) and β (slope). Hall (2005) argued that OLS is bias as it fail to provide endogeneity, therefore regression analysis techniques was employed in estimating the model.

MODEL SPECIFICATION:

The model that was used to test the hypothesis formulated for this study is presented below. The first model is the functional model from which the second model (OLS) was derived that is earning quality model.

$$EQ = f(\beta_1 INSTOWNS, \beta_2 FSIZE)$$

$$EQ = \alpha + \beta_1 INSTOWNS + \beta_2 FSIZE + \varepsilon_i$$

Where:

α = is the intercept

β_1 - β_2 = are the various slope coefficients

EQ =earnings quality

$INSTOWNS$ = proportion of share owned by institutional investors to total number of shares issued (proportion of share owned/total number of share outstanding (Hafiza and Sulela 2008, Nedal 2010 and Ilhan et al 2011).

$FSIZE$ = log of total assets (will be use as control variable Hafiza and Sulela 2008) ε_i = error term.

ACCRAUAL QUALITY VARIABLE:

According to Hafiza & Sulela 2008 in Francis et al (2005) in measuring the earnings quality adopted for this study, this study applies modified Dechow & Dichev (2002) accrual model by Francis et al (2005) which has been considered as the better proxy for earnings quality. This accrual measured is base on the observation that, accrual will map into cash flow realisations irrespective of the managerial intent whether to opportunistically manipulate earning by expropriating shareholders wealth; the accrual quality is affected by the measurement error in accruals. In respect of Dechow & Dichev (2002) approach, they estimated residual from the firm specific regressions of working capital accruals on past, present, and future cash flow from operation capturing total accruals estimation error by management and are viewed as an inverse measure of earnings quality, Francis et al (2005) extended the Dechow & Dichev (2002) original accrual quality model by adding additional variables that is change in revenue, property, plant and equipment (PPE) for more complete characterization of the relation between accruals and cash flow.

EARNINGS QUALITY MODEL:

$$\frac{\Delta TCA_{j,t}}{Assets_{j,t}} = \beta_{0,j} + \beta_{1,j} \frac{CFO_{j,t-1}}{Assets_{j,t}} + \beta_{2,j} \frac{CFO_{j,t}}{Assets_{j,t}} + \beta_{3,j} \frac{CFO_{j,t+1}}{Assets_{j,t}} + \beta_{2,j} \frac{\Delta REV_{j,t}}{Assets_{j,t}} + \beta_{2,j} \frac{PPE_{j,t}}{Assets_{j,t}} + \mu_{j,t}$$

Where:

$\Delta TCA_{j,t}$ = Firm j's total current accruals in year t, = ($\Delta CA_{j,t} - \Delta CL_{j,t} - \Delta Cash_{j,t} + \Delta STDEBT_{j,t}$);

$\Delta CA_{j,t}$ = Firm j's change in current assets between year t-1 and year t;

$\Delta CL_{j,t}$ = Firmj's change in current liabilities between year t-1 and year t;

$\Delta Cash_{j,t}$ = Firmj's change in cash between year t-1 and year t;

$\Delta STDEBT_{j,t}$ = Firmj's change in debt in current liabilities between year t-1 and year t;

$Assets_{j,t}$ = Firmj's average total assets in year t and t-1; and

$CFO_{j,t}$ = Firmj's net cash flow from operation in year t.

$\Delta REV_{j,t}$ = Firmj's change in revenues in year t-1 and t; and

$PPE_{j,t}$ = Firmj's gross value of PPE in year t.

(Francis et al 2005)

DATA PRESENTATION:

The regression results on the impact of institutional ownership and earnings quality of listed food/beverages and tobacco firms in Nigeria are presented. The study uses one explanatory variables and one control variable for the purpose of explaining and predicting the impact of institutional ownership on earnings quality of listed food/beverages and tobacco firms in Nigeria. The apriori expectation is that, no significant relationship exists between institutional ownership and earnings quality. The regression results are presented in the table below.

Table 4.1 Descriptive Statistics Table for the Variables

	N	Minimum	Maximum	Mean	Std. Deviation	Skewness	Kurtosis
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic
EQLTY	96	-4.73	-.21	-1.7943	1.31706	-.277	-1.163
INSTOWN	96	9.58	18.26	15.4813	2.07449	1.235	1.841
FMSIZE	96	12.61	17.38	15.9237	1.37352	-.579	-1.256

Source: Author's computation using SPSS 20.0

From Table 4.1, it is shown that the observed scores (i.e mean value) of the variables earnings quality, institutional ownership and firm size lies within the expected range (minimum and maximum values) of listed food and beverages and tobacco firms in Nigeria. Further, the results of the kurtosis is showing flatness of the curve in relation to normal and higher kurtosis means the data is skewed. A normal distribution should have a zero or near zero skewness (Park, 2008).

The 96 means the number of observation of the twelve firms. A cursory look at the observations in all the variables disclosed data normality distribution. This can be buttressed from both the Skewness and Kurtosis of the level of the descriptive statistics. Although, kurtosis for institutional ownership and firm size are less than 3, which is the value generally considered moderate, it is institutional ownership that is geared around the others. Central limit theorem states that, an observation from 30 to above can be considered as population, and the observation are assumed to be normally distributed.

Table 4.2 Correlation Matrix of dependent and independent variables

Correlations		EQLTY	INSTOWN	FMSIZE
EQLTY	Pearson Correlation	1		
	Sig. (2-tailed)			
INSTOWN	Pearson Correlation	-.611**	1	
	Sig. (2-tailed)	.000		
FMSIZE	Pearson Correlation	.028	-.055	1
	Sig. (2-tailed)	.787	.596	

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

Source: Author's computation using SPSS

The symbol **, represents significant at 1%.

The results from table 4.2, shows the nature and magnitude of correlations between each pair of the variables under study. The t- statistics is for two sided hypothesis, each is divided by two with a view to determine the two tails rejection region.

It reveals a negative correlation for the pair of institutional ownership and earnings quality of listed food/beverages and tobacco firms in Nigeria, and is significant at 1% level. Further, the table indicates positive correlation between the pair of firm size and earnings quality, but is not significant.

This therefore, indicates that an increase in institutional ownership will result in better monitoring of the firms activities which in turn may result to better performance and less expropriation of the shareholders fund. In addition, institutional ownership, the higher the ratio the lower the monitoring and the higher the expropriation of the shareholders fund.

The control variable which is firm size indicated that, the larger the size of the firms the lower the performance of the firms and the reporting earning quality. This can be as a result of large number of the firms they have in the country. They can hire one of the big four auditors to audit their firm to report good earnings quality to the shareholders meanwhile the firms are not performing well. The Institutional ownership has negative correlation with the dependent variable. This therefore means that, a decrease in institutional ownership leads to the decrease in the corporate institutional shareholders monitoring activities of the managers.

Table 4.3 Regression Results of institutional ownership and earnings quality

Variables	Coefficient		T-Statistic	P-Value	Tolerance	VIF	EIG Value	Cond. Index
Constant	4.295		2.800	.006			2.983	1.000
INOWN	-.388		-7.428	.000	.997	1.003	.014	14.657
FMSIZE	-.005		-.067	.946	.997	1.003	.003	31.166
R		.61						
R ²		.373						
Adj R ²		.359						
F stat		27.649						
F-Sig		.000						
DW		.985						

Source: Author Computation Using SPSS 20.0

The estimated equation of the study is presented as follows:

$$EQLTY = 4.295 - 0.388(INSTOWN) - 0.005(FMSIZE)$$

The coefficient of institutional ownership of -0.388 indicates that, on average, a 1 unit change in institutional ownership holding other variables constant, increase earnings quality by -0.3.9%, it is the residual from the regression model that were used to proxy earnings quality, the higher the residuals the lower the earnings quality, and the lower the residuals the higher the earnings quality. The result is showing that, institutional ownership is negatively correlated with the residuals from the regression model. It is also observed that 1 unit change in firm size, holding other variables constant, will on the average lead to decrease in earnings quality by 0.1%

It is also observed, from the table that while both ownership concentration and firm size are significant determinant of earnings quality at 1% level of significance level.

$R=0.62$, $R^2= 0.38$, indicates that the regressors in the model (i.e ownership concentration and firm size) accounted for 38% of the variations in earnings quality in the selected industry. However, the remaining 62% is believed to be accounted for by the random error term.

The F- statistics of 28.96 with a p- value of 0.000 indicates that the regressors are jointly significant in explaining variation in the regressand (i.e earnings quality).

The Durbin Watson of (1.95) is a clear indication that serial correlation will not pose a problem to the validity of statistical inferences to be drawn from the result.

The tolerance value and variance inflation factor (VIF) are advanced measures of assessing multicollinearity between the independent variables of the study. The variance inflation factors were consistently less than (10) indicating absence of multicollinearity as was observed by (Casey,et al 1999). This shows the appropriateness of fitting the model of the study with the independent variables of the study. In addition the tolerance values are consistently smaller than 1.00 thus, further substantiate the fact that, there is absence of harmful multicollinearity among the independent variables, (Tobachmel and Fidel,1996).

FINDINGS AND DISCUSSIONS:

Institutional ownership has a strong positive impact on earnings quality of listed food/beverages and tobacco firms in Nigeria, it revealed the performance of food/beverages and tobacco company is as a result of the shares the institutional shareholders have in the company that, induce them not to misappropriate the fund of the company, therefore a firm with the high institutional shareholders will aid in attracting more shareholders. This is also attributable to institutional shareholders not aligning their interest to that of managements which motivate them in playing their monitoring role and protecting other shareholders in listed food/beverages and tobacco firms in Nigeria. This finding is consistent with that of Boutchcova & Megginson (2000) who determined the association between institutional investors and earnings quality in a newly privatize firm and find a positive significant effect, Daily, Dalton & Cannella (2003) who examine the relationship between majority shareholders and the minority shareholders in UK and document a positive relationship, Baralexis (2004) who examine the impact of institutional shareholders on earnings of the firms and find a strong positive effect on earnings of the firms, Aggarwal, Erel, Ferreira & Matos, (2010) and Ilhan, Ranjan, Frederik. Schlingemann & Venkat (2011) who examine the impact of institutional ownership on firm performance of the firm's and find a positive impact but contradicts the findings of, Agrawal & Knoeber (1996) who examine the relationship between institutional ownership on earnings of the firm's and report insignificant relationship, Loderer & Martin (1997), Craswell et al. (1997), Duggal & Millar (1999), Faccio & Lasfer (2000), Betra (2002) investigates the impact of institutional ownership on earnings quality and find insignificant impact, Sirger & Utama (2008) investigates the relationship between institutional ownership, surplus free cash flow and earnings quality and find negative relationship, Redwhan & Ku (2009) who investigates whether institutional ownership, surplus free cash flow will improve earnings quality and find inverse relationship and Lin et al. (2009).

That size of the firms has not show any positive impact on the earnings quality of listed food/beverages and Tobacco firms in Nigeria this happen as a result of lack of utilizing the advantage which larger firms enjoy in terms of economic scales. The larger the firm the better its financial report since the company would employ competent managers and auditors to audit its accounts. This finding is consistent with that of Sharon (2008) but contradict the findings Warfield and wild (1995), (Almazan et al. 2003), Susela (2008)

CONCLUSIONS:

The following are the conclusions that are drawn from the findings of the study:

- i. The shares institutional investors have in the firm is an important monitoring and control device, which help to prevent abuses and other irregularities by the managers and it has improved the earnings quality of the firms, prevent fraud and maximize shareholders' wealth and enhanced the value of the firms.
- ii. The size of the firms has not shown any positive effects in increasing the quality of earnings of listed food/beverages and tobacco firms in Nigeria this could be proved by the insignificant level and correlation with other independent variable.

RECOMMENDATIONS:

- i. To ensure that institutional ownership continues to impact positively on earnings quality of listed food/beverages and tobacco firms in Nigeria. The SEC should make it mandatory for institutional investors to have stake in most of the food/beverage and Tobacco firms operating in the country in order to reduce the opportunistic behaviour of the firms' managers.
- ii. Regulatory authority such as SEC should monitor the activities of institutional shareholders who are operating in the country.

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