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Original Article

Ownership Structure and Earnings Management of Listed Healthcare Companies in Nigeria

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Abstract: *Corporate management does participate in practices like earnings management that harm investors' interests given the recent rise in economic difficulties around the world. As a result, this study looked at how ownership structure affected how listed healthcare companies in Nigeria managed their earnings. Ex-post facto research was used in this study, which had specified healthcare companies in Nigeria as of December 31, 2021 as its target audience. Based on their thorough annual reports, seven (7) of the ten (10) stated companies were particularly selected for the study (2012–2021). The collected data were examined using multiple regression analysis. The results of the analysis demonstrate that institutional ownership has a major negative impact on the methods used by the listed Nigerian healthcare companies under study to manage their earnings, whereas block-holder ownership and foreign ownership have favourable and significant impacts. This implies that businesses with institutional ownership did not employ earnings management to the same extent as Nigerian healthcare companies listed on the stock exchange with the highest proportion of block-holding and foreign ownership. Because block-holding investments and foreign investment were found to tend to encourage earnings management practices, the study advised listed healthcare businesses in Nigeria to reject them. Institutional investors should be supported, though, as it has been discovered that they have a negative impact on how corporations manage their earnings. This would aid in lowering the practice of earnings management in Nigerian healthcare organizations.*

Keywords: *Earnings Management, Healthcare Companies, Nigeria, Ownership Structure.*
JEL Code: *G3, G30, G32*

I. INTRODUCTION

A financial report's primary goal is to give investors accurate and fair business financial information so they may make better financial decisions. This financial information should be faithfully represented, hence being relevant. However, as a result of several accounting techniques, such as creative accounting, smoothing income, earnings management, and earning engineering, these attributes have recently lost their worth in the eyes of investors. These accounting methods assist management in presenting financial reports that may not necessarily reflect the organization's economic foundation, which has an impact on investors' financial choices.

By utilizing the already-existing standards, Naser (1993) defined Earnings Management (EM) as the process of changing accounting data from what they are to what the preparers want. Using accounting techniques like accrual accounting or actual earnings management, management manipulates reported earnings in this case. Even if it is generally believed that the practice is legal, earnings management practices can nonetheless be unlawful if they do not follow generally accepted accounting principles (GAAP) (Aygun et al., 2014; Wati & Gultom, 2022).

Large Nigerian corporations including Oceanic Bank, Afribank, and Cadbury Plc have engaged in a number of questionable earnings management techniques. This was confirmed by several studies such as Saidu et al. (2017) which reported that in 2013, the House of Representatives Committee on Finance confirmed sharp practices by Nigerian companies including discrepancies in the data submitted and manipulation of financial information. In particular for businesses listed on the stock market, strict scrutiny of an organization's profit management practices is necessary due to the market value of publicly traded enterprises being essential to investors' economic decision-making. (Reyna, 2018).

According to earlier research, the ownership structure may have a big impact on how earnings are managed. Alzoubi (2016), who examined Jordanian businesses, made the following hypothesis: Because ownership structure may limit earnings management, it may significantly affect the standard of financial reporting. This was supported by a study conducted in Mexico in 2018 by Reyna, who came to the conclusion that the right combination of ownership structure could limit the use of earnings management practices. Apart from their focus on financial institutions, the majority of studies on earnings management were carried out in developed nations like the UK, the USA, and China. The differences in earnings management practices between countries with highly distinct company ownership structures, national institutional settings like Nigeria, and industries, however, have received little study (Bao & Lewellyn, 2017; Wati & Gultom, 2022). According to Wati and Gultom (2022), accrual-based earnings management is more aggressive than actual earnings management in Asian countries, which is proof for their argument. In order to better understand how ownership structure influences how listed healthcare companies in Nigeria manage their earnings, this study will use an experimental design. To accomplish this, the project seeks to address the following research questions:

i. How does block-holder ownership affect the way listed healthcare companies in Nigeria handle their earnings?
ii. How much does institutional ownership influence how listed healthcare companies in Nigeria manage their earnings?
iii. How does foreign ownership affect the way listed healthcare companies in Nigeria handle their earnings?

Because it advances our knowledge of ownership structure and profit management techniques, particularly in the healthcare sector, this study is innovative. Policymakers, particularly those at the Nigerian Accounting Standard Board, the Nigerian Stock Exchange, and the Securities and Exchange Commission, are the study's intended audience, and they will benefit from learning more about how ownership structure and profit management of listed companies in Nigeria are impacted. It would further educate healthcare company management on how ownership structure affects earnings management strategy.

The final part of this study is composed of four components. The pertinent literature was reviewed in Section 2, and the study's methodology was described in Section 3. Section 4 summarizes the results of the empirical study, whereas Section 5 offers the conclusion.

II. LITERATURE REVIEW

A) Conceptual Review

a. Earnings management

The term "earnings management" (EM) has been defined differently by different authors. Schipper (1989), for example, described "earnings management" as the deliberate management intervention in the financial reporting process with the aim of reaching the target level of earnings. According to Klein (2002), earnings management is the practice of choosing accounting standards or practises that differ from the company's real financial performance. This implies that earnings management is achieved through exploiting accounting rules, principles, and concepts that may result in to increase or decrease or smoothened earnings. It is made possible through the use of techniques such as accrual management and real earning management (Umoren et al., 2018; Utami et al., 2020).

In the context of the accruals accounting system, an entity's normal business operations may result in non-discretionary (normal) accruals, which are those that are recognized within the appropriate period but are not paid or received. According to Nwaobia et al. (2019), these are not subject to earnings management. However, according to Omar et al. (2014), the abnormal or discretionary share of accruals is the accrual that is subject to earnings management. It happens as a result of management's involvement in the financial reporting process through operational decisions, such as delaying the payment of research and development, maintenance, and other costs, or changing the depreciation methods or the basis for their estimation in order to improve the numbers that are reported (Dechow & Skinner, 2000).

Real Earnings Management (REM), on the other hand, happens when management actions veer from standard business procedures with the primary goal of reaching target profit (Ningsih, 2017). Therefore, there are three ways to accomplish this: by manipulation of cash flow operations, a reduction in operating costs, or through irregular production costs (Nwaobia et al., 2019). Because real earnings management operations are hard to discern from the best business decisions and are hard to detect, managers prefer real earnings management over accrual earnings management (Nhadab & Al-own, 2017).

b. Ownership structure

Both financial experts and regulatory organizations have recently become interested in the role that business ownership plays in the sustainability of corporate entities. It has a major impact on how an entity is managed. Wati and Gultom (2022) defined corporate ownership structure as a component of internal control that affects how representative rights reallocate firm capital to one or more individuals or legal entities. Capital, voting rights, and the identities of the equity owners were all determined in relation to the distribution of equity shares. The most well-known forms of corporate ownership, according to Wati and Gultom (2022), include family ownership, institutional ownership, block-holder ownership, foreign ownership, management ownership, individual ownership, and government ownership. These structures play a crucial role in corporate governance because they influence managers' incentives and, in turn, the profitability of the businesses they run. Block-holding ownership, institutional ownership, and foreign ownership are the most significant ownership structures that positively and significantly affect company management, according to Kroszner and Sheehan (2015). Based on how much they have an impact on management, these are regarded as important. They were chosen as the ownership structure for this investigation as a result.

Block-holding ownership is described by Nguyen et al. (2020) as the total number of equity shares held by non-family members. Because their shares equaled 5% or more of the company's equity share capital, Wati and Gultom (2022) classified block-holders as equity investors. According to Schulze et al. (2001), block-holder ownership in this situation reduces external governance and exacerbates the problems with self-control that arise when a firm is led by a strong owner, making agency problems more difficult to solve despite having a strong ability to monitor management decisions.

According to Paramitha and Firnanti (2018), institutional ownership refers to the holding of equity shares in a corporation by organizations like corporations and financial organizations. Agency theory states that institutional ownership-based monitoring can be a key governance tool. Smaller, more passive, or less knowledgeable investors find it challenging to supervise management; institutional investors, however, have the opportunity, means, and capacity to do so (Almazan et al., 2005). Therefore, institutional ownership is linked to stronger management activity monitoring, which lowers managers' ability to opportunistically manipulate results. According to Claessens and Fan (2002), institutional investors are passive investors who are more likely to sell their holdings in underperforming companies than to put money into monitoring and improving those companies' performance. As a result, they do not actively monitor management activities.

Foreign ownership was described as the possession of corporate equity shares by foreign individuals, foreign legal entities, and foreign governments by Meilita and Rokhmawati (2017) and Kablan (2020). This made quite evident the differences between institutional ownership and foreign ownership. Grinblatt and Keloharju (2000) contend that because international investors have better access to talent and experience than domestic investors, they should have greater monitoring power. However, Dvorak (2005) proposed that foreign investors' trading performance is poorer than that of domestic investors due of their knowledge disadvantage.

B) Empirical Review

Due to the interest that ownership structure and earnings management have garnered from both regulatory organizations and financial experts, there are many opinions on how ownership structure influences earnings management. As a result, the empirical investigations listed below were carried out by various academics in several nations utilizing various industries and methodology.

Al-Fayoumi et al. (2010) did a study on the ownership structure and earnings management of 39 Jordanian-listed industrial firms over the course of five (5) years (2001-2005). Secondary data from the annual reports and accounts of the sampled enterprises were analyzed using the generalized method of moment estimator. The results of the analysis showed that institutional ownership, block-holding ownership, and earnings management of the enterprises over the duration of the study did not significantly correlate.

However, Parven et al. (2016) looked at the effect of ownership structure on earnings management of twenty (20) Pakistani banks during a twelve-year period, from 2000 to 2012. The findings of the study, which used secondary data extracted from the annual reports and accounts of the banks and analysed using regression analysis, revealed a negative relationship between institutional ownership and earnings management of the banks, whereas foreign ownership was found to have a positive and significant impact on earning management practise of the banks. This finding was supported by Reyna's (2018) study on the impact of 67 listed non-profit Mexican companies' ownership mix on earnings management during a ten-year period (2005–2015). Using the generalised method of moments to examine the data acquired, the study found a negative correlation between institutional ownership and earnings management of the firms.

Moslemany and Nathan (2019) examined the effect of ownership structure on the management of earnings of fifty (50) listed Egyptian companies over a twelve-year period (2004–2015). According to the analysis of the data from the financial reports of the companies using regression analysis, block-holder ownership and the scope of earning management practises of the companies were found to be positively and significantly connected throughout the study. This conclusion was reinforced by the findings of Nguyen's (2020) study on the ownership structure and earnings management of 36 publicly traded real estate enterprises in Vietnam over a five-year period (2014–2018). After utilising OLS to examine the data gathered, the study's findings indicated a positive and significant relationship between ownership structures and the rate of earnings management of the real estate firms included in the study.

Additionally, over a five-year period (2014-2018), Hossain (2020) researched the ownership structure and earnings management of 29 publicly traded chemical and pharmaceutical companies in Bangladesh. Ordinary least squares (OLS) analysis of the data revealed a positive but insignificant association between foreign ownership and earnings management, while the study discovered a negligible inverse relationship between institutional ownership and the companies' earnings management. Similar to this, Kablan (2020) investigated, between 2010 and 2014, the effects of ownership structure on the profit management methods of ten (10) Libyan listed companies. Through the use of multiple regression analysis to assess the data acquired, the study discovered a positive and significant relationship between institutional ownership and foreign ownership on the management of the companies' earnings.

Tran et al. (2020) examined the relationship between ownership structure and earnings management of thirty (30) Vietnamese commercial banks over a period of fifteen (15) years (2005-2019). The study found a positive and substantial link between block-holding ownership and earnings management, but a negative relationship between foreign ownership and the banks' earnings management practises. Regression analysis was employed to analyse the data. Furthermore, the study's results show no causal link between institutional ownership of listed banks and earnings management. Watin and Gultom (2022) studied the impact of ownership structure on earning management of 391 listed non-financial institutions in Indonesia for four (4) years, from 2016 to 2019. Using a comparative causal research technique and multiple correlation analysis, the study found no statistically significant effects of institutional ownership, block-holder ownership, or foreign ownership on earnings management among the analysed listed businesses.

With the exception of a handful, the majority of recent empirical research on the connection between ownership structure and earnings management were carried out in developed nations, hence it is important to corroborate or challenge the results using data from emerging nations like Nigeria. Furthermore, the findings were contradictory, hence inconclusive, while most of the studies were conducted using a financial institution that has a different governance structure compared to other industries. This study's goal is to investigate how ownership structure affects earnings management using publicly traded healthcare organizations in Nigeria.

C) Theoretical Review

The concept of corporate ownership and earnings management has been discussed by previous researchers in a number of different ways. The study is based on agency theory, one of the positive accounting theories, to explain the concepts of this study.

One subfield of academic accounting theory is positive accounting theory (PAT), whose research paradigm employs the empirical approach to understand and forecast real accounting practices. PAT was invented by Watts and Zimmerman in 1986, and they are largely regarded as the theory's founders. This approach places a strong emphasis on the managers' opportunistic viewpoint in opposition to the interests of the investors. According to Healy and Whalen (1999), PAT provides a strong foundation for describing earnings management (EM) behaviors. Beginning in the 1960s, EM research swiftly took off in the 1970s and 1980s, and almost all of them used discretionary accruals to simulate EM detection (Healy, 1985).

The agency theory (Jensen & Meckling, 1976) is a popular economics theory that is commonly used in empirical accounting research (Jones, 1991). Businesses are not managed by investors; rather, shareholders authorise management to use their funds for operating expenses. According to Fathi (2013), managers frequently operate in ways that are counterproductive to investors' interests and interfere with information disclosure and profit calculation for their personal gain. This behaviour is often explained by agency theory. Asymmetric information between shareholders and company managers, which increases information risk, is also explained by agency theory (Fathi, 2013; Yousef, 2019).

III. METHODOLOGY

This study used an ex-post facto research design to outline its framework and methodology. The target market included all ten (10) of Nigeria's publicly traded healthcare companies as of December 31, 2021. Seven (7) of the ten (10), based on the comprehensive and readily available requisite financial reports of the companies for the study, were chosen. Both descriptive and inferential statistics were used to analyze the ten (10) year span of data (2012-2021).

The following is a model that was created to test the study's hypotheses:

$$\mathrm{TDA}_{it} = \beta_o + \beta_1 BHO_{it} + \; + \beta_2 FOO_{it} + \beta_3 ISO_{it} + \varepsilon_{it}$$

This model was created to examine the impact of institutional ownership (ISO), foreign ownership (FOO), and block-holder ownership (BHO) on total discretionary accruals (TDA), the measure of earnings management for listed healthcare companies in Nigeria.

Table 1 lists and displays the variables used in the investigation. This provides details about the measurement that was employed in earlier studies.

Table 1: Variables Identification and Measurement

SN	Label	Variable	Description	Expected outcome
1	TDA	Earnings management	Total discretionary accrual	
2	BHO	Block-holder ownership	The proportion of equity shares owned by block-holders to the total equity share of the company	+
3	FOO	Foreign ownership	The proportion of equity shares owned foreign investors to total equity share of the company	+
4	ISO	Institutional ownership	The proportion of equity shares owned by institutions to a total equity share of the company	+

Source: *Authors' Compilation (2022) from various literature sources*

IV. RESULTS AND DISCUSSIONS

This part analyses the data obtained from the financial records of the sampled companies for the study. Following the diagnostic test, descriptive and inferential statistical tools were applied, and the outcomes are shown in the following manner.

Table 2: Descriptive Statistics

Variables	Mean	Std. Dev.	Min.	Max.
TDA	0.0567	0.1995	-0.3000	0.4785
BHO	0.0341	0.0506	0.0000	0.1961
ISO	0.6242	0.1106	0.3500	0.8182
FOO	0.0671	0.1540	0.0000	0.5551

Source: *Authors' Analysis (2022), using STATA* $_{14}$

The result in Table 2 shows that total discretionary accruals (TDA) have a mean value of 0.0567 (5.67%), a range of -0.3000 (-30%) to 0.4785 (47.85%), and a standard deviation that is larger than the mean value (0.0567) of 0.1995. This showed that the companies' overall accruals varied widely. Additionally, the outcome in TABLE II displays a mean block-holder ownership (BHO) value of 0.0341 (3.41%), a minimum value of 0.000 (0%), a maximum value of 0.1961 (19.61%), and a standard deviation of 0.0506.

The descriptive statistics for institutional ownership (ISO) reveal a mean value of 0.6243 (62.43%), a minimum value of 0.35 (35%), a maximum value of 0.8182 (81.82%), and a standard deviation of 0.1106, showing a small range of institutional ownership between the firms. Additionally, the sampled enterprises' foreign ownership varies widely, with the mean value of foreign ownership (FOO) being 0.0671 (6.71%), the minimum value being 0.000 (0%), the greatest value being 0.5551 (55.51%), and the standard deviation being 0.1540. Given the findings of the descriptive statistics, which examined the characteristics and distribution of the data gathered, a correlation analysis was also conducted using Pearson moment correlation statistics to ascertain the direction and strength of the correlation between the study's variables. The outcome is shown in Table 3.

Table 3: Correlation Matrix

Variables	TA	BHO	ISO	FOO
TDA	1.000			
BHO	0.0758	1.000		
ISO	0.2997	-0.0667	1.000	
FOO	0.4092	-0.0981	0.3836	1.000

Source: *Authors' Analysis (2022), using STATA* $_{14}$

Table 3 presents the result of correlation statistics using Pearson moment correlation. The result shows that block-holder ownership (BHO) has a very low positive correlation with total discretionary accruals (TDA), institutional ownership (ISO) has a positive but low correlation (r=0.2297) with total accruals (TA), while foreign ownership (FOO) was found to have a moderate positive correlation (r=0.4092) with total discretionary accruals (TDA). Furthermore, the correlation result in TABLE III shows no problem of multicollinearity among the explanatory variables since all the coefficients of the correlation are below 70% (Pallant, 2005).

In order to prepare for regression analysis, a diagnostic test was carried out using the variance inflation factor, standard skewness, and standard kurtosis test statistics. Table 4 displays the results.

Table 4: Result Of VIF, Standard Skewness, Standard Kurtoses

Variables	VIF	1/VIF	Std. Skewness	Std. Kurtosis
BHO	1.010	0.989	1.4184	3.9266
ISO	1.170	0.852	-0.0680	2.2542
FOO	1.180	0.847	1.4657	6.6854

Source: *Authors' Analysis (2022), using STATA* $_{14}$

The diagnostic result in Table 4 shows that the data collected were normally distributed because all absolute values of standard Skewness are less than two (2) and all standard Kurtoses of the explanatory variables are fewer than seven (West et al., 1995). Additionally, the results of VIF and tolerance coefficient show that there was no unacceptable level of multicollinearity among the research variables because all VIF values are less than 10 and all tolerance coefficient values are less than 1 (Hair et al., 2014). Because the data were regularly distributed and multicollinearity among the explanatory factors was not a problem, regression analysis was performed. Table 5 displays the final results.

Table 5: Regression Results

Variables	Coef.	T	p>t
Constant	0.0128	0.09	0.930
BHO	0.8236	1.97	0.049**
ISO	-0.0281	-0.13	0.897
FOO	0.4977	3.66	0.000***
Observations No. of groups R^2 Wald chi2 (3)		70 7 0.6652 15.25***	

Source: *Authors' Analysis (2022), using STATA* $_{14}$

Note: *** & ** = significant at 1% and 5% statistical levels.

The regression result in Table 5 shows an R^2 value of 0.6652. This implies that the independent variables included in this model accounted for 66.52% of the variation in the dependent variable (TDA). Additionally, the model's overall significance and goodness of fit and validity are indicated by the Wald chi2 (3) of 15.25 and $p < 0.01$.

The regression result in Table 5 further shows that block-holder ownership (BHO) has a positive and significant ($r=0.8236$; $p<0.05$) effect on total discretionary accruals (TA) at 0.05 significance level. This implies that an increase in block-holder ownership by 1 (100%) would result in a significant positive increase in total discretionary accruals (TDA) by 0.8236 (82.36%). This result validated previous studies by Moslemany and Nathan (2019), Nguyen (2020), and Tran et al. (2020), which also discovered a significant and favourable correlation between block-holder ownership and earnings management. However, it runs counter to the findings of research like Watin and Gultom's (2022) and Al-Fayoumi et al.'s (2010), which revealed that block-holder ownership and profits management had negative and insignificant relationships, respectively.

For institutional ownership (ISO), the result of the regression analysis presented in Table 5 shows a negative, but insignificant ($\beta=-0.0281$; $p>0.10$) effect on total accruals at a 10% level of significance. This can be explained as an increase in institutional ownership would result in an insignificant negative effect on total discretionary accruals (TDA). Even though the analysis's findings were unexpected for this study, they are consistent with those of earlier studies that also found a negative relationship between institutional ownership and earnings management, including Parven et al. (2016), Reyna (2018), and Hossain (2020). The findings of research like Kablan (2020) are in contrast to those of Tran et al. (2020) and Watin and Gultom (2022) findings, which found no significant association between institutional ownership and earnings management.

However, in regards to foreign ownership, the regression result in Table 5 revealed a positive and significant ($\beta=0.4977$; $p<0.01$) effect of foreign ownership on total discretional accruals (TDA) at a 1% (0.01) statistical significance level. This indicates that an increase in foreign ownership by 1 (100%) would result in a significant positive increase in total discretionary accruals (TDA) by 0.4977 (49.77%). This result supported the anticipated result of the investigation and so supported the findings of earlier studies like Parven et al. (2016), Hossain (2020), and Kablan (2020). Contrary to the findings of research like Tran et al. (2020), which revealed a negative relationship between foreign ownership and earnings management, Wati and Gultom (2022) showed no significant association between foreign ownership and earnings management.

V. CONCLUSION

This study looked at how ownership structure affected how listed healthcare companies in Nigeria managed their earnings. Throughout the course of the study, it was discovered that block-holder ownership and foreign ownership had a favourable and considerable impact on the earnings management practises of Nigerian listed healthcare companies, whilst institutional ownership had a negligibly negative impact. This suggests that, in comparison to companies with more block-holder investors and overseas investors, Nigerian listed healthcare companies with a higher number of institutional investors practice less earning management. The ownership structure of Nigerian listed healthcare organisations considerably and favourably effects their rate of earnings management practises, according to the study's findings.

Given the results of this study, the researcher recommended that block-holding investment and foreign investment should be discouraged among the listed healthcare companies in Nigeria since it was found to tend to increase the practices of earnings management, while institutional investors should be encouraged since it can minimize earnings management practices among the listed Nigerian healthcare companies.

Interest Conflicts

The authors affirm that the publication of this paper does not involve any conflicts of interest.

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