**Ownership Structure and Financial Reporting Quality of Listed Consumers Goods Companies in Nigeria**

***ABSTRACT***

*This study examines the impact of ownership structure on financial reporting quality in Nigeria’s listed consumer goods companies. It focuses on managerial ownership, institutional ownership, and ownership concentration. Using an ex-post facto and correlational design, the study analyses secondary data sourced from annual reports of 15 out of 20 consumer goods companies in Nigeria, selected based on availability of data age of listing, over a ten-year period (2012-2021). The Modified Jones model is applied to assess financial reporting quality through discretionary accruals. Data was analysed using panel regression. The results show that managerial and institutional ownership have negative but non-significant effects on reporting quality, while ownership concentration has a positive, though also non-significant, effect. The study concludes that while managerial and institutional ownership do not significantly affect reporting quality, ownership concentration shows a potential positive influence. It recommends optimising managerial ownership, leveraging institutional investors' monitoring role, and strengthening governance for firms with high ownership concentration to improve financial reporting quality.*

***Key words:***ownership structure, managerial ownership,institutional ownership,ownership concentration, financial reporting quality

**INTRODUCTION**

Financial reporting is vital for corporate governance, providing stakeholders with insights into a company's financial health and supporting informed decision-making (Ezelibe, Nwosu, & Orazulike, 2017). However, corporate scandals, such as those involving Cadbury Nigeria Plc. (2006), Afribank Nigeria Plc. (2009), and Intercontinental Bank Plc. (2009), have raised concerns about financial report reliability, driving research into factors influencing financial reporting quality (FRQ), including ownership structure, accounting standards, and disclosure practices. The demand for reliable financial reporting is global, as it influences investment decisions and market efficiency. Investors and other stakeholders rely on financial information to evaluate performance, make decisions, and ensure stability. Ownership structure, a key component of corporate governance, significantly impacts FRQ (Han 2004). This includes managerial, institutional, and concentrated ownership, each affecting financial reporting differently. Managerial ownership aligns management with shareholders, shaping risk-taking and performance (Fama & Jensen, 1983). Institutional ownership, such as holdings by mutual funds, enhances governance practices (Grier & Zychowicz, 1994). Similarly, ownership concentration influences voting power distribution, governance, and disclosures (Sahut & Gharbi, 2010).

Financial scandals, such as those of WorldCom and Enron, have eroded confidence in financial reporting (Agrawal & Chadha, 2005), emphasising the need for robust governance and reporting integrity (Al-Dhamari & Ku Ismail, 2013). While strategies like governance reforms and improved audit quality have been proposed (Hamza, Zainal, & Wan, 2019), gaps remain in understanding the influence of ownership structure on FRQ, particularly in Nigeria's listed consumer goods firms. Existing studies primarily focus on other sectors, such as banking and chemicals (Farouk & Shehu, 2013; Shehu & Jibril, 2012; Adebiyi & Olowookere, 2016). Limited attention has been given to consumer goods companies, despite their economic significance and unique ownership structures, which include managerial control, institutional investments, and concentrated ownership. This study aims to fill this gap by exploring how these ownership dynamics affect FRQ in the sector.

This paper seeks to evaluate the impact of ownership structure on FRQ in listed consumer goods companies in Nigeria, with specific objectives to: i. Examine the influence of managerial ownership on FRQ. ii. Analyse the effect of institutional ownership on FRQ. iii. Assess the impact of ownership concentration on FRQ.

The study tests the following null hypotheses: H01: Managerial ownership does not significantly affect FRQ in listed consumer goods companies in Nigeria. H02: Institutional ownership does not significantly affect FRQ in listed consumer goods companies in Nigeria. H03: Ownership concentration does not significantly affect FRQ in listed consumer goods companies in Nigeria.

The rest of this paper is organised as follows: Section 2 provides a thorough examination of relevant literature, focusing on the ideas of Managerial Ownership, Institutional Ownership, Ownership Concentration and financial reporting quality. Section 3 describes the research methodology, including data collecting and analysis procedures. Section 4 describes the findings, analysis, and examines the consequences of these findings. Finally, Section 5 concludes the study by presenting a summary of the key findings, discussing the limitations of the research, drawing conclusions, and offering recommendations for future studies.

**2. LITERATURE REVIEW**

**2:1 Ownership Structure**:

Ownership structure encompasses the shareholding of key stakeholders, including institutional, managerial, and concentrated ownership (López-Iturriag & Rodríguez-Sanz, 2012; Anwar, 2019). It reflects equity distribution, linking voting power and capital investment, and shapes corporate decisions and performance (Jensen & Meckling, 1976). Diverse ownership patterns may create conflicts of interest, requiring a deeper understanding of their implications (Hui & Khine, 2016).

In essence, ownership structure influences corporate governance, managerial alignment, and efficiency. This study focuses on managerial, institutional, and concentrated ownership as key drivers of financial reporting quality in listed companies.

**2.1.1 Managerial Ownership**

Managerial ownership aligns managers' interests with shareholders, promoting value-maximizing decisions and improved performance (Jensen & Meckling, 1976; Fama & Jensen, 1983). However, excessive ownership may lead to entrenchment, with managers prioritizing personal interests over shareholder value, as seen in empire building and risk aversion (Berle & Means, 1932). The optimal level of managerial ownership varies by industry, with high ownership benefiting some sectors but potentially hindering innovation and adaptability in dynamic industries like technology (Morck & Steier, 2005). Its effectiveness also depends on complementary governance mechanisms, such as board independence and transparency (Jaggi, 2009). External factors, including economic conditions, can influence its impact. During downturns, high managerial ownership may amplify risk aversion, limiting long-term value creation (Hermalin & Weisbach, 1991). While managerial ownership can enhance governance, its effectiveness relies on context and robust governance frameworks to balance risks and benefits.

**2.1.2 Institutional Ownership**

Institutional ownership plays a key role in firm value, governance, and financial reporting quality. Scholars like Sahut and Gharbi (2010) and Oyedokun et al. (2020) highlight its positive effects, particularly in Nigeria's consumer goods sector. Institutional investors, driven by fiduciary responsibilities, engage with firms to ensure accurate valuation and risk assessment, promoting transparency and accountability (Shah et al., 2011).

However, the effectiveness of institutional ownership varies by industry, governance frameworks, and factors such as board composition and regulatory environments. While it enhances financial reporting by aligning management actions with shareholder interests, its impact depends on investment strategies and engagement levels.

Despite complexities, institutional ownership remains vital in improving financial transparency and governance. Continued research is essential to understand its nuanced effects on corporate performance and reporting practices.

**2.1.3 Ownership Concentration**

Ownership concentration significantly influences corporate behavior, governance, and financial reporting quality. Sahut and Gharbi (2010) emphasize its role in shaping strategies and disclosures, while López-Iturriag and Rodríguez-Sanz (2012) highlight its multifaceted and context-dependent nature. High ownership concentration enhances monitoring and aligns managerial actions with shareholder interests, promoting transparency and better reporting practices (Elyasiani et al 2010). However, excessive concentration can lead to entrenchment and undue influence by dominant shareholders, resulting in agency conflicts and suboptimal outcomes. The impact of ownership concentration varies by industry and governance context, requiring a balance between its monitoring benefits and potential challenges (López-Iturriag & Rodríguez-Sanz, 2012). Understanding these dynamics is crucial for evaluating its effects on financial reporting quality and corporate performance.

**2.2 Financial reporting Quality**

Financial reporting quality is vital to corporate governance, emphasizing precision, transparency, and relevance of information (Naser, 1993). It shapes stakeholders' decisions, builds investor confidence, and signals a firm’s commitment to ethical standards, enhancing trust and reputation (Alipour & Amjadi, 2011).

Discretionary accruals, reflecting managerial judgment in accounting adjustments, are key to evaluating financial reporting quality (Dechow et al., 1995). They reveal managerial influence on reported performance and potential earnings management. Measuring discretionary accruals offers insights into the nature and extent of such influence.

High discretionary accruals may indicate aggressive earnings management, while lower levels suggest a conservative approach. This highlights the interplay between ownership structure and financial reporting quality, emphasising the need to analyse ownership patterns as drivers of transparency and trust.

**2.3 Theoretical Framework**

A robust theoretical foundation is essential for understanding the relationship between ownership structure and financial reporting quality (FRQ). This study draws on three key theoretical perspectives - Agency Theory, Alignment Effect Theory, and Entrenchment Effect Theory - to explain how different ownership structures influence FRQ.

**Agency Theory**

Agency theory, introduced by Jensen and Meckling (1976), explores the conflicts of interest that arise in the principal-agent relationship between shareholders and managers. The theory posits that managers, as agents, may act in their own interests rather than in the best interests of shareholders (principals), leading to agency costs and potential misreporting of financial information (Jensen & Meckling, 1976). Effective corporate governance mechanisms, including ownership structure, can mitigate these conflicts by aligning managerial incentives with shareholder interests. In the context of this study, managerial ownership plays a dual role. On one hand, as managerial ownership increases, managers have a greater financial stake in the firm, reducing agency conflicts and enhancing FRQ through reduced earnings manipulation and improved transparency (Fama & Jensen, 1983). On the other hand, excessive managerial ownership may lead to entrenchment, where managers prioritise personal control over shareholder value, potentially compromising FRQ (Morck et al., 1988). Thus, based on agency theory, the study hypothesizes in the null form that “*Managerial ownership has no significant effect on the financial reporting quality of listed consumer goods companies in Nigeria (H01).*

**Alignment Effect Theory**

The alignment effect theory (Bebchuk, 1999) builds upon agency theory by emphasizing the positive role of ownership concentration in aligning managerial and shareholder interests. The theory suggests that institutional ownership, as a form of concentrated ownership, enhances monitoring mechanisms and reduces information asymmetry, thereby improving FRQ (Wang & Shailer, 2015). Institutional investors often demand higher transparency and accountability, leading to better financial reporting practices (Shleifer & Vishny, 1997). However, the effectiveness of institutional ownership in enhancing FRQ depends on the nature of institutional investors - whether they are active monitors or passive investors (Bushee, 1998). While active institutional investors promote stronger governance and higher FRQ, passive institutions may lack the incentive to enforce stricter financial reporting standards. Therefore, this study hypothesizes that “*institutional ownership has no significant positive effect on financial reporting quality’ (H02).*

**Entrenchment Effect Theory**

The entrenchment effect theory, articulated by Morck et al. (1988), challenges the assumption that ownership concentration always leads to better governance. It suggests that excessive ownership concentration may empower controlling shareholders or entrenched managers to act in ways that are detrimental to minority shareholders, including earnings management and financial misreporting. Ownership concentration, when excessively high, allows dominant shareholders to extract private benefits at the expense of other investors, thereby reducing FRQ (Claessens et al., 2002). This phenomenon, known as the expropriation effect, is particularly relevant in environments with weak legal protections for minority shareholders, such as Nigeria’s consumer goods sector (La Porta et al., 1999). Accordingly, this study hypothesizes that *“Ownership concentration has no significant negative impact on financial reporting quality” (H03).*

In conclusion, the study is underpinned by the integration of these three theoretical perspectives as they together provide a comprehensive framework for examining the relationship between ownership structure and FRQ. While agency theory underscores the importance of managerial incentives, the alignment effect theory highlights the role of institutional monitoring, and the entrenchment effect theory cautions against excessive ownership concentration.

**2.4 Empirical Review**

Several studies have explored the relationship between ownership structure and financial reporting quality, shedding light on the influence of different types of ownership and corporate governance mechanisms across various countries.

Chau and Gray (2002) examined the impact of managerial ownership on financial reporting quality in Australian firms, finding a positive relationship between higher managerial ownership and greater transparency, indicating more accurate and informative financial reporting. Similarly, Hamza et al. (2019) conducted a study in Jordanian firms, which found that managerial ownership significantly improved financial reporting quality by reducing earnings management practices. Yang et al. (2008) find that moderate executive ownership reduces earnings management, while director and blockholder ownership increase it, raising concerns for financial reporting quality.

In contrast, Jaggi and Leung (2007) explored the effectiveness of audit committees in controlling earnings management in Hong Kong firms, noting that their effectiveness diminished in firms with family-dominated boards. Liu and Lu (2007) further explored this theme in China, showing that stronger corporate governance resulted in lower earnings management, especially when there were agency conflicts between controlling and minority shareholders.

The relationship between institutional ownership and financial reporting quality has also been widely studied, particularly in emerging economies. Ahmed & Samir & Abdelmoneim. (2021) examined the influence of institutional ownership on the value relevance of Accounting Information (AI) in Egyptian non-financial firms, result shows that Accounting information reported by these companies is value-relevant, and institutional ownership significantly influences its value relevant.

 Chen et al. (2011) reached similar conclusions in China, emphasizing that institutional ownership led to lower earnings management and enhanced transparency, but with variations based on the level of institutional investor activism.

Chan et al. (2014) and Park and Shin (2018) focused on the role of institutional investors in enhancing financial reporting quality, with both studies revealing that institutional ownership, particularly mutual funds in China and Korea, was associated with improved transparency and reduced earnings management. Similarly, Huang et al. (2017) and Gopikumar et al. (2022) found that institutional ownership was positively correlated with earnings quality, although the level of concentration varied the relationship.

Ownership concentration has also been linked to financial reporting quality. Aharony et al. (2010) and Chen et al. (2014) found that concentrated ownership, particularly with controlling shareholders, improved transparency and earnings quality. However, they noted potential risks of managerial entrenchment and reduced external monitoring. Tessema et al. (2018) also found that higher ownership concentration in Korean firms improved transparency but could lead to conflicts of interest.

Rafique et al. (2015) highlighted the complexity of ownership structure and financial reporting quality in multiple countries, noting that while higher ownership concentration often correlates with lower financial reporting quality, individual and group ownership structures can also influence earnings management practices. This complexity was further demonstrated by Arthur et al. (2019), who uncovered a non-linear relationship between national financial reporting quality and ownership structure across different countries, suggesting that ownership concentration can either improve or hinder financial reporting quality depending on the context.

In China, the impact of ownership concentration was studied by Ahmed and Ahmed (2022), who found a positive association with firm performance, particularly after the stock split reform. However, state ownership was found to have a negative impact on financial performance. Pandey and Sahu (2022) also explored the effects of ownership concentration in India, revealing that while it worsened horizontal agency problems, it did not necessarily enhance financial performance, advocating for stricter external regulations to protect minority shareholders.

Huang and Xue (2016) focused on share pledges in China, revealing that concentrated ownership could lead to earnings manipulation, especially when major shareholders had vested interests, underscoring the importance of understanding regulatory changes in shaping financial reporting practices.

These studies collectively highlight the dynamic interplay between ownership structure, governance mechanisms, and financial reporting quality, showing that the effects of ownership concentration, managerial ownership, and institutional investors vary across different regulatory environments and corporate settings.

**3.0 METHODOLOGY**

**3.1 Research Design**

The study adopts an ex-post facto research design, utilizing pre-collected quantitative secondary data, which allows for analysing the impact of ownership structure on financial reporting quality without direct manipulation. A correlational design is used to explore relationships between variables, without implying causation, enhancing our understanding of ownership's influence on financial reporting.

The population includes 20 consumer goods companies listed on the Nigerian Exchange Group (NGX) as of December 31, 2021. A purposive sample of 15 companies (75% of the sector) is selected based on factors such as listing age (starting from the older firms, dating back to 1960) and data availability, covering 2012-2021, with 150 firm-year observations. Secondary data from annual reports are used, extracting ownership data from the Directors' report and financial reporting quality variables from the statements of comprehensive income, financial position, and notes to the accounts.

**3.2 Model Specification**

The econometric model adopted in this study is stated below:

DACCRit = β0 +β1MGROSit+β2INSTit+ β3OWNCONSit + β5SIZEit + β6LEVit + εit

where:

DACCRit = discretionary accruals (i.e Financial Reporting Quality)

MGROSit = managerial ownership,

INSTit = institutional ownership

OWNCONSit = Ownership concentration,

SIZEit = Firms Size,

LEVit = Firms Financial Leverage,

βo = Intercept,

β1- β6 = Coefficient and

εit = Error term.

**3.3 Control variables**

Two control variables are used in this study. They are firm size and financial leverage. Their measurements are also presented in Table 1

**Table 1: Variable Definition and Measurement**

|  |  |  |
| --- | --- | --- |
| Variable | Type of Variable | Measurement |
| Financial Reporting Quality | Independent  | The degree to which financial statements reflect the firm’s true financial position without earnings management, measured using Discretionary Accruals (DA) from the Modified Jones Model.(Dechow et al.,1995) |
| Managerial Ownership | Independent | % of Total Shares held by Directors (Karathanssis & Drakos, 2004) |
| Institutional Ownership | Independent | % of Total Shares held by Institutions (Koh, 2007) |
| Ownership concentration | Independent | % of those that have up to 5% or more in the total shares in issue (SEC, 2011) |
| Firms size | Control | Natural logarithm of total assets (Roodposhti & Chashmis,2011) |
| Firms financial leverage | Control | Ratio of total liabilities to total assets (Kamran & Attaullah, 2014) |

 **Source: Author’s Compilation (2023).**

**3.3 Method of data analysis**

Panel regression analysis is employed to examine ownership structure's effect on financial reporting quality. This method is chosen for its ability to handle time and cross-sectional data, providing more robust results by reducing the degree of freedom problem and multicollinearity, while capturing firm-specific effects. The Hausman specification test determines whether fixed or random effects are appropriate. The T-test and F-test assess individual and overall statistical significance, and the goodness of fit is evaluated using the coefficient of determination (R²). Preliminary tests, including descriptive statistics, normality, correlation analysis, variance inflation, and heteroscedasticity tests, are conducted. All analyses are performed at a 5% significance level using STATA 13 software.

**Result and Discussion:**

**Data Analysis**

**4.1 Descriptive Statistics**

Descriptive statistics provide key features of the data such as minimum and maximum values, mean, median, standard deviation, skewness, kurtosis, and Jacque-Bera statistics with associated probabilities. These statistics offer insights into the distribution and characteristics of the variables used in the analysis.

**Table 2: Descriptive Statistics Result**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Measure | DACCR | MGROS | INST | OWNCONS | FSZ | LEV |
|  Mean |  0.7695 |  0.0754 |  0.3456 |  0.5171 | 166,028,577 |  0.5482 |
|  Median |  0.7490 |  0.0554 |  0.4949 |  0.6412 |  106,366,698 |  0.5576 |
|  Minimum |  0.6778 |  0.0003 |  0.0294 |  0.0010 |  1,794,749 |  0.0569 |
|  Maximum |  3.1920 |  0.2628 |  0.7497 |  0.9893 |  825,689,552 |  0.9796 |
|  Std. Dev. |  0.7269 |  0.0721 |  0.2739 |  0.3142 |  181,236,704 |  0.1603 |

Source: Computer Output (Stata 13.0)

It is observed from Table 2 financial reporting quality (DACCR) has a mean value of 0.7695 while it has minimum and maximum values of 0.6778 and 3.1920 respectively. The standard deviation has a value of 0.7269 indicating that DACCR is clustered around the mean. Since the mean (0.7695) is relatively greater than the median (0.7490), DACCR is slightly skewed to the right.

The result further revealed managerial ownership (MGROS) has a mean value of 0.0754, while it has minimum and maximum values of 0.0003 and 0.2628 respectively. The standard deviation has a value of 0.0721, which implies that it is clustered around the mean. Since the mean (0.0721) is greater than the median (0.0554, it indicates that MGROS is skewed to the right.

Institutional ownership (INST) has a mean value of 0.3456 while it has minimum and maximum values of 0.0294 and 0.7497 respectively. It implies that at average firms under review have a maximum of 74.97% ownership. The standard deviation reported relatively small value of 0.2739 shows that INST is slightly dispersed away from the mean. Since the mean is less r than the median (0.4949, it indicates that INST is slightly skewed to the left.

Ownership concentration (OWNCONS) has a mean value of 0.5171 while it has minimum and maximum values of 0.00100 and 0.9893 respectively. The standard deviation reported a value of 0.3142 meaning that OWNCONS is not clustered around the mean. Since the mean (0.5171) is relatively lesser than the median (0.6413), it implies that the variable is slightly skewed to the left.

Firm size (FSZ) has a mean value of N166,028,576, while it has minimum and maximum values of 1,794,749 and 825,689,552 respectively. The standard deviation reported relatively small values N181,236,704 shows that FSZ is not clustered around the mean. The mean of N166,028,576 is greater than the median value of N106,366,698. This implies that FSZ is slightly skewed to the right.

Leverage (LEV) has a mean value of 0.5482, while it has minimum and maximum values of 0.0569 and 0.9796 respectively. The standard deviation reported relatively small values 0.1603 shows that LEV is not clustered around the mean. The mean value of 0.5482, relatively less than the median, 0.5576 which indicates that data are slightly skewed to the left.

**4.2 Diagnostic Tests**

Prior to execution of regression analysis, it is of paramount importance to check whether the regression assumptions are fulfilled. The basic diagnostic tests required in running a regression analysis include normality, multicollinearity and heteroskedasticity test. These tests re carried out in the following subsections.

**4.2.1 Normality Test**

Two tests are conducted to confirm data normality, namely Skewness and Kurtosis tests. Appendix I pressures the detail of the results which are extracted and presented in Table 3 below.

As can be observed from the result in Table 3 the Skewness for MGROS and FSZ, and all the Kurtosis values fall outside the threshold of between -1 and +1, indicating that not all the study variables are normally distributed. Log transformation has been undertaken to normalize the variables that are not normally distributed.

**Table 3: Skewness and Kurtosis Results**

|  |  |  |  |
| --- | --- | --- | --- |
| **Variables** | **Obs** | **Skewness** | **Kurtosis** |
| DACCR | 150 | 0.8660 | 1.9390 |
| MGROS | 150 | 1.4220 | 1.5437 |
| INST | 150 | 0.0522 | -1.7917 |
| OWNCONS | 150 | -0.2461 | -1.4625 |
| FSZ | 150 | 1.56 | 2.26 |
| LEV | 150 | -0.1926 | 0.6304 |

**Source:** Computer Output (Stata 13.0)

**4.2.2 Multicollinearity Test**

Two tests are conducted to establish the presence or absence of multicollinearity among the independent variables. These include the correlation matrix and variance inflation factor and tolerance levels.

**a) Correlation matrix**

In examining the level of association or correlation between the independent variables of the study, the Pearson correlations matrix is adopted as presented in Table 4. The result of the Pearson correlation analysis indicates that the highest correlation coefficient between the independent variables is -0.3889 for MGROS and OWNCONS. Judging from the result of the correlation matrix, there is no indication of multicollinearity between the independent variables of the study as the highest correlation coefficient between the variables is below the threshold of 0.7 as suggested by Pallant (2005).

**Table 4: Results of Pearson Correlation (N=150)**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Variable** | **MGROS** | **INST** | **OWNCONS** | **FSZ** |
| MGROS | 1.0000 |  |  |  |
| INST | 0.2291 | 1.0000 |  |  |
| OWNCONS | -0.3889 | -0.0122 | 1.0000 |  |
| FSZ | 0.0274 | 0.3798 | -0.1411 | 1.0000 |
| LEV | 0.0040 | 0.2520 | 0.2143 | 0.0940 |

**Source:** Computer Output (Stata 13.0)

**b) Variance Inflation Factor (VIF) and Tolerance Level**

Table 5 presents the result of multicollinearity test based on VIF and Tolerance level performed on the variables of the study.

**Table 5: Results of Variance Inflation Factor and Tolerance**

|  |  |  |
| --- | --- | --- |
| **Variable** | **VIF** | **1/VIF** |
| MGROS | 1.33 | 0.7820 |
| INST | 1.30 | 0.7534 |
| OWNCONS | 1.28 | 0.7717 |
| FSZ | 1.22 | 0.8202 |
| LEV | 1.13 | 0.8868 |
| Mean VIF | 1.25 |  |

As can be observed from Table 5, the VIF ranges between 1.13 to 1.33 with a mean of 1.25 which is below the threshold of 10, indicating the absence of multicollinearity among the variables of the study.

On the other hand, the tolerance level(I/VIF) ranges from values of 0.7717 to 0.8868 which is above the threshold of 0.1 also indicating the absence of multicollinearity among the variables of the study. It can thus be concluded from the above that, there is no multicollinearity among the variables of this study.

**4.2.3 Heteroskedasticity Test**

The result obtained from the heteroskedasticity test presented in Table 6 show a p-value of 0.0269 which is less than the critical value of 0.05, implying the presence of heteroskedasticity and unequal variance. As a result of the presence of heteroskedasticity in the study model, the robust regression test was further performed to correct the heteroskedasticity presence.

**Table 6: Heteroskedasticity Test Result**

|  |
| --- |
| **Variable Chi-Sq. Value Probability Value**  |
|  |
| Model  | 4.90 | 0.0269 |  |

|  |
| --- |
| **Note:** Ho (null): Homoskedastic |

**Source:** Computer Output (Stata 13.0)

**4.2.4 Hausman Specification /Breusch and Pagan Lagrangian**

The Hausman Specification test result presented in Table 7 has a p-value of 0.8258 which is greater than the significance level of 0.05, implying that the null hypothesis be accepted at 5% level of significance. This implies that the random effect model is preferable to the fixed effect model.

**Table 7: Result of Hausman Specification Test**

|  |  |
| --- | --- |
| **Test Summary Chi-Sq. Value Probability Value**  |  |
| Cross-section random |  0.90 |  0.8258 |  |
| **Note:** Ho: Random effect model is preferable to fixed effect model |

 **Source:** Computer Output (Stata 13.0)

The choice of the random effect model by the Hausman Specification test further necessitates the Breusch and Pagan Lagrangian multiplier test for random effects to be conducted in order to choose between the result of the pooled OLS and the random effect model. The result of the Breusch-Pagan LM test presented in Table 8, has the F-statistic p-values is 0.2236, which is statistically not significant at 5% level. This implies that the Pooled OLS model is more preferable to the Random Effect Model.

 **Table 8: Result of Breusch and Pagan Lagrangian multiplier test for random effect for Financial Sector**

|  |
| --- |
| **Test Statistic F-statistic Value Probability Value**  |
|  |
| LM test |  0.58 |  0.2236 |  |
| **Note:** Ho: Random Effect Model is preferred to Pooled OLS regression Model  |  |

 **Source:** Computer Output (Stata 13.0).

**4.3 Results of Regression Analysis**.

The Pooled OLS results are presented in Table 9

**Table 9: Summary of Pooled OLS Regression Results**

|  |  |
| --- | --- |
|  **DACCR** |  **Coefficient t statistics Probability**  |
| MGROS | -1.5196 | -1.72 |  0.088 |
|  INST |  -0.3387 |  -1.42 |  0.157 |
| OWNCONS | 0.2519 | 1.23 |  0.221 |
| FSZ | 0.2729 | 3.00 |  0.003 |
| LEV | 0.6256 | 1.67 |  0.097 |
| C | -1.6181 | -2.19 |  0.030 |
|  |  |  |  |
| R-squared | 0.1276 |  |  |
| F-statistic |  4.21 |  |  |
| Prob(F-statistic) | 0.0013 |  |  |

 Observations 150

**Source:** Computer Output (Stata 13.0)

**4.4 Summary of Findings**

**Managerial Ownership**: The results obtained from data analysis suggest that managerial ownership has a negative and non-significant effect on the financial reporting quality of listed consumer goods companies in Nigeria. The null hypothesis which states that managerial ownership has no significant effect on the financial reporting quality of listed consumer goods companies in Nigeria is, therefore, accepted.

**Institutional Ownership**: The results obtained from data analysis suggest that institutional ownership has a negative and non-significant effect on the financial reporting quality of listed consumer goods companies in Nigeria. The null hypothesis which states that institutional ownership has no significant effect on the financial reporting quality of listed consumer goods companies in Nigeria is, therefore, accepted.

**Ownership concentration**: The results obtained from data analysis suggest that ownership concentration has a positive but non-significant effect on the financial reporting quality of listed consumer goods companies in Nigeria. The null hypothesis which states that ownership concentration has no significant effect on the financial reporting quality of listed consumer goods companies in Nigeria is, therefore, accepted.

**4.5 Discussion of Findings**

The primary objective of the study was to explore the influence of ownership structure on the financial reporting quality of consumer goods firms in Nigeria. The study focused on managerial ownership, institutional ownership, and ownership concentration as potential determinants of financial reporting quality. The main findings of this investigation, as discussed below, according to the study objective.

**Objective one: Examine the effect of managerial ownership on financial reporting quality of listed consumer goods companies in Nigeria.**

The study has evidenced a negative and non-significant effect of managerial ownership on the financial reporting quality of listed consumer goods companies in Nigeria. This evidence is not supported by the results of prior studies such as Chau and Gray (2002), Yang et al. (2008), Liu and Lu (2012), Hamza, Zainal and Wan (2019) who found a positive and significant relationship between managerial ownership and financial reporting quality proxied by discretionary accruals. The differences in those results and this study can be attributed to their settings. The evidence is, however supported by the entrenchment effect theory which states that the level of managerial ownership can lead to the likelihood of self-serving behaviours and decision-making that may not necessarily align with the broader strategic objectives of the company. As managers amass a substantial ownership stake, they can wield considerable influence over critical corporate decisions, potentially leading to actions that enhance their own position but may not be optimal for shareholder value maximization.

The evidence in this study does not support the alignment effect theory which postulates that when managers possess ownership stakes in the company, their financial fortunes become intricately linked with the firm's performance. Accordingly, managers are more inclined to make decisions that are in alignment with the broader interests of shareholders, as their personal wealth is directly affected by the company's success. A positive and significant relationship is therefore expected between managerial ownership and financial reporting quality.

**Objective two: Ascertain the effect of institutional ownership on financial reporting quality of listed consumer goods companies in Nigeria.**

The results of this study suggest that institutional ownership has a negative and non-significant effect on financial reporting quality. The study results are not supported by prior studies such as Ahmed et al, Chen et al. (2014), Chan et al. (2014), Huang et al. (2017), Gopikumar et al. (2022), and Park and Shin (2018) who found positive and significant effect of institutional ownership and financial reporting quality. The non-supporting evidence could also be attributed to the settings of the research.

The evidence is not supported by the agency theory which holds that institutional investors, possessing substantial ownership stakes, hold the potential to monitor and discipline managerial behaviour, thereby mitigating agency conflicts (Bebchuk & Cohen, 2005). Their active participation in corporate governance mechanisms, such as voting on crucial matters and engaging in dialogue with management, can function as a safeguard against value-detracting managerial actions, and enhance promoting firm performance.

**Objective three: Determine the effect of ownership concentration on financial reporting quality of listed consumer goods companies in Nigeria.**

The results of this study evidence a positive but non-significant effect of ownership concentration on financial reporting quality of listed consumer goods companies in Nigeria. This result is supported by a number of studies that have found a positive effect of ownership concentration on financial reporting quality such as Tessema et al 2018, Aharony (2010), Rafique et al. (2015), Chen et al. (2014), Arthur et al. (2019), Shehu and Jibrin (2012), and Pandey and Sahu 2022

The results of this study are supported by the agency theory which has stressed the need to closely monitor entrench management that has the potential to expropriate firm resources. Concentrated ownership helps to achieve this objective.

**5.0 CONCLUSION AND RECOMMENDATIONS**

**Conclusion:**

This study examined the relationship between ownership structure and financial reporting quality (FRQ) in listed consumer goods firms in Nigeria. The findings indicate that managerial ownership had a negative but statistically insignificant effect on FRQ, suggesting that increased managerial stakes may not necessarily improve financial reporting transparency. Similarly, institutional ownership also exhibited a negative, though insignificant, impact on FRQ, implying that institutional investors may not exert sufficient influence on financial reporting practices in this sector. In contrast, ownership concentration showed a positive association with FRQ, yet this relationship was not statistically significant, indicating that concentrated ownership does not strongly determine reporting quality in this context.

These results suggest that while ownership structure plays a role in financial reporting practices, its effects may be contingent on other governance mechanisms, regulatory frameworks, and firm-specific factors. The study highlights the need for stronger corporate governance policies to enhance FRQ, particularly by ensuring that managerial and institutional ownership structures foster transparency rather than opportunistic behaviour. Future research could explore these relationships in different industries and incorporate moderating variables such as board independence and regulatory enforcement to provide deeper insights

**Recommendations**

Based on the key findings, the following recommendations are tailored to maximize the positive impact of ownership structure on financial reporting quality:

i. **Optimizing Managerial Ownership Levels**: Considering the negative effect of managerial ownership on financial reporting quality, organizations should not rely only on managerial ownership to address agency concerns. Companies should establish ownership thresholds that encourage commitment to transparent reporting while minimizing potential conflicts of interest.

ii. **Leveraging Institutional Investors' Monitoring Role**: Acknowledging the role of institutional ownership in promoting transparency, companies should actively engage with institutional investors. Establishing regular channels of communication to discuss financial reporting practices and governance mechanisms can enhance institutional monitoring and its influence on reporting quality.

iii. **Governance Mechanisms for Concentrated Ownership**: Given the positive effect of ownership concentration on financial reporting quality, firms with substantial ownership concentration should prioritize robust governance mechanisms. Independent board oversight, external audits, and transparent reporting practices can mitigate potential agency conflicts and ensure that financial reporting quality is not compromised.

**Disclaimer (Artificial intelligence)**

Option 1:

Author(s) hereby declare that NO generative AI technologies such as Large Language Models (ChatGPT, COPILOT, etc.) and text-to-image generators have been used during the writing or editing of this manuscript.

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Details of the AI usage are given below:

1.

2.

3.

**Reference**

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