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OWNERSHIP STRUCTURE AND FINANCIAL REPORTING QUALITY OF LISTED OIL COMPANIES IN NIGERIA

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Abstract:
This paper assessed the effect of ownership structure on financial reporting quality of listed oil companies in Nigeria. The ownership structure was proxy by the proportion of the total number of common shares owned by the board of directors to the total number of common share outstanding, while the financial reporting was computed through the 1991 Jones model of financial reporting quality. Data for the study was sourced from the annual reports and accounts of the sampled study oil companies. Time series data from 2006-2019 were used. The hypotheses were tested using regression analysis technique. The result shows that ownership structure has a significant effect on quality of financial reports of listed oil companies in Nigeria. The study among others recommends that shareholders and investors to reconsider in the level of the ownerships in the companies especially the institutions that invest in other companies in other to increase their supervisory role on the management performance when preparing financial statement, it also went further to say that with regard to structure of company's share ownerships that the government and the institution should consider the influence of shareholders control over the quality of the financial reporting.

Keywords: *Ownership Structure, Oil Company, Shareholders, Financial Reporting Quality.*

Introduction

In a world characterized by imperfect information and costly monitoring, a divergence of interests between shareholders and managers can lead to suboptimal management decisions. Such decisions are possible because the actions of managers are largely unobservable and the goals of the managers and their shareholders are not necessarily aligned (Alves, 2012). Financial reporting quality is considered as one of the main indicators of firm reliability and as such, issue of financial reporting quality has already gained the attention of academic researchers, financial markets regulators, operators and investors. Consequently, financial reporting quality can no longer be handled with levity while organizations are confronted with creative accounting practices. Quality financial reports promote transparency and deliver high quality annual report through comprehensive disclosure (Hassan, 2013). Financial information helps investors in all rounds as they influence the behavior with respect to portfolio selection which in turn affects prices. With the issue of global financial crises, corporate failures and scandals around the world, which has raised serious questions about relevance, reliability and effectiveness of reported accounting information. There has been growing interest in the issue of ownership structure and how they influence financial reporting quality, both in the developed and emerging economies (Arezoo, Banafeheh & Mohammed, 2011).The wave of accounting scandals and financial crises brought to the relevance of ownership structure in ensuring ethical practice in financial reporting.

According to Beylclinek, Blanco and Garcialan, (2013) ownership structure has been a necessary condition to assure and maintain the confidence of stakeholders on issues relating to the quality of financial reports. The presence of ownership structure has important implications on financial reporting quality of most corporate organizations; just as Chtourun and Courteau, (2001) as well as Klai and Omiri (2011) affirm that ownership structure affects the quality of financial reports produced by companies. An organization with a presence of large investors tends to increase financial reporting quality due to strict monitoring by supervisory authorities. On the issue of managerial discipline Jensen (1993) suggests that managerial stake holding is one way of helping to link the interest of stakeholders and mangers; for as the proportion of managerial equity ownership increases then so too do firm's financial reporting quality. With concentrated ownership structures around the world structures of such firm are being controlled by single large stakeholders, who more often than not exercise ultimate control despite only possessing cash flow rights. This separation between ultimate ownership and control provides stakeholders with a large controlling interest with the incentive to drive personal benefits at expense of stakeholders. La porta,Lopez and Shleiter (1999)

Oil companies in Nigeria are the biggest employer of labour in Nigerian other parts of the world as they pay good salaries and also the oil sector contributes up to 70% of GDP in Nigeria .With the above information ,the study attempts to ascertain whether a relationship exist between ownership structure and financial reporting quality of oil companies in Nigeria as well as the strength of the relationship where it exists between ownership structure and financial reporting quality of oil companies in Nigeria.No other research work has considered this aspect among oil companies operating in Nigeria, hence the motivation to cover this gap in the current research. Predicated on these, the researchers formulated the hypothesis below in null form to investigate the study:

Ho: Ownership structure has no significant effect on financial reporting quality of oil companies in Nigeria.

Review of Related Literature The issues of Ownership Structure

Ownership structure is an important concept which attracts public interest because of its importance to the financial and economic health of companies and public in general. It is described as the proportion of the total number of common shares owned by the board of directors to the total number of common share outstanding. Hashim (2008) says that ownership structure is the ratio of share owned by the largest corporate investors to the total number of shares issued. Institutional investors take different forms such as fund managers, private equity firms, banks mutual funds and pension funds. Fame and Jensen (1983) are of the opinion that when insiders obtain relatively large ownership, they may posse sufficient power to overcome governance mechanisms which allow insiders to act in their own interest with year of removal or sanction so they will become convinced. Velury, Reisch and O'Reilly D (2003) believe that the presence of institutional ownership would likely influence managements attributes through increases monitoring activities by this class of investors. This constant monitoring tends to forestall indiscipline within management by producing quality financial information to stakeholders.

We have three types of ownership

i. Internal investors: the ownership of managers. ii. Institutional ownership: this is ownership by institutional investors E.g., pensions fund, private equity banks, mutual funds, private firms and managers.

iii. Foreign ownership: this is ownership by foreigners.

Financial Reporting Quality Concept

Financial reporting quality is defined as a true, relevant and timely discourse of the accounting information in order for users of information to solve problem, plan and evaluate the activity of a company. It relates to the accuracy with which reported finances of a firm reflect its operating performance and how useful they are in forecasting futures cash flows (Scoft & Irem, 2008). The value of financial accounting is generally determined by its quality (Pounder, 2013) and reporting quality suggests that accounting information is better and more reliable than other information in relation to its characteristics of communicating what it purports to communicate. Biddle, Hilany and Veidi (2009) define financial reporting quality as the precision with which financial reports convey information about the firms operations, in particular and its cash flows in order to inform the equity investors. Tang, Chen and Zhijun (2008) define financial reporting quality as the extent of true and fair information about the underlying performance and financial position of a firm. Jones and Balanced (2000) define financial reporting quality as full and transparent financial information that is not designed to obfuscate or mislead users.

Empirical Review.

Han (2004) studied the relationship between financial reporting quality and institutional investors of 500 firms in US. They study established a negative relationship between financial reporting quality and institutional ownership.

Teshima and Shut (2008) examined the effect of managerial ownership in earnings management using discretionary accruals. Samples of 18,790 Japanese firms were used in the period 1991 to 2000. The study found that the relationship is significantly positive within intermediate regions of ownership which suggested that entrenchment effect is dominant in these regions.

Dockery, Isegba and Herbart (2012) investigated an empirically question whether ownership structure leads to improvements in firm performance in an emerging market like Nigeria. Date from 73 firms were used, for the period of 2001 to 2007 while ordinary least square regression was used for the test of the hypotheses if shown that strong owner concentration has no influence in firm performance but foreign ownership influences firm performance.

Alves (2012) examined the relationship between corporate structure and earnings management in Portugal. The study made use of 34 non financial listed Portuguese firms from 2002-2007, using discretional accruals as a proxy for earnings management. The study found out that earrings management is negatively related both to managerial ownership and to ownership concentration.

Beuselineu, Blanco and Lara (2013) examined the role foreign stakeholders in disciplining financial reporting from southern European countries. The study established a positive relationship between foreign ownership and quality of financial reporting.

Tsagba, Herbart and Ene (2014) examined corporate ownership, corporate control and corporate performance in sub-saharan Africa: evidence for Nigeria. The study period was from 2002-2007. Data were obtained for annual report and accounts and Nigeria stock exchange daily performance report a total of 70 firms were used, while ordinary least square (OLS) regression analysis were used. The result of the study showed that foreign ownership structure exhibit significant improvement in firm performance while there was no statistically significant relation between concentrated ownership and firm performance.

Yo Han and Timy (2016) investigated the impact of family ownership in firm value and earnings quality: evidence from Korea. The study period is for 2000-2005. Earning ownership was classily into 3 categories family ownership, pure family ownership and ownership – control disparity. The study found out that family ownership and pure family ownership is positively associated with firm value and carvings quality.

Builar, Garba, Mustapha and Karaye (2016) studied the impact of institutional ownership and tobacco firms in Nigeria. The study established a positive relationship between earnings quality and institutional ownership.

Adebiyi and Olowookere (2016) studied ownership structure and quality of financial reporting: evidence from Nigeria deposit money banks. The study period was nine years from 2005 to 2013; ordinary least square regression technique was used. The study result showed that managerial ownership improves the quality of annual earnings by reducing the level of financial reporting manipulation.

Omalichinwa and Mukor (2017) studied ownership structures and earnings management practices of Nigeria companies. The study made use of 137 sampled companies. OLS regression technique was used to measure the research model as well as Pearson moment correlation coefficient. The study showed that ownership structure has a significant relationship with earnings management practice in Nigeria.

Hussein and Nympha (2017) examined the effect of ownership structure upon the audit quality in developing country, case of Bahrain. To achieve this annual report of listed companies in Bahrain Burse for 2015 and unlisted companies registered by central bank of Bahrain as at September, 2016 were used. Logistic regression was used to test the hypotheses. The result shows that institutional ownership and ownership concentration factor have positive relationship but not significant with the audit size.

Alsmady (2018) examined ownership structure and its endogeneity effect on the quality of financial reporting. The study made use of 68 annual reports collected from Judaman companies, for the period of 2005-2015 Hausman tests was used to perform the test. The result showed that ownership concentration variable has no significant effect on OFRs.

Uwuigbe, Erin, Uwuigbe, Igbioba and Jafaru (2019) investigated ownership structure and financial disclosure quality: evidence from listed firms in Nigeria. A total of 75 firms listed on the Nigeria stock exchange, were used and study period was from 2011 to 2015.

The study used foreign ownership, managerial ownership and institutional investors as ownership structure attributes. General least square (GLS) regression method was used to estimate the parameters of the model. The study revealed that there is significant relationship between institutional investors, managerial ownership and quality of financial disclosure.

Theoretical Review Stewardship theory

This theory is in contract with agency theory. Stewardship theorist upholds that directors frequently have interests that are consistent with those of shareholders. According to them there will not be any major agency cost since managers are naturally trustworthy, Donaldson (2003). Stewardship theory postulates that a steward protects and maximizes shareholders wealth through firm performance, because by so doing the steward utility functions are maximized. According to Cullen, Kirwan and Brennan (2006), the stewardship theorist upholds that the attainment of organization success also satisfies the personal need of the steward. The steward derives greater unity from satisfying organizational goals than through self serving behavior. The theory reorganizes the essentials of structures that empower the strewed, offering maximizing action built upon trust. This minimizes the cost of mechanisms aimed at monitoring and controlling behaviors. According to Muth and Donaldson (1998) stewardship theory is an opposite of agency theory which offers opposite of agency theory which offers opposing predictors about structuring o effective board. While most of the governance theories are economic and finance in nature the stewardship theory is sociological and physiological in nature.

Methodology Research Design

The research design adopted in this study is the *ex post facto* research design.

Method of Data collection and Analysis.

Annual time series data was employed ranging from 2006-2019with a sample size of 10 quoted oil companies, and Annual report published by the oil Companies Selected.

In this study Accrual model was used as a proxy for financial reporting quality serves as the dependent variable. Accrual model was developed by Jones 1991 which is $\Delta WC = CFO_{t-1} + CFO_1 + CFO_{t+1} + \Delta Sales + PPE + €$

Where ΔWC= Change in Working Capital in year t, ie ΔAccounts receivables +Δinventory – ΔAccounts Payable – Δtaxes payable + Δother assets (Net).

CFO_{t-1}= Cash flow from operation in year t-1
CFO_1= Cash flow from operation in year t
CFO_{t+1}= Cash flow from operation in year t+1
ΔSales= Sales in Year t less sales from Operation in year t-1 PPEt=
Gross property, plant and equipments in the Year.

The Independent Variable is the ownership structure which is computed as the proportion of the total number of common shares owned by the board of directors to the total number of common share outstanding.,

Proxy for financial reporting quality is the accrual model which is calculated using Jones model.

The study made use of simple linear regression sine the explanatory variable (ownership structure) is one. The method of data analysis is Ordinary Least Square (OLS) technique. The statistical formation of the model is presented as follows: FRQ = f (OWS)

The simple linear relationship is stated thus:

$LOGFRQ=\beta+\beta_1 \text{ LOG OWS} +\mu$

Where:
FRQ- Financial Reporting Quality
OWS- owner ship structure β-
Intercept
β_1- Estimation of Coefficient μ-
Error term

Data Presentation, Analysis and Discussion of Findings

This study employed the panel data based simple regression model to understand the interaction among the variables and estimating the relevant data. Time series data was collected on annual basis on variables captured in the model.

Model Specification

$FRQ_{it} = \beta_0 + \beta_1 OS_{it} + u_{it}$ …………………(i)

Where
FRQ = financial reporting quality (measured using accruals). OS = ownership structure

Data Presentation

The data extracted were estimated based on the panel data regression analysis to determine the effect of the variables. Accrual was used as the proxy for financial reporting quality (dependent variable) while ownership structure was used as the independent variable. The adjusted R square which is the coefficient of determination and the F statistic was used to ascertain the significance of the overall model. Specifically, the probability of the F-statistic test was used to test the hypotheses of the study to determine the relationship between the variables. The data for the various variables are shown in the appendix 1 below.

Data Analysis

Hausman Test

Correlated Random Effects - Hausman Test
Equation: Untitled
Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	2.681607	1	0.0115

Cross-section random effects test comparisons:

Variable	Fixed	Random	Var(Diff.)	Prob.
OWNERSHIP	0.217140	0.157245	0.001338	0.0115

The Hausman test is used to differentiate between fixed effects model and random effects model in panel data. In this case, random effect is preferred under null hypothesis due to higher efficiency, while under the alternative fixed effects is at least as consistent and thus preferred.

In this case, fixed effect panel data is preferable. This is so because the null hypothesis was rejected (p-value of 0.0115 is less than 0.05).

Panel Data Test

Dependent Variable: ACCRUALS
Method: Panel LeastSquares
Date:05/02/20 Time:23:19
Sample: 20062019
Periods included:14
Cross-sectionsincluded:10
Total panel (unbalanced) observations: 118

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	4.949079	0.221018	22.39222	0.0000
OWNERSHIP	0.325535	0.113210	2.875497	0.0050

Effects Specification

Cross-section fixed(dummyvariables)
Period fixed(dummy variables)

R-squared	0.761269	Mean dependent var	5.564297
Adjusted R-squared	0.709047	S.D. dependent var	1.116456
S.E. of regression	0.602217	Akaike info criterion	1.990148
Sum squared resid	34.81589	Schwarz criterion	2.506716
Log likelihood	-95.41872	Hannan-Quinn criter.	2.199890
F-statistic	14.57746	Durbin-Watson stat	1.697656
Prob(F-statistic)	0.000000		

The panel data result showed the effect of ownership structure on financial reporting quality (accruals) of oil companies in Nigeria. The coefficient of determination R-square of 0.761 implied that 76.1% of the sample variation in the dependent variable financial reporting quality (accruals) is explained or caused by the explanatory variables (ownership structure) while 23.9% is unexplained. This remaining 23.9% could be caused by other factors or variables not built into the model. The value of R-square is an indication of positive and strong relationship between the dependent variable (financial reporting quality) and independent variables (ownership structure).Consequently, the value of the adjusted R^2 is 0.709. This shows that the regression line which captures 70.9 per cent of the total variation in financial reporting quality is caused by variation in the explanatory variable specified in the model with 29.1 per cent accounted for the stochastic error term. The F-statistic was also used to test the overall significant of the model. The F-value of 14.58 with p-value of 0.0050 is an indication that the model is not statistically significant at 5 percent level of significant at degree of freedom df1= 1 and df2= 3.Finally, the test of autocorrelation using Durbin-watson shows that the Durbinwatson value of 1.67 falls outside the conclusive region of Durbin-watson partition curve. Hence, we can clearly say that there is no sign of autocorrelation.

Test of Hypothesis

Hypothesis

H_{01}: Ownership structure has no significant effect on financial reporting quality of oil companies in Nigeria.

To test the hypothesis:

The F-statistic with 14.58 has probability of 0.005% level of significance. Since the probability of the F statistics is less than 5% level of significance, we would reject the null hypothesis, H_0 and therefore conclude that ownership structure has a significant effect on financial reporting quality of oil companies in Nigeria.

Discussion of Findings

Result in the hypothesis revealed that ownership structure has a significant effect on financial reporting quality of oil companies in Nigeria. The decision is based on the fact that the P-value is less than 0.05. The findings is consistent to the findings of La Porta, (2015), which revealed that ownership structure affect financial reporting quality of firms in Nigeria. Also, the findings is consistent to the findings of Zhao, (2017), which revealed that ownership significantly affect the financial reporting quality of firms in Nigeria. In contrary, the findings of Thomsen (2018), which revealed a negative relationship between ownership structure and financial reporting quality.

Summary of Findings, Conclusion and Recommendations Summary of Findings

Based on the data collected and analysis of data the result was summarized thus:

(i) Ownership structure has a significant effect on financial reporting quality of oil companies in Nigeria.

Conclusion

This study focused on ownership structure and financial reporting quality of oil and gas firms in Nigeria. Financial reporting quality (FRQ) in its essence is a description of all financial and accounting activities of a company that can be used as a reference by external and internal parties to make final decisions. The use of financial reporting will be more pronounced if it meets the qualitative characteristics of reliable, understandable, relevant and comparable. The financial crisis and its relation with the lack of accountability of directors for allowing their companies to take excessive risks raise a big and world-wide debate on the directors' obligations and its enforceability.

Given that investors need to real and unbiased earnings information to know and estimate cash flows, the scandals have made corporate governance and governance structures reforms more essential and highlighted the crucial need for firms to enhance the quality of reported earnings. The study was carried out using ten (10) selected oil and gas firms in Nigeria for the period of 14 years ranging from 2006 to 2019. The data collected were analyzed using panel data based simple regression analysis and the findings revealed that Ownership structure has a significant effect on financial reporting quality of oil companies in Nigeria.

Recommendations

Based on the summary of findings and conclusion of the study, the following recommendations were made.

(i) With regard to the structure of company's share ownership, the government and the institution should consider the influence of shareholder's control over the quality of the financial reporting, which may affect the company's sustainability and, globally, affect the economy. The considerations made by the government and institutions can be rules or limitation regarding the ownership structure of companies objected to create a balance between interests of shareholders and the interests of management and to improve the level of transparency and the extent of disclosure.

(ii) Furthermore, this study recommends of the shareholders and investors to reconsider in the levels of the ownerships in the companies, especial the institutions that invest in other companies in order to increase their supervisory role on the management performance when preparing financial statements.

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