



INSTITUTIONAL INVESTORS AND DISCRETIONARY ACCRUALS: THE CASE OF LISTED MANUFACTURING FIRMS IN NIGERIA

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Abstract: *Institutional Investors has been identified as an important corporate governance mechanism that can discipline and influence managers to act in the overall interest of the firm. The relevance of this mechanism in constraining managerial opportunistic tendencies has been explored in the context of developed countries, neglecting the developing economies which have peculiar corporate governance structures and regulatory frameworks. This paper examines the impact of institutional investors on discretionary accruals in the Nigerian manufacturing companies. Secondary data were extracted from the annual reports of 20 most active quoted firms on the Nigerian Stock Exchange for the period between 2008 to 2010 and OLS multiple regression is used for analysis. The study documents that institutional investors has a strong and positive impact on earnings management in the Nigerian manufacturing firms. Specifically, we find that institutional ownership of total equity shares of the sample firms and institutional presence on the board of directors are inversely related with opportunistic accounting.*

Keywords: *institutional investors, discretionary accruals, opportunistic accounting, earnings management, Nigeria.*

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1. INTRODUCTION

The global corporate scandals that plagued once prestigious companies posed serious questions about the reliability of financial statements relating to their ability to reflect the true economic situation of firms. One of the reasons put forward for these scandals is that there was an inherent weakness in governance mechanisms that have either not been identified or that have been overlooked by both regulators and practitioners. It became quite conspicuous that managers are more interested in the realization of self-enhancing objectives than the shareholders' wealth maximization objective. Thus, in a bid to correct these unprecedented corporate failures, the Sarbanes-Oxley Act was introduced in the U.S. in 2002 and many other nations followed suit. The new code of best governance practices was introduced in Nigeria in 2003 with the aim of protecting shareholders' wealth and restoring investors confidence in the quality financial statements. But, in spite of the introduction of new code of best governance practices and its continuous modifications, there are fresh cases of governance malpractices that raise legitimate concerns on the effectiveness of these governance mechanism in aligning the interest of the managers with that of the shareholders.

The need for a good corporate governance structure arose because of the separation of ownership between a firm and its owners, which turns the firm into a nexus of relationship among managers, employees, shareholders, creditors, government and all its stakeholders. The separation of ownership and control by the sophistication of the modern day business redefines the relationship that exists between the owners and the managers to that of an agent and a principal. Being the agent, the manager is expected not pursue goals that are geared towards the achievement of his own interest at the expense of shareholders' wealth maximization. The existence of conflict of interest between managers and owners naturally compromises the value of the firm.

Financial statements play an important role in assessing managers performance by the board of directors, outside investors and external regulators. It is therefore, not unlikely that managers will manipulate financial reports in order to produce a good image of themselves and that of the firms that they manage. Earnings management simply refers to the manipulation of earnings by companies using financial statement elements that are largely at the discretion of the managers to achieve divergent personal goals. These elements are



peculiar to industries depending on their nature of operation and their external regulatory framework. The use of discretion by firm managers to influence reported earnings has long been recognized by accountants and financial economists (Beatty, Ke and Petroni 2002: Cornett, Markus & Tehranian 2007). Such opportunistic tendencies are made possible by the existence of accounting choices and methods. One of such accounting choices is the accrual-based accounting. Although, it is argued to provide the most relevant measure of economic performance and firm financial standing, You, Tsai and Lin (2003) observe that the judgement and discretion involved in this method offers managers variety of choices to manipulate earnings.

Institutional investors is an endogenous governance variable that has been central in corporate governance discussions. The argument to categorize it as an endogenous mechanism is supported by the fact that corporate disclosure, together with firm characteristics such as size, financial performance, and risk may affect institutional ownership and accruals quality simultaneously (Liu and Peng, 2008). Prior literature have acknowledged that institutional presence can serve as an effective monitoring mechanism in the firm (e.g. Bowen, Rajgopal and Vankatachalam, 2003: Hassan, 2011). Institutions are particularly important in corporate governance discussions because, in a lot of cases, they hold a substantial proportion of total equity shares of a good number of firms and are thus relevant to policy makers. It is therefore, quite possible that these institutions have an effect on firm performance as well as the discretionary behaviour of managers. Perhaps, the predominant view is that because institutions have the required resources and financial expertise to monitor and discipline managers and thereby reducing agency problems (Schleifer and Vishney, 1997: Roodposhti and Chashmi, 2011). However, it can be argued that if institutions hold a large amount of equity shares of company, that in itself may exert an enormous pressure on the part of managers to manipulate earnings in order to please these institutions.

Recent literature document that institutional investors have different incentives to monitor managers depending on the investment scope. According to Liu and Peng (2008), Chen et al. (2008) observe that independent long term investors with substantial ownership effectively monitor merger and acquisition decisions, while short-term investors give managers the latitude to achieve value-decreasing mergers and acquisitions. In this regard Liu and Peng



(2008) note that dedicated institutions who are more interested in long term returns have stronger incentives to monitor managers than their transient counterpart.

The interaction between corporate governance and financial reporting has also been empirically explored to a considerable extent especially in the developed countries. In this light, Beasley (1996) observe that as institutional investment increases, financial fraud decreases in U.S. firms. This finding is extended by Schleifer and Vishney (1997) who conclude that institutional investors in the U.S. effectively resolves agency problems and pressure managers to improve performance in their cross-country study of the phenomenon. On the other hand, both Dabo and Adeyemi (2009) and Alfayoumi Abuzayed and Alexander (2010) fail to find a robust relationship between institutional shareholding and manipulative accounting in their Nigerian and Jordanian samples respectively. From another point of view Cornett et al. 2008 find the both institutional shareholding and institutional representation on the board of directors improve firm performance. They perceive that such relationship is still robust even when firm performance is stripped from the discretionary component of accruals. If a negative association emerges between corporate governance and earnings management variables, it will imply that managers act in such a manner that reflects the shareholders' wealth maximization objective of their firms. If such is the case, it can also be deduced that a positive relationship will emerge between such managers and firm performance.

In Nigeria, institutions hold a substantial amount of equity shares of quite a number of firms. The implication of this is not known with certainty, because the previous studies that examined the impact of institutional ownership and earnings management have produced inconsistent results. Moreover, the attention on the developing countries whose economies are rapidly growing and have peculiar corporate control features, capital allocation and regulations have only recently gathered momentum (Bradbury, Mark and Tan, 2006; Firth, Fung and Rui, 2007). The differences in economies and level of sophistication of corporate governance mechanisms across the globe call for such investigations in the Nigerian context. Further, most of the empirical studies of the effect of institutional investors on either corporate performance or opportunistic accounting have considered only one aspect of institutional presence in the firms within the study samples. Such approach can be deemed to be myopic as it may neglect an aspect of institutional



involvement that can raise legitimate questions on the validity of the study results. In order to establish a relationship among variables, and to document reliable policy implication, requires an examination of different aspects of the research phenomena. Hence, the choice to consider four variables to capture the effect of institutional investors in the sample firms on the opportunistic tendencies of managers.

The objective of this work, therefore, is to investigate the impact of institutional investors on discretionary accruals in Nigerian manufacturing firms. To achieve this aim, it is therefore hypothesized that institutional investors do not have a significant impact on discretionary accruals in the Nigerian manufacturing firms. The choice of manufacturing firms is informed by the role that industrial firms play in the development of the Nigerian economy. The contribution of this work is in two ways. Firstly, it adds to the extant literature that examined the interaction between institutional ownership and earnings management. Secondly, looking at institutional impact from different angles, this work extends the studies of similar nature conducted elsewhere to the developing nations like Nigeria.

The remaining of this paper is organized as follows. Section two reviews empirical works that are related to this study and presents the theoretical framework. Methodological issues are raised and discussed in section three and the model is specified. In section four results are presented and major findings are discussed together with their policy implications. Finally, in section five the work is concluded and recommendations are offered in the light of major findings.

2. LITERATURE REVIEW AND THEORETICAL FRAMEWORK

In this section, related literature on institutional ownership and earnings management are reviewed and the theoretical framework for the study is presented.

Healy and Wahlen (1999) define earnings management as the altering of financial statements through the use of judgement in structuring transactions to either mislead the firm's stakeholders about the true economic picture of the firm or to achieve some contractual benefit that is based on accounting numbers. In the words of Schipper (1989), earnings management is the deliberate intervention in financial reporting process to achieve personal goals. This means that earnings management is the manipulation of financial statement by managers, using accounting choices, estimates and methods, to achieve some objectives that are largely in conflict with the underlying economic status of the firm.



Various methods for the detection of earnings management have been documented. “Empirical studies have found managers engage in earnings management through changing accounting choice, real transactions, total accruals/discretionary accruals, specific accruals, earnings distributions approach and income smoothing” (Sun and Rath, 2010, p122). Of all these methods, the total accruals approach seems to be the one that has caught the attention of researchers the most. This is because, Al-Fayoumi et al (2010) note that it is the most damaging to the usefulness of accounting information because investors are wary of such accruals. Total accruals, which is the difference between net income and cash flow from operating activities, is further divided into two; non-discretionary and discretionary accruals. Non-discretionary accruals are those adjustments to the firm’s cash flows that reflect the underlying economic conditions of the firm and is required by the accounting standard-setting bodies. While discretionary accruals are those adjustment to the cash flow that largely depend on managers’ judgement of future uncertain events.

Chang et al. (2008) note three incentives to manage earnings. Firstly, because of capital market motivation, which includes initial public offerings, seasoned equity offerings, management buyout plans and plans for mergers to meet earnings forecast, to smooth earnings, etc. Secondly, contracts motivation such as management compensation, debt agreement or job security also constitute the incentive for earnings management. Thirdly, laws and regulations such as import regulation, industrial regulation, antitrust laws, e.t.c., also can serve as an incentives. Cornett et al. (2009), note that managers use discretionary accruals for opportunistic earnings management. This includes options (the incentive for bonus income by attaining some level of performance) and affecting stock prices to enhance managers’ wealth through restricted stock compensation.

Institutional shareholding has emerged as an important exogenous corporate governance mechanism for protecting minority shareholder’s interest. This stems from the fact that institutions have more resources and capabilities to monitor, discipline and influence managers. However, both the incentive and power of the institutions depend on the degree of ownership acquired by the institutions (Roodposhti and Chashmi, 2011: Hassan, 2011). Also, Hartzell and Starks (2003) note that institutions have wealth of financial expertise which gives it a greater latitude to monitor managers. If these argument holds true, we expect institutional shareholding and earnings management to be inversely related,



especially that institutions hold a substantial amount of equity shares of a lot of quoted manufacturing firms in Nigeria.

Previous studies have documented contradictory results regarding the effect of institutional shareholding on opportunistic behavior of managers. Using a sample of 20 randomly selected quoted and active companies on the Nigerian Stock Exchange, Dabo and Adeyemi (2009) examined the relationship between institutional investors and opportunistic behaviour of managers. The study fails to establish any statistical evidence to either accept or fail to accept their hypothesis. This could be due to the use of chi-square, which is a less effective method of data analysis for establishing cause and effect relationship. Similarly, Al-Fayoumi et al. (2010) examine the interaction between ownership structure and managers' discretionary behaviour. Using a sample of 195 firm-year observations, consisting of Jordanian industrial firms for the period between 2001-2005, they fail to find a significant relationship between institutional shareholding and discretionary accruals. Although, this study was carried out in the context of a developing countries, the differences of economies and regulatory frameworks across the globe call for an investigation into the Nigerian scenario.

Extending prior research, Hassan (2011) investigate the effect of corporate governance on financial reporting quality with a sample of 63 banks listed on the Nigerian Stock Exchange for the period between 2007-2010. The study finds a positive and significant relationship between institutional shareholding and financial reporting quality. This work focused on the banking industry which has different governance structure from that of the manufacturing firms. In the same vein, using 22 non-financial firms listed on Tunis Stock Exchange for the period between 1997 to 2007, Klai and Omri (2011) document a positive relationship between institutional investors, who are the major shareholders of Tunisian firms and who are also of significant presence on the board of directors, and financial reporting quality. The major drawback of this research is that it considered only the effect of financial institutions in the study sample on the opportunistic tendencies of managers.

In another context, Liu and Peng (2008) examined the interaction between institutional investors and accruals quality. With 24,005 firm-year observations between 1985 to 2003 and using different measures of accruals quality, the study documents that dedicated institutional investors have the incentive to monitor managers effectively in terms of their



financial reporting decision and that transient institutional investors allow managers to engage in opportunistic earnings manipulation. It is interesting that the paper distinguishes two types of institutional owners: dedicated investors (those that are interested in the long term return on their investments) and transient investors (those that are short term investors). Also, from another direction, Cornett et al. (2008) find a positive and significant effect of institutional shareholding and its presence on the board of directors on firm performance. They observe that this relationship is also positive and robust when firm performance is adjusted to account of the influence of discretionary accruals. The study used top 100 firms rated by S&P in the U.S.

The literature that examines the effect of number of institutions who have equity investments and the ratio of institutional investors on the board of directors on discretionary accruals is sparser. Cornett et al. (2008) find that both have inverse relationship with earnings management. As mentioned earlier, given the peculiar corporate control features, capital allocation and regulations of the developing economies, it is pertinent to examine these phenomena in the Nigerian context.

From the foregoing, the impact of institutional investors on discretionary accruals is inconclusive. This is because, in spite of the fact that institutions have required resources to monitor and discipline managers, this ability can be said to be theoretical. We argue that the dominant ownership can also serve as an incentive for managers to manipulate earnings in order to please the large equity owners of the firm.

Agency theory provides a natural backdrop upon which this research is based. The theory states that the separation of ownership from control of the modern day business has turned the relationship between the owners (shareholders) and controllers (managers) to that of an agent and a principal. As such the managers are supposed to treat this fiduciary relationship with utmost sense of transparency and accountability. This means that they are expected to act in such a manner that benefits the shareholders rather than pursuing their own selfish interest. However, in practice, the existence of information asymmetry that gives the managers a privilege information may lead to the breach of the agency arrangement as the managers are tempted to use their positions for self enhancement, hence the agency problem. Institutional investors have emerged over the years as an important corporate



governance mechanism that can mitigate this agency problem by effective monitoring of managers and consequently reducing the agency cost.

3. METHODOLOGY, MODEL SPECIFICATION AND ROBUSTNESS TEST

This work is a correlational research that links institutional investors and discretionary accruals. The sample consists of 20 quoted manufacturing firms that are most active on the Nigerian Stock Exchange as at 31st December, 2011 and whose data for the study period, which is 2008 to 2010 are available. Thus, we have 60 firm-year observations.

Consistent with prior studies (such as Dechow et al., 1995 and Jaggi and Leung, 2007), a cross-sectional regression of the modified Jones Model (1991) to obtain the discretionary component of accruals. The choice of the modified Jones model (1991) was informed by Dechow et al. (1995) who argue that the model is more powerful in detecting earnings management among the existing models. Total accruals (*TACC*) is defined as the difference between net income (*NI*), which is the earnings before taxation and extraordinary item and cash flow from operating activities (*OCF*).

$$TACC_i = NI_i - OCF_i \dots \dots \dots (i)$$

$$TACC_{it}/A_{it-1} = \alpha_t[1/A_{it-1}] + \alpha_{1i}[(\Delta REV - \Delta REC)/A_{it-1}] + \alpha_{2i}[PPE_{it}/A_{it-1}] + \varepsilon_{it} \dots (ii)$$

Where *TACC* is the total accruals (*NI - OCF*), *ΔREV* is change in revenue, *ΔREC* is change in receivables, *PPE* is property, plant and equipment and ε is the residual. To control for heteroskedasticity, all variables are scaled by previous years total assets. Al-Fayoumi et al. (2010) note that change in revenue is included to control for economic circumstances of each firm in the sample, while gross plant, property and equipment are included to control for the total proportion of accruals relating to non-discretionary expenses.

Earnings management is measured by the discretionary accruals, which is obtained by making the error term from equation (ii) the subject of the formula. Consistent with You et al. (2003), the study uses absolute abnormal accruals to proxy for earnings management. Thus discretionary accruals (*DA*) is estimated as:

$$|DA_{it}| = TACC_{it}/A_{it-1} - \alpha_t[1/A_{it-1}] + \alpha_{1i}[(\Delta REV - \Delta REC)/A_{it-1}] + \alpha_{2i}[PPE_{it}/A_{it-1}](iii)$$

The larger the value of the absolute discretionary accruals, the higher the presence of earnings manipulation and vice-versa.



Next, the institutional investors variables are presented. The study considers four dimensions of the institutional investors. consistent with Cornett et al. (2005) all variables are defined as follows

Institutional Shareholding (X_1): the proportion of equity shares held by all institutions in relation to total equity shares outstanding (lagged one year).

ln(Number of institutional investors) (X_2): total number of institutions that have equity shareholding in the firm (lagged one year).

ln(Number of institutional investors on board) (X_3): total number of institutions who have representations on the board of directors (lagged one year).

Institutional presence on the board (X_4): fraction of board composed of institutional investors (lagged one year).

Firm Size (D): is used in this study to control for the likely impact of firm size on the discretionary accruals of the sample firms. It is defined as the natural log (ln) of total asset (lagged one year). It is argued that the larger the firm size the higher the expected agency problem that the firm is likely to experience. Also, given the fact that large firms have more resources and earn higher profit, Grey and Clarke (2004) note that they are more likely to avoid managing earnings through discretionary accruals. Quite a number of studies control for firm size including Roodposhti and Chashmi (2011) and Hassan (2011).

The final regression model is therefore:

$$DA_{it} = \alpha_0 + \alpha_1 X_{1it} + \alpha_2 X_{2it} + \alpha_3 X_{3it} + \alpha_4 X_{4it} + D + \varepsilon_{it} \dots \dots \dots (iv)$$

4. RESULTS AND DISCUSSION

In this section, the study results are presented and discussed. A set of descriptive statistics are first presented, then followed by the regression result.

4.1 Table 1: Summary of Descriptive Statistics

	X1	X2	X3	X4	D
Mean	.2623937	.06924585	.462342	.0968915	1.61845
Std. Dev.	.1825178	.03945134	.4481356	.1016968	.01376021
Minimum	.043	0	0	0	1.181879
Maximum	.790099	.1386294	.1008612	.3333333	1.795672
Observation	60	60	60	60	60

Source: Output of data analysis using Stata 9

From table 1 above, the average institutional investment in the sample firms is 26%. This is relatively a low figure considering the fact that institutions have the capacity to make bulk



purchases of firms' equity shares and in most cases they represent the lion shareholders. The minimum shareholding is 4.3% which is extremely wide from the maximum of 79%. The average number of institutions who have equity shareholding in the firms is 6%, ranging from 0 to 13%. Institutions who have representatives on the board of directors averages 46% and lying between 0 and 100%. This indicates that there is a fair presence of institutional representatives on the board of directors. The ratio of institutional directors to the total number of directors averages 9.7% with the minimum of 0% and a maximum of 33%. This low figure may be attributed to the low average of institutional equity shareholding in the sample firms. The total assets of the firm averages 1.6 billion Naira, ranging between 1.1 billion to 1.7 billion. Overall, there is no much deviation of the standard deviations from their respective means which means that the data is not skewed and is fit to produce a reliable result.

4.2 Table 2: Correlation Matrix

	X1	X2	X3	X4	D
X1	1.0000				
X2	0.3692	1.0000			
X3	0.5794	0.6775	1.0000		
X4	0.1712	-0.0029	0.1048	1.0000	
D	0.1271	-0.0139	-0.0386	0.0811	1.0000

Source: Output of data analysis using Stata 9

Table 2 above is the correlation matrix table, a table that shows the correlation between all pairs of independent variables in the model. The result indicates a positive correlation between institutional shareholdind (X1) and all the other independent variables including the control variable (firm size). The correlation between number of institutional investors (X2) is positive with institutional equity shareholding (X1) and institutional representation on the board of directors (X3) but negative with fraction of board composed of institutional directors (X4) and the control variable (D). Also, institutional representation on the board of directors is positive and fairly strong with all the other independent variable but negative with the control variable. Lastly, the fraction of board composed of institutional directors is positive with all explanatory variables with the exception of the number of institutional investors.

The fairly strong correlation between pairs of explanatory variables calls for an investigation into the possibility of multicollinearity which may lead to incorrect conclusions. The test for



multicollinearity using variance inflation factor reveals that excessive correlation does not exist as all factors are above 1.0 and all the tolerance values are below 10. The mean of the variance inflation factor is 1.6. The result is not shown for brevity. Moreso, the diagnostic statistics obtained from White's heteroskedasticity test indicates that the regression model performs properly.

4.3 Table 3: Summary of Regression Results

Variable	Coefficient	Std. Error	t. test	Probability
Intercept	.2227611	.1994289	1.12	0.272
X1	.2552564	.1204261	-2.12	0.042**
X2	.1181482	.0621103	1.90	0.066*
X3	-.2002547	.0638842	-3.13	0.004***
X4	.0312646	.1820918	0.17	0.865
D	.1202753	1.245251	0.10	0.924
R-Square	0.4798			
Adj. R-Square	0.4010			
F. Stat.	6.09			
Prob.	0.0004***			

Source: Output of data analysis using Stata 9 (***, **, * imply significant levels at 1%, 5% and 10% respectively)

Table 3 above is the summary of the regression results. it indicates that both institutional shareholding and number of institutional investors on the board of directors are negative and significant at 5%. It is also perceived that the number of institutional investors is also inversely related with earnings management and significant at 10%. Fraction of board composed of institutional directors and the control variable do not signify a robust relationship. The model therefore is:

$$DA_{it} = .22 - .25X_{1it} + .12X_{2it} - .20X_{3it} + .03X_{4it} + .12D$$

The interaction between institutional ownership of the equity shareholding of the sample firms and manipulation of earnings by firm managers is negative and robust. This signifies that institutions have the capacity, regarding both resources and financial expertise, to monitor and discipline managers (Roodposhti and Chashmi, 2011) to act in a way that reflects the true economic realities of the firms that they manage. It can also be inferred that these institutions lay a great deal of emphasis on disclosure and quality of financial reports. Interestingly, this study extends the findings of Hassan (2011) who used a sample of 63 firm-year observations to document a positive relationship between institutional investors and financial reporting quality in the Nigerian banking industry. It also supports



Cornett et al. (2008) who used 24,005 sample of U.S. industrial firms to document a positive and robust relationship between institutional investors and firm performance even when performance is stripped of the discretionary accruals. However, it contradicts that of Dabo and Adeyemi (2009) who fail to establish a statistically significant association between institutional shareholding and managers' opportunistic behaviour using 20 most active quoted firms on the Nigerian Stock Exchange. Moreso, it conflicts with the finding of Al-Fayoum (2010) in their sample of Jordanian industrial firms. It can therefore be concluded that large institutional shareholding in the Nigerian manufacturing firms helps to allay the agency problem and leads to the protection of minority shareholders' interest.

Regarding institutional investors on the board, the result reveals that there is also a negative relationship between it and discretionary accruals. This suggests that the number of institutions that have representation on the board of directors can also serve to constrain the opportunistic tendencies of managers unlike fraction of board composed of institutional investors. The finding supports that of Cornett et al. 2007 who find that earnings management drastically falls with the increase in institutional involvement in the firm regardless of whether involvement is measured by fraction of shares owned by all institutional investors or by the number of institutional investors who are represented on the board of directors. The results also extends Klai and Omri (2011) who established a positive and robust relationship between institutions who are of significant presence on the board of directors of their sample of 22 non-financial firms on the Tunis Stock Exchange and financial reporting quality. Impliedly, the study also confirms the finding of Cornett et al. (2009) that institutional presence on the board of directors improves firm performance even when performance is adjusted to take into account the impact of discretionary accruals. It can be perceived that multiple number of institutional directors may trigger a competition for competence and integrity among these directors in the discharge of their monitoring role. This finding also implies that institutions have wealth of financial expertise which gives them the latitude to perceive the managerial tactics to conceal the underlying economic conditions of their firms in order to achieve a variety of personal goals.

Overall, the R-square (adjusted) suggests that the institutional investors variables are able to explain discretionary accruals to the extend of 40%, while the remaining 60% are explained by other factors that are not captured in the model. The F Statistics of 6.09 indicates that



the model is fitted and that the study findings can be relied upon. Based on this we, therefore, reject the null hypothesis that institutional investors do not have a significant impact on discretionary accruals of quoted manufacturing firms in Nigeria.

5. CONCLUSION AND RECOMMENDATIONS

Agency theory requires that managers should act in a manner that is consistent with the value maximization objective of the firm. However, in practice, the positions that they hold triggers information asymmetry which induces the managers to pursue their own interest at the expense of the firms that they manage. One of the strategies through which managers seek selfish gains is through the exploitation of accounting methods and choices within the regulatory framework. Institutional investors as a corporate governance mechanism has been explored in the literature in relation to earnings management. This study examines the interaction between four aspects of institutional investors and discretionary accruals and it has been statistically documented that firms' equity shareholding by institutions and their representation on the board of directors impact negatively on earnings management. Based on the findings, it is therefore, recommended that industrial regulators should emphasize the need for institutional involvement in firms, both in terms of equity ownership and significant presence on the board of directors they help to allay the agency problems, thereby converging the interest of the managers with that of the shareholders.

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