ACCOUNTING, CORPORATE GOVERNANCE

Managerial and Institutional Ownership on Financial Reporting Quality: Evidence from Listed Multinational Companies in Nigeria

Gabriel Godbring Danlami, Isaac K. Lambe, Daniel K. Emmanuel

Department of Accounting, Bingham University, Karu, Nigeria

Published November 2026

Abstract

Persistent concerns about the credibility of financial reporting among listed multinational companies in Nigeria, particularly the possibility that excessive earnings smoothing may obscure actual economic performance, have raised questions about the role of ownership structure. Given the mixed empirical evidence on whether managerial and institutional ownership enhance monitoring or influence reporting behaviour, there remains a need to examine their effects on financial reporting quality, particularly when measured through earnings smoothness. This study examined the effect of managerial and institutional ownership on financial reporting quality of listed Multinational Companies in Nigeria (MNCs). Anchored on Legitimacy Theory and Signalling Theory, the study adopted an ex-post facto research design and analyzed balanced panel data obtained from the annual reports and audited financial statements of 20 purposively selected multinational companies from a population of 32 firms listed on the Nigerian Exchange Limited, covering 2015–2025 and fixed-effects panel regression with robust standard errors using EViews 14. The findings revealed that managerial ownership had a positive and statistically significant effect on earnings smoothness, whereas institutional ownership had a negative and statistically insignificant effect. The study concluded that managerial ownership constituted a significant ownership mechanism influencing financial reporting behaviour, while institutional ownership did not significantly influence earnings smoothness among the sampled multinational companies. It recommended that companies establish appropriate managerial ownership structures supported by effective monitoring mechanisms, while institutional investors should adopt more active monitoring and shareholder-engagement practices; regulators should also strengthen ownership disclosure and corporate governance requirements to enhance the credibility and reliability of financial reporting.

Keywords: managerial ownership; institutional ownership; financial reporting quality; earnings smoothness; firm leverage

1 Introduction

The multinational companies (MNCs) play a pivotal role in fostering economic and social development across developed, emerging, and developing economies, with their contributions ranging from driving industrial growth, technological innovation, and global competitiveness in developed nations to serving as major sources of foreign direct investment, capital formation, and technology transfer in developing contexts (Abanyam *et al.,* 2020; Spur Economics, 2024). In Nigeria specifically, MNCs were recognized as significant catalysts for economic advancement, facilitating capital inflows, technology diffusion, managerial skill development, and employment generation, while also offering more attractive employment conditions compared to the public sector or indigenous firms (Abanyam et al., 2020; Udensi, 2015; Nurlela, et al., 2025). Furthermore, their operations were noted to substantially enhance gross domestic product, promote exports, improve balance-of-payment positions, reduce

import dependence, support industrialization and economic diversification, and deepen Nigeria's integration into the global economy, thereby reinforcing their strategic importance within the country's development framework (Abanyam *et al.,* 2020; Udensi, 2015).

To fully sustain these foreign direct investment flows and maintain market credibility in host countries like Nigeria, the operational success of MNCs must be matched by dependable, high-fidelity corporate disclosures. Consequently, financial reporting quality (FRQ) is essential to corporate transparency, effective governance, investor confidence, and efficient capital markets, as reliable and comparable financial information reduces information asymmetry, supports investment decisions, lowers capital costs, and facilitates cross-border investment, particularly for multinational companies (MNCs) operating under IFRS (Mesioye & Bakare, 2024; Rachmawati, 2025; Hamour, 2024). In developing economies such as Nigeria, high-quality reporting strengthens accountability, attracts foreign investment, enhances capital market integrity, and supports economic development, although weak regulatory enforcement, inadequate auditing and internal control systems, IFRS implementation challenges, complex multinational transactions, and managerial discretion continue to create risks of earnings management, misstatements, and income smoothing (Apochi & Mustapha, 2022; Ibrahim & Musa, 2022; Ofoegbu, 2018; Adeniran *et al.,* 2024; Olabisi & Olawale, 2021; Adeyemi, 2025; Udegbunam *et al.,* 2023). Recent evidence further indicates that financial reporting quality (FRQ) challenges persist among Nigerian Multinational Companies (MNCs), posing severe threats to market efficiency (Olorunfemi & Tunji, 2025; Samuel *et al.,* 2026). These accounting distortions stem from critical technical areas where managerial discretion is heavily exercised. Specifically, reporting entities encounter significant friction in applying subjective accounting estimates, particularly regarding fair value measurements and asset impairment tests. This challenge is further exacerbated by the opportunistic or opaque treatment of provisions, contingent liabilities, and contingent assets under IAS 37, alongside recurring irregularities in revenue recognition timing and contract evaluation under IFRS 15. Collectively, these isolated accounting deficiencies contribute to an inconsistent application of overall IFRS principles across parent-subsidiary reporting structures operating in complex socio-economic contexts. The cumulative downstream impact of these technical reporting failures is profound: by degrading the fidelity of financial statements, they systematically undermine financial transparency and cross-firm comparability. Consequently, this information asymmetry erodes both foreign and domestic investor confidence, thereby diminishing the fundamental utility and decision-usefulness of financial disclosures within the Nigerian capital market (Olorunfemi &Tunji, 2025; Samuel *et al.,* 2026).

Evaluating financial reporting quality poses a unique empirical challenge, as the construct itself cannot be directly observed and must instead be captured through measurable accounting outcomes. In studying Nigerian MNCs, earnings smoothing serves as a principal proxy for compromised reporting quality. This practice involves the intentional use of managerial discretion such as adjusting discretionary accruals, altering subjective provisions, and shifting transaction timing to artificially flatten year-on-year earnings fluctuations and project an illusion of steady profitability. While corporate leaders often defend income smoothing as a way to signal long-term economic stability, opportunistic smoothing conceals the firm's genuine business risks and operational swings. By dampening performance shocks, management masks the company's true financial condition, ultimately distorting market efficiency, weakening forecast accuracy for investors, and eroding the fundamental decision-usefulness of financial disclosures.

Given that financial reporting quality is unobservable directly and manifests empirically through managerial accounting choices such as earnings smoothing, understanding its determinants requires

examining the governance structures that constrain or encourage such behavior. Managerial ownership serves as a fundamental internal corporate governance mechanism and a key determinant of financial reporting quality (FRQ), directly shaping executive commitment to transparent disclosures. When managers hold equity in the firm, it bridges the traditional divide between ownership and control, aligning executive incentives with the long-term wealth of external shareholders (Aifuwa, 2020; Triwahyuningtias, 2012). Fulfilling a dual role as decision-makers and equity owners, corporate leaders are motivated to execute strategic choices that optimize performance while upholding reporting integrity (Aifuwa, 2020; Zuhri *et al.,* 2025). In listed multinational companies in Nigeria, managerial shareholding exerts a significant influence on operational accountability and reporting behaviors, such as earnings smoothness. However, governance literature highlights a critical nuance: while moderate insider equity curbs opportunistic reporting, excessive ownership concentration can trigger entrenchment effects, enabling executives to exercise dominant control and manipulate financial reports with reduced external oversight (Dube, 2018; Naidu *et al.,* 2022; Okoye & Eze, 2024). To counter these internal vulnerabilities, institutional investors such as pension funds, mutual funds, and insurance firms introduce essential external monitoring capacity that constrains accounting discretion and drives compliance with high-quality financial reporting standards (Ibrahim *et al.,* 2023).

As a critical external oversight mechanism, institutional ownership serves as a primary determinant of financial reporting quality (FRQ) by constraining earnings manipulation and enforcing disclosure transparency. Unlike scattered individual retail investors, institutional shareholders possess the substantial financial resources, technical expertise, and economic motivation required to actively monitor corporate management, reduce information asymmetry, and enforce executive accountability (Chen *et al.,* 2007; Gillan & Starks, 2023; Shleifer & Vishny, 2017). Operating as sophisticated market participants, these institutions exert continuous capital market discipline on firm leaders, thereby curbing opportunistic behaviors such as aggressive earnings management (Bushee, 2018). However, governance literature emphasizes that the monitoring efficacy of institutional investors is not absolute; rather, it remains contingent upon strong regulatory frameworks, effective enforcement mechanisms, and active shareholder engagement, particularly within emerging markets like Nigeria (Chukwuemeka & Adepoju, 2023). Furthermore, ownership concentration exhibits a dual-edged influence: while substantial blockholders can reinforce oversight and enhance reporting credibility, controlling shareholders operating in weak institutional environments may leverage their dominance for private benefit at the expense of overall disclosure integrity (Emeka & Nwankwo, 2024).

Managerial and institutional ownership are important internal governance mechanisms for enhancing financial reporting quality by aligning managerial interests with shareholders and strengthening monitoring, accountability, and oversight. Globally, institutional ownership has become increasingly significant, with institutional investors holding about 47% of listed equity worldwide in 2024, while stronger shareholder-protection frameworks in developed economies enhance their ability to promote transparent and reliable reporting (OECD, 2025). In emerging and developing economies, ownership-based monitoring is particularly relevant where external governance mechanisms are weaker, although its effectiveness depends on active shareholder monitoring (Alhassan *et al.,* 2024; Edeh *et al.,* 2025). Evidence from Nigeria further links managerial and institutional ownership with financial reporting quality, earnings management, and reporting timeliness (Ozegbe et al., 2025; Yahaya, 2025; Yahaya et al., 2025), suggesting that effective managerial alignment and institutional monitoring could reduce earnings manipulation, strengthen transparency and credibility, and

improve the financial reporting quality of Nigerian MNCs operating within complex and information-intensive environments (Awotomilusi & Adeosun, 2024).

The motivation for this study stems from the persistent concern over the quality of financial reporting among listed multinational companies in Nigeria, where instances of earnings manipulation, inconsistent disclosure practices, and weak earnings quality continue to undermine investor confidence and capital market efficiency. Despite the adoption of international financial reporting standards and increased regulatory oversight, variations in ownership structure among firms appear to influence managerial behavior in ways that may either strengthen or weaken financial reporting quality, particularly through earnings smoothness practices that can obscure true firm performance. These challenges are further compounded by the unique governance environment in Nigeria, where differing levels of managerial, institutional, and foreign shareholding may create conflicting incentives for monitoring and accountability, thereby raising questions about how ownership dynamics shape reporting outcomes in multinational firms.

As of February 2026, the quality of financial reporting among multinational companies (MNCs) listed on the Nigerian Exchange Group remains a serious concern due to persistent earnings smoothness that obscures true economic performance and misleads stakeholders who rely on financial statements denominated in naira to make critical economic decisions. This poor financial reporting quality and pattern of window dressing are vividly illustrated by glaring divergences in the 2024 financial year, where a major consumer goods multinational reported a consolidated profit after tax of ₦48.3 billion despite a 33% contraction in operating cash flows to ₦15.2 billion, and a financial services multinational reported a profit before tax of ₦72.8 billion while its operating cash flows volatiles swung from ₦60.1 billion in 2023 to ₦21.7 billion in 2024 without clear IFRS-linked explanations (Nigeria Exchange Limited, 2025). These notable cases demonstrate that despite strict regulatory frameworks requiring fair presentation, many listed MNCs in Nigeria continue to utilize discretionary accounting choices and estimates to artificially stabilize income figures, creating a critical disconnect between reported profits and actual cash generation that reinforces the urgent need for empirical investigation into governance and ownership structures that can mitigate this troubling phenomenon.

This study addresses significant theoretical, methodological, conceptual, and practical gaps concerning how ownership structures influence financial reporting quality (FRQ) among Nigerian-listed multinational companies (MNCs). Theoretically, frameworks like Signalling, Stewardship, and Legitimacy theories remain largely untested within the multi-sector, cross-border context of Nigerian MNCs. Methodologically, contemporary corporate governance literature including short-horizon sectoral analyses by Alarussi and Sarpong (2025), limited baseline year evaluations by yahaya (2025), and narrow cross-sectional configurations by Ibrahim and Bello (2023) relies on constrained data windows that fail to capture long-term, dynamic financial trends. Furthermore, current empirical inquiries within the listed sub-sectors, such as those conducted by Madume and Dibiah (2025) as well as Ologhodo et al. (2024), frequently omit vital residual diagnostics and panel model selection tests, leaving their pooled ordinary least squares outputs vulnerable to unobserved heterogeneities, inefficiencies, and biased parameters. Conceptually and practically, few studies have operationalized FRQ specifically through earnings smoothness to assess how managerial, institutional, and foreign ownership blocks mitigate persistent earnings manipulations. Consequently, this study resolves these deficiencies by employing an intensive 11-year panel framework (2015–2025) incorporating comprehensive diagnostic testing, thereby offering actionable insights for regulators and investors seeking to improve disclosure transparency in an emerging market setting.

The study tested the following null hypotheses in line with its objectives and model specification:

$H_0$1: Managerial ownership has no significant effect on the earnings smoothness of listed multinational companies in Nigeria.

$H_0$2: Institutional ownership has no significant influence on the earnings smoothness of listed multinational companies in Nigeria.

2 Literature review

2.1 Conceptual review

2.1.1 Managerial ownership

This refers to the proportion of a company's outstanding equity held by managers and directors who participate in corporate decision-making, reflecting their dual roles as owners and decision-makers and potentially aligning their interests with those of shareholders while reducing agency problems (Triwahyuningtias, 2012; Abiri *et al;* 2025; Zuhri et al., 2025). In this study, it is defined as the proportion of equity in listed multinational companies in Nigeria held by managers and directors exercising executive functions, which may influence strategic decisions, oversight, and commitment to transparent financial reporting; although higher ownership may improve reporting quality through greater incentive alignment, excessive ownership may create managerial entrenchment and weaken reporting quality (Dube, 2018; Naidu et al., 2022). Zuhri et al. (2025) reported that Managerial ownership is measured as the percentage of shares held by managers and directors relative to total outstanding shares, expressed as:

$$\text{MOWN} = \frac{\text{Shares held by managers and directors}}{\text{Total outstanding shares}} \times 100 \quad (1)$$

2.1.2 Institutional ownership

This refers to the proportion of a company's equity held by institutional investors such as pension funds, mutual funds, insurance companies, banks, asset management firms, and other corporate investment entities, which typically possess substantial resources and incentives to monitor management and influence corporate governance (Gillan & Starks, 2023). As a significant governance mechanism, institutional ownership can reduce information asymmetry, strengthen managerial oversight, promote transparency and accountability, and constrain opportunistic earnings management, thereby potentially improving financial reporting quality (Shleifer & Vishny, 2017; Chen et al., 2007; Bushee, 2018). In this study, institutional ownership is defined as the proportion of total outstanding shares of listed multinational companies in Nigeria held by institutional investors and is expected to enhance financial reporting quality, proxied by earnings smoothness, through stronger monitoring and pressure for transparent reporting. Gillan and Starks (2023) opined that Institutional Ownership is measured as:

$$\text{IOWN} = \frac{\text{Shares held by institutional investors}}{\text{Total outstanding shares}} \times 100 \quad (2)$$

2.1.3 Financial reporting quality

This refers to the extent to which financial statements faithfully, reliably, and transparently represent a firm's underlying economic performance and provide relevant and decision-useful information to stakeholders (Dechow *et al;* 2010; IASB, 2018). It is commonly assessed through earnings attributes

such as persistence, predictability, accrual quality, timeliness, and earnings smoothness, with earnings smoothness capturing the extent to which reported earnings fluctuate relative to underlying cash flows and potentially reflecting either informative reporting or opportunistic earnings management (Francis et al., 2024). In this study, financial reporting quality is defined as the degree to which the financial statements of listed multinational companies in Nigeria faithfully reflect their economic performance and provide credible, reliable, and transparent information, with earnings smoothness adopted as its proxy. The study recognizes that ownership structures, particularly managerial and institutional ownership, can influence managerial incentives and monitoring intensity, thereby either constraining opportunistic earnings management and improving reporting quality or permitting excessive earnings smoothing that obscures firms' true performance (Chung *et al;* 2024).

2.1.4 Earnings smoothing

This refers to the deliberate reduction of fluctuations in reported earnings across accounting periods through managerial accounting discretion and timing decisions, which may create an appearance of stability and lower risk but can also obscure a firm's underlying economic performance (Ronald, 2021; Habib et al., 2018). In this study, earnings smoothness is defined as the extent to which managers of listed multinational companies in Nigeria minimize year-to-year variations in reported earnings and is adopted as the operational proxy for financial reporting quality, with excessive smoothing viewed as an indication of lower reporting quality because it may reduce earnings informativeness and increase information asymmetry. Consequently, ownership structures, particularly managerial, institutional, and foreign ownership, are expected to influence earnings smoothing through their effects on managerial incentives and monitoring effectiveness, with stronger ownership oversight anticipated to constrain opportunistic smoothing. Consistent with Alhassan et al. (2024). Ronald (2021) stated that earnings smoothing is measured as below:

$$\text{ESMT} = \frac{\text{Changes in operating cash flows}}{\text{Changes in total assets}} \tag{3}$$

2.1.5 Firm leverage

This refers to the extent to which a company relies on debt relative to equity to finance its assets, operations, and investments, thereby reflecting its financial risk, obligations, and capital structure (Brounen et al., 2016). From an agency perspective, leverage may strengthen creditor monitoring and constrain managerial discretion through reduced free cash flow, although high debt levels may also motivate earnings manipulation to satisfy debt covenants or portray financial stability (Ahmed et al., 2020; Graham & Leary, 2018). In this study, firm leverage is defined as the proportion of a listed multinational corporation's total assets financed by debt and is included as a control variable to account for the effects of financial risk and contractual debt pressures on earnings smoothness, thereby isolating the influence of managerial, institutional, and foreign ownership on financial reporting quality. Ahmed et al. (2020) reported that Leverage is measured as the ratio of total liabilities, comprising short- and long-term interest-bearing debt, to total assets, with higher values indicating greater reliance on debt financing as stated below.

$$\text{LEV} = \frac{\text{Total liabilities}}{\text{Total assets}} \tag{4}$$

2.2 Empirical review

2.2.1 Managerial ownership and financial reporting quality

Waley et al. (2025) investigated the effect of managerial ownership on real earnings management, as a proxy for financial reporting quality, among 26 non-financial firms listed on the Nairobi Securities Exchange in Kenya over the period 2008–2023. The study employed a panel research design and used purposive sampling to select the 26 firms that met the study's data requirements, producing 416 firm-year observations. Panel regression analysis was employed to examine the relationship between managerial ownership and real earnings management, with the analysis conducted using an econometric statistical software package. The findings showed that managerial ownership had a positive and statistically significant effect on real earnings management indicating that greater managerial ownership was associated with increased earnings manipulation, while the effectiveness of audit committees partially moderated this relationship. The study concluded that managerial ownership alone might not adequately constrain managerial opportunism and should therefore be complemented by effective corporate governance mechanisms, particularly audit committee oversight. However, the study was limited to non-financial firms in Kenya and focused exclusively on real earnings management rather than earnings smoothness as a measure of financial reporting quality. It also examined managerial ownership in isolation and did not consider institutional and foreign ownership simultaneously. The current study therefore addresses these gaps by examining managerial ownership alongside institutional and foreign ownership and measuring financial reporting quality through earnings smoothness among listed multinational companies in Nigeria.

Nurlela et al. (2025) examined the effect of managerial ownership on financial reporting quality among property and real estate companies domiciled in Indonesia and listed on the Indonesia Stock Exchange over the period 2021–2023. The study adopted a quantitative research design and selected the sampled firms using a purposive sampling technique, based on the availability of relevant financial and ownership information. The researchers employed multiple regression analysis to examine the relationship between managerial ownership and financial reporting quality using statistical/econometric software. The findings indicated that managerial ownership had no statistically significant effect on financial reporting quality suggesting that managerial shareholding alone might not be sufficient to ensure reliable and high-quality financial reporting. The study therefore concluded that stronger audit quality, external monitoring, and other corporate governance mechanisms were necessary to complement managerial ownership in improving reporting quality. However, the study was limited to the property and real estate sector in Indonesia, thereby limiting the generalisability of its findings to other sectors and institutional environments. It also examined managerial ownership without simultaneously considering institutional and foreign ownership and did not specifically use earnings smoothness as the measure of financial reporting quality. The current study addresses these gaps by examining managerial, institutional and foreign ownership in relation to earnings smoothness among listed multinational companies in Nigeria.

Lee and Smith (2025) investigated the relationship between managerial ownership and financial reporting quality among publicly listed firms domiciled in the United States of America over the period 2015–2023. The study covered 1,250 U.S. publicly listed firms, selected using a purposive sampling approach based on the availability of ownership, financial, and reporting-quality data. The researchers employed panel regression analysis, robustness tests, and Generalised Method of Moments (GMM) estimation using appropriate econometric software to examine the relationship and address potential endogeneity concerns. The findings revealed that higher managerial ownership

significantly improved financial reporting quality through lower discretionary accruals and greater earnings persistence thereby supporting the alignment hypothesis; however, the positive effect weakened at very high levels of managerial ownership, suggesting the possibility of managerial entrenchment. The study concluded that appropriately structured managerial ownership incentives could strengthen managerial accountability and improve the quality of financial reporting. Nevertheless, the study was conducted within the U.S. institutional and regulatory environment and relied primarily on discretionary accruals and earnings persistence rather than earnings smoothness as the measure of financial reporting quality. It also focused on managerial ownership without simultaneously examining institutional and foreign ownership. The current study therefore addresses these contextual, measurement, and variable gaps by examining managerial, institutional, and foreign ownership in relation to earnings smoothness among listed multinational companies in Nigeria.

Ahmed and Hamdan (2025) examined the effect of managerial ownership on financial reporting quality among non-financial firms domiciled in Kenya and listed on the Nairobi Securities Exchange over the period 2015–2023. The study focused on 42 non-financial firms, which were selected using a purposive sampling technique based on the availability and completeness of the required financial and ownership information. The researchers employed panel regression analysis, while financial reporting quality was assessed using discretionary accruals estimated through the Modified Jones Model; the analysis was conducted with appropriate econometric statistical software. The findings revealed that managerial ownership had a positive and statistically significant association with earnings management, indicating that higher managerial ownership could encourage opportunistic reporting behaviour and consequently weaken financial reporting quality. The study concluded that excessive managerial ownership could create managerial entrenchment and adversely affect the reliability of reported financial information, thereby highlighting the need for effective corporate governance and monitoring mechanisms. However, the study was limited to non-financial firms in Kenya and measured financial reporting quality through discretionary accruals rather than earnings smoothness. In addition, it focused only on managerial ownership without simultaneously considering institutional and foreign ownership. The current study addresses these contextual, measurement and variable gaps by examining managerial, institutional and foreign ownership and their relationship with earnings smoothness among listed multinational companies in Nigeria.

2.2.2 Institutional ownership and financial reporting quality

Davis and García-Cestona (2025) examined the effect of institutional ownership on earnings management and earnings quality among publicly listed firms domiciled in the United States of America. The study drew from a large panel population of U.S. publicly listed firms and employed a data-selection approach based on the availability of institutional ownership, earnings-management and financial-reporting information, resulting in 59,503 firm-year observations covering 1981–2019. The researchers employed panel-data regression analysis and related empirical tests using an appropriate econometric statistical software package to examine the relationship between institutional ownership and earnings quality. The findings revealed that higher institutional ownership was associated with lower earnings management and smaller earnings surprises, suggesting that institutional investors strengthened corporate monitoring and managerial accountability and consequently enhanced the credibility and reliability of reported earnings. The study concluded that institutional ownership could serve as an effective external governance mechanism for constraining opportunistic financial reporting practices. However, the study was conducted within the U.S. institutional and regulatory environment and relied primarily on earnings management and earnings surprises rather than earnings smoothness as the measure of financial reporting quality. In addition, its broad sample

of U.S. listed firms did not specifically isolate multinational companies or examine the Nigerian corporate environment. The current study therefore addresses these contextual, sectoral and measurement gaps by examining institutional ownership and earnings smoothness among listed multinational companies in Nigeria.

Azi and Akbar (2025) examined the effect of institutional ownership and audit quality on financial reporting quality among manufacturing firms domiciled in Indonesia and listed on the Indonesia Stock Exchange over the period 2021–2024. The study focused on a population of listed manufacturing firms and selected 50 firms using a purposive sampling technique, based on the availability and completeness of relevant ownership, audit, and financial reporting data, yielding 200 firm-year observations. The researchers employed panel regression analysis and mediation analysis using appropriate econometric/statistical software to examine the direct and indirect relationships among the variables. The findings revealed that institutional ownership had a statistically significant positive effect on financial reporting quality and also positively influenced internal control quality; however, internal control quality did not significantly mediate the relationship between institutional ownership and financial reporting quality. The study concluded that institutional investors could strengthen corporate monitoring, transparency, accountability, and reporting quality through their oversight role. However, the study was restricted to the manufacturing sector in Indonesia and examined institutional ownership primarily alongside audit quality and internal control, rather than within a broader ownership structure. In addition, financial reporting quality was not specifically measured using earnings smoothness, and the study did not consider managerial and foreign ownership simultaneously. The current study addresses these contextual, sectoral, measurement and variable gaps by examining institutional ownership alongside managerial and foreign ownership and assessing financial reporting quality through earnings smoothness among listed multinational companies in Nigeria.

Liman and Abubakar (2025) examined the moderating role of institutional ownership in the relationship between audit committee characteristics and financial reporting quality among consumer goods firms domiciled in Nigeria and listed on the Nigerian Exchange Group (NGX) over the period 2014–2024. The study adopted an ex-post facto research design and selected 17 firms from the relevant population using a purposive sampling technique based on the availability of the required financial and governance information. Financial reporting quality was measured using discretionary accruals estimated through the performance-adjusted Modified Jones Model, while panel regression analysis was employed to test the hypothesised relationships using appropriate econometric software. The findings revealed that institutional ownership had a positive and significant direct effect on financial reporting quality and strengthened the effects of certain audit committee characteristics, particularly audit committee size and meeting frequency. The study concluded that institutional investors, together with effective audit committees, constituted important external and internal governance mechanisms for enhancing corporate reporting transparency and reliability. However, the study was restricted to the Nigerian consumer goods sector and focused primarily on the moderating role of institutional ownership rather than its direct relationship with financial reporting quality. In addition, discretionary accruals were used as the reporting-quality measure rather than earnings smoothness, and managerial and foreign ownership were not examined simultaneously. The current study addresses these sectoral, measurement and ownership-structure gaps by examining institutional ownership alongside managerial and foreign ownership and using earnings smoothness as the proxy for financial reporting quality among listed multinational companies in Nigeria.

Mainoma et al. (2025) investigated the effect of ownership structure on financial reporting quality among deposit money banks domiciled in Nigeria and listed on the Nigerian Exchange Group (NGX). The study focused on 15 listed deposit money banks, which were selected using a purposive sampling technique based on the availability and completeness of relevant ownership and financial reporting information. An ex-post facto research design was adopted, while two-step System Generalised Method of Moments (System GMM) estimation was employed to analyse the panel data and address potential endogeneity and dynamic relationships using appropriate econometric software. The findings revealed that institutional ownership had a significant positive effect on financial reporting quality, whereas ownership concentration exerted a significant negative effect, while managerial ownership was statistically insignificant. The findings indicated that institutional investors could play an important monitoring role in strengthening transparency and the reliability of financial reporting. The study concluded that an appropriate ownership structure, particularly greater institutional participation, was important for improving financial reporting quality among Nigerian listed banks. However, the study was restricted to the banking sector, which operates under a distinctive regulatory and institutional environment, thereby limiting the generalisability of the findings to non-financial and multinational companies. It also did not examine foreign ownership or use earnings smoothness as the specific proxy for financial reporting quality. The current study therefore addresses these sectoral, ownership-structure and measurement gaps by examining managerial, institutional and foreign ownership and their effects on earnings smoothness among listed multinational companies across multiple industries in Nigeria.

2.3 Theoretical review

2.3.1 Legitimacy theory

Legitimacy Theory, propounded by Dowling and Pfeffer (1975), posits that organizations operate within a social contract and must align their activities with societal values, norms, and expectations to maintain legitimacy and ensure organizational survival. The theory emphasizes corporate disclosure, including financial reporting, as a strategic mechanism for demonstrating accountability, transparency, and conformity with legal, ethical, and social expectations, particularly when organizational legitimacy is threatened. In this study, the theory explains why listed multinational companies in Nigeria may be motivated by societal, regulatory, and capital market pressures to maintain credible financial reporting, while managerial, institutional, and foreign ownership may strengthen demands for transparency and accountability and influence appropriate earnings smoothness. The applicability of Legitimacy Theory to corporate reporting has also been demonstrated in prior studies, including Deegan (2002), Suchman (1995), O'Donovan (2002), and Cho and Patten (2007).

2.3.2 Signalling theory

Signalling Theory, developed by Spence (1973), explains how parties possessing superior information, particularly managers and insiders, communicate credible information about firm quality to less-informed stakeholders through observable signals. In corporate reporting, ownership structures, governance mechanisms, and financial disclosures can reduce information asymmetry, while transparent reporting and credible earnings patterns may signal managerial competence, financial stability, and long-term performance. In this study, managerial ownership signals alignment of managerial and shareholder interests, institutional ownership signals effective professional monitoring, and foreign ownership signals global credibility and adherence to international reporting

standards, while appropriate earnings smoothness may communicate reporting reliability and firm stability. The relevance of signalling mechanisms to corporate disclosure and reporting has been demonstrated by Ross (1977), Healy and Palepu (2001), Connelly et al. (2011), and Morris (1987).

Signalling Theory is adopted as the underpinning theory of this study because it provides a comprehensive explanation of how ownership structure and financial reporting quality communicate information to investors, regulators, and other stakeholders in the presence of information asymmetry. For listed multinational companies in Nigeria, ownership configurations and financial reporting practices serve as observable signals of transparency, effective governance, credibility, and financial soundness, potentially constraining opportunistic earnings management and strengthening investor confidence. The theory complements Legitimacy Theory, which emphasizes societal acceptance, and Stewardship Theory, which emphasizes managerial alignment, by explaining how internal governance arrangements and reporting outcomes are externally interpreted by stakeholders and incorporated into investment decisions. Consequently, Signalling Theory provides an appropriate framework for explaining how managerial, institutional, and foreign ownership influence financial reporting quality among Nigerian listed multinational companies.

3 Methodology

This study adopted an ex-post facto research design because it relied on historical quantitative data from published annual reports and audited financial statements without manipulating the study variables. The population comprised 32 multinational companies listed on the Nigerian Exchange Limited (NGX) as at 31 December 2025, from which 20 firms were purposively selected based on continuous listing from 2015–2025, availability of complete financial statements, disclosure of managerial, institutional and foreign ownership, multinational status, and absence of prolonged suspension or delisting threats. The sample represented 62.5% of the population. Secondary data were systematically extracted from firms' annual reports, audited financial statements, NGX Factbook, corporate governance disclosures, and relevant databases for the 2015–2025 period, coded, and organized into panel data for analysis using EViews 14. Data analysis involved descriptive statistics and correlation analysis to provide preliminary evidence on the behaviour and relationships among the variables. Pre-estimation diagnostic tests included multicollinearity and heteroskedasticity tests, while pooled OLS, fixed-effects, and random-effects models were evaluated to determine the appropriate panel estimation technique. Panel regression analysis was subsequently employed to test the formulated hypotheses, while post-estimation tests, including serial correlation, cross-sectional dependence, and correlogram tests, were conducted to assess model robustness and reliability. The analytical procedures provided a systematic basis for examining the effects of managerial and institutional ownership on financial reporting quality, proxied by earnings smoothness, while controlling for leverage.

3.1 Model specification

The study adapted the model of Uchenna et al. (2025) to assess the effect of ownership structure on financial reporting quality by examining the selected ownership dimensions and using earnings smoothness as the measure of financial reporting quality among listed multinational companies in Nigeria. Uchenna et al. (2025) model is specified below

$$FRQ_{it} = \alpha_0 + \alpha_1 MOWN_{it} + \alpha_2 IOWN_{it} + \alpha_3 OC_{it} + \varepsilon_{it)} - - - (\mathrm{i}) \quad (5)$$

Where:

- FRQ_{it} = financial reporting quality;
- $MOWN_{it}$ = managerial ownership;
- $IOWN_{it}$ = institutional ownership;
- OC_{it} = ownership concentration.

α_0 is the intercept, α_1–α_3 are the coefficients of the explanatory variables, and ε_{it} is the error term capturing unobserved factors affecting financial reporting quality.

3.2 Study's model

This study's econometric specification for empirical estimation using panel data regression is given as:

$$ESMT_{it} = \beta_0 + \beta_1 MOWN_{it} + \beta_2 IOWN_{it} + \beta_3 LEV_{it} + \varepsilon_{it} - - - (\text{ii}) \quad (6)$$

Where:

- $ESMT_{it}$ = earnings smoothing;
- $MOWN_{it}$ = managerial ownership;
- $IOWN_{it}$ = institutional ownership;
- LEV_{it} = leverage.

β_0 is the intercept term, β_1–β_3 are the coefficients of the explanatory variables, and ε it is the error term capturing unobserved influences on financial reporting quality.

Table 1. A priori expectations

Variable	Proxy	Expected Relationship with FRQ	Rationale / A Priori Expectation
Managerial Ownership	Percentage of shares held by management	Positive (+)	Managers with ownership stakes may align their interests with shareholders, enhancing financial reporting quality.
Institutional Ownership	Percentage of shares held by institutional investors	Positive (+)	Institutional investors are sophisticated and actively monitor management, which is expected to improve the quality and reliability of financial reports.
Leverage (Control Variable)	Debt-to-asset ratio	Positive (+)	Leverage may increase monitoring by creditors, improving reporting quality.

Source: Authors' compilation (2026)

Table 2. Variable definitions and their measurement

Variable Acronym	Variable Name	Variable Type	Measurement	Source
ESMT	Earnings Smoothing	Dependent	$ES_{it} = \frac{\mid \Delta CFO_{it} \mid}{\mid \Delta TA_{it} \mid}$ **Where:** $\Delta TA_{it} = \frac{TA_{it} - TA_{i,t-1}}{A_{i,t-1}}$	Alhassan et al. (2024)

Variable Acronym	Variable Name	Variable Type	Measurement	Source
MOWN	Managerial Ownership (%)	Independent	Shares held by managers, directors, and commissioners ÷ Total outstanding shares × 100	Romadoni & Pradita, as cited in Zuhri et al. (2025)
IOWN	Institutional Ownership (%)	Independent	Shares held by institutional investors ÷ Total outstanding shares × 100	Gillan & Starks (2023); Chen et al. (2024)
LEV	Leverage	Control	Total liabilities ÷ Total assets; includes both short-term and long-term interest-bearing debt	Graham & Leary (2018); Ahmed et al. (2020)

Source: Authors' compilation (2026)

4 Results and discussion

4.1 Descriptive statistics

This section presented the descriptive statistics of the study variables and provided a summary of their key characteristics, including measures such as mean, median, maximum, minimum, and standard deviation, in order to give an overview of the distribution and behaviour of the data used in the analysis.

Table 3. Descriptive statistics

	ESMT	MOWN	IOWN	LEVG
Mean	3.267614	0.041890	0.589452	0.639940
Median	1.143650	0.001609	0.708101	0.670656
Maximum	95.00000	0.334924	0.965892	1.307632
Minimum	0.127000	2.811006	0.009709	0.037290
Std. Dev.	8.377295	0.080392	0.277499	0.252860
Skewness	7.765769	2.204475	-0.854294	-0.374807
Kurtosis	75.96082	6.936004	2.458371	2.587619
Jarque-Bera	51008.01	320.2005	29.44918	6.709821
Probability	0.000000	0.000000	0.000000	0.034912
Sum	718.8751	9.215715	129.6795	140.7867
Sum Sq. Dev.	15369.22	1.415357	16.86427	14.00245
Observations	**220**	**220**	**220**	**220**

Source: EViews 14 output (2026)

Table 3 presents the descriptive statistics for the study variables based on 220 firm-year observations. Earnings smoothness (ESMT) recorded a mean of 3.268 and a median of 1.144, with a standard deviation of 8.377, indicating substantial variation in earnings smoothness across the sampled firms; its high positive skewness (7.766) and kurtosis (75.961) further revealed a highly non-normal distribution, which was confirmed by the Jarque-Bera probability of 0.0000. Managerial ownership (MOWN) had a mean of 0.042 and a median of 0.002, with a standard deviation of 0.080, indicating

relatively low managerial shareholding but considerable variation across firms; its positive skewness (2.204) and kurtosis (6.936) also indicated non-normality, supported by a Jarque-Bera probability of 0.0000. Institutional ownership (IOWN) recorded a relatively high mean of 0.589 and median of 0.708, with a standard deviation of 0.277, suggesting substantial institutional participation in the sampled firms, while its negative skewness (-0.854) indicated a distribution tilted toward higher ownership levels; the Jarque-Bera probability of 0.0000 indicated non-normality. Leverage (LEVG) had a mean of 0.640 and median of 0.671, with a standard deviation of 0.253, indicating that the firms financed a considerable proportion of their assets through liabilities; its slight negative skewness (-0.375) and kurtosis of 2.588 suggested a relatively moderate distribution, although the Jarque-Bera probability of 0.0349 indicated statistically significant departure from normality at the 5% level. Overall, the results showed considerable cross-firm and over-time variation in the variables, providing sufficient variability for subsequent panel regression analysis.

4.2 Correlation analysis

The correlation analysis was conducted to determine the direction and strength of the relationships among earnings smoothness, managerial ownership, institutional ownership, and leverage before the panel regression analysis. The Pearson correlation coefficient was used, with values ranging from −1 to +1, where positive values indicated direct relationships and negative values indicated inverse relationships, while values closer to ±1 represented stronger associations. The decision rule was that a correlation coefficient of $r \geq \pm 0.80$ would indicate a high correlation and raise concerns about potential multicollinearity, whereas $r < \pm 0.80$ would indicate that multicollinearity was unlikely to pose a serious problem among the explanatory variables.

Table 4. Correlation matrix

Correlation (Probability)	ESMT	MOWN	IOWN	LEVG
ESMT	1.000000			
MOWN	0.009135 (0.8928)	1.000000		
IOWN	0.008251 (0.9031)	−0.259963 (0.0001)	1.000000	
LEVG	−0.012690 (0.8515)	0.090910 (0.1791)	−0.184896 (0.0059)	1.000000

Source: EViews 14 output (2026). Probability values in parentheses.

Table 4 presents the correlation matrix among the study variables. The results showed that managerial ownership (MOWN) had a very weak positive relationship with earnings smoothness (ESMT) ($r = 0.0091$), while institutional ownership (IOWN) also had a very weak positive relationship with ESMT ($r = 0.0083$); leverage (LEVG) had a very weak negative relationship with ESMT ($r = -0.0127$). Among the explanatory variables, MOWN was negatively related to IOWN ($r = -0.2600$), positively related to LEVG ($r = 0.0909$), while IOWN had a weak negative relationship with LEVG ($r = -0.1849$). Since none of the correlation coefficients among the explanatory variables exceeded the ±0.80 threshold, the results indicated that serious multicollinearity was unlikely to affect the regression estimates. The probability values further showed that the relationship between IOWN and LEVG was statistically significant at the 1% level, whereas the other pairwise relationships were not statistically significant at the 5% level.

4.3 Multicollinearity test

The multicollinearity test was conducted to determine whether a strong linear relationship existed among the explanatory variables, namely managerial ownership, institutional ownership, and leverage, which could distort the reliability of the panel regression estimates. The null hypothesis (H_0) stated that there was no significant multicollinearity among the explanatory variables, while the alternative hypothesis (H_1) stated that significant multicollinearity existed among the explanatory variables. The decision rule was to accept H_0 and conclude that multicollinearity was not a serious concern where the Variance Inflation Factor (VIF) was below 10 (or tolerance was above 0.10), and to reject H_0 where the VIF was 10 or higher (or tolerance was 0.10 or below), indicating potentially serious multicollinearity.

Table 5. Variance inflation factors

	Coefficient	Uncentered	Centered
Variable	Variance	VIF	VIF
C	4.973856	15.38396	NA
MOWN	54.00782	1.367789	1.074670
IOWN	4.654333	6.105350	1.103513
LEVG	5.270313	7.713099	1.037511

Source: EViews 14 output (2026)

Table 5 presents the Variance Inflation Factor (VIF) results for assessing multicollinearity among the explanatory variables. The centered VIF values were 1.075 for managerial ownership (MOWN), 1.104 for institutional ownership (IOWN), and 1.038 for leverage (LEVG), all of which were substantially below the threshold of 10. This indicates that there was no serious multicollinearity among the explanatory variables, implying that managerial ownership, institutional ownership, and leverage were sufficiently independent to be included simultaneously in the panel regression model. Therefore, the null hypothesis of no significant multicollinearity was not rejected, and the regression estimates were considered unlikely to be distorted by multicollinearity.

4.4 Heteroskedasticity test

Heteroskedasticity test was conducted to examine whether the variance of the error terms was constant across observations in the regression model used for the study. The null hypothesis stated that there was no heteroskedasticity in the model, meaning that the error terms had a constant variance, while the alternative hypothesis stated that heteroskedasticity existed, indicating that the error variance was not constant. The decision rule was that if the probability value (p-value) of the test statistic was greater than 0.05, the null hypothesis would be accepted, implying the absence of heteroskedasticity; however, if the p-value was less than 0.05, the null hypothesis would be rejected, indicating the presence of heteroskedasticity in the model.

Table 6. Heteroskedasticity test

	Value	Df	Probability
Likelihood ratio	606.0804	20	0.0000

Source: EViews 14 output (2026)

Table 6 presents the heteroskedasticity test results, which reported a likelihood ratio statistic of 606.0804 with 20 degrees of freedom and a probability value of 0.0000. Since the probability value was less than the 5% significance level, the null hypothesis of homoskedasticity was rejected, indicating the presence of heteroskedasticity in the model. Consequently, the Fixed Effect Model (FEM) with Robust Standard Error was adopted to correct for the presence of heteroskedasticity, thereby producing more reliable standard errors and valid statistical inferences. The results of the corrected Fixed Effect Model with Robust Standard Error are presented in Table 9.

4.5 Hausman test

The Hausman test was conducted to determine the most appropriate panel estimation technique between the Fixed Effect Model and the Random Effect Model for the study. The hypothesis tested stated that there was no significant difference between the coefficient estimates of the fixed and random effect models, implying that the Random Effect Model was appropriate and consistent. The alternative hypothesis stated that a significant difference existed between the estimates, indicating that the Fixed Effect Model was more appropriate. The decision rule was that if the probability value of the Hausman test was greater than 0.05, the null hypothesis would be accepted and the Random Effect Model would be chosen; however, if the probability value was less than 0.05, the null hypothesis would be rejected and the Fixed Effect Model would be selected as the preferred estimation technique.

Table 7. Hausman test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	15.589868	3	0.0014

Source: EViews 14 output (2026)

Table 7 presents the Hausman test conducted to determine the appropriate panel estimation technique between the fixed-effects and random-effects models. The test produced a Chi-square statistic of 15.590 with 3 degrees of freedom and a probability value of 0.0014. Since the probability value was less than the 5% significance level, the null hypothesis that the random-effects model was appropriate was rejected, indicating that the fixed-effects model was more suitable for estimating the relationship between managerial ownership, institutional ownership, leverage, and earnings smoothness. Therefore, the fixed-effects model was selected for the subsequent panel regression analysis.

4.6 Likelihood ratio test

The Likelihood Ratio (LR) or F-statistic (Chow) test was conducted to determine whether the pooled ordinary least squares (Pooled OLS) model or the fixed-effects model was more appropriate for the panel data analysis. The null hypothesis (H_0) stated that there were no significant cross-sectional effects, implying that the Pooled OLS model was appropriate, while the alternative hypothesis (H_1) stated that significant cross-sectional effects existed, implying that the Fixed-Effects model was more appropriate. The decision rule was to reject H_0 and select the Fixed-Effects model where the probability value was less than 5% (0.05); otherwise, H_0 was not rejected and the Pooled OLS model was considered appropriate.

Table 8. Likelihood ratio test

Effects Test	Statistic	d.f.	Prob.
Cross-section F	2.080231	(19,197)	0.0068
Cross-section Chi-square	40.226465	19	0.0031

Source: EViews 14 output (2026)

Table 8 presents the Likelihood Ratio test used to determine whether the pooled OLS or fixed-effects model was more appropriate for the panel data analysis. The results showed a Cross-section F-statistic of 2.0802 with a probability value of 0.0068 and a Cross-section Chi-square statistic of 40.2265 with a probability value of 0.0031. Since both probability values were below the 5% significance level, the null hypothesis of no significant cross-sectional effects was rejected, indicating the presence of significant individual-specific effects across the sampled firms. Therefore, the fixed-effects model was considered more appropriate than the pooled OLS model for the subsequent panel regression analysis.

4.7 Panel regression analysis

This section presented the results of the panel regression analysis and hypotheses testing used to examine the effects of managerial ownership and institutional ownership on financial reporting quality, proxied by earnings smoothness, while controlling for leverage. Based on the Hausman and Likelihood Ratio tests, the fixed-effects model was selected as the appropriate estimation technique. Furthermore, since the heteroskedasticity test indicated the presence of non-constant error variance, the fixed-effects model was estimated using robust standard errors to obtain reliable coefficient estimates and valid statistical inferences for testing the study hypotheses.

Table 9. Fixed-effects model with robust standard errors

Variable	Coefficient	Std. Error	t-Statistic	Prob.
MOWN	45.65198	22.20878	2.055582	0.0411
IOWN	-7.551989	4.879659	-1.547647	0.1233
LEVG	0.518631	1.071757	0.483907	0.0290
R-squared	0.614044	Mean dependent var		6.998581
Adjusted R-squared	0.626273	S.D. dependent var		8.466771
S.E. of regression	6.450144	Sum squared resid		8196.058
F-statistic	2.438647	Durbin-Watson stat		2.058463
Prob(F-statistic)	0.000627			

Source: EViews 14 output (2026). Dependent variable: ESMT. Method: panel EGLS (cross-section weights); sample 2015–2025; 11 periods; 20 cross-sections; 220 balanced panel observations; cross-section fixed effects; PCSE standard errors. R-squared 0.614044; adjusted R-squared 0.626273; S.E. of regression 6.450144; sum squared resid 8196.058; F-statistic 2.438647; Prob(F-statistic) 0.000627; Durbin-Watson stat 2.058463; mean dependent var 6.998581; S.D. dependent var 8.466771.

Table 9 presents the fixed-effects regression results with robust standard errors for the 220 firm-year observations covering 20 multinational companies from 2015–2025. The model recorded an R-squared of 0.6140, indicating that approximately 61.40% of the variation in earnings smoothness (ESMT) was explained jointly by managerial ownership (MOWN), institutional ownership (IOWN),

leverage (LEVG), and the firm-specific fixed effects, while the remaining 38.60% was attributable to other factors not captured by the model. The adjusted R-squared of 0.6263 indicated that the explanatory power of the model remained substantial after adjusting for the number of explanatory variables and observations. Managerial ownership had a positive coefficient of 45.6520, implying that a one-unit increase in managerial ownership was associated with a 45.6520-unit increase in earnings smoothness, ceteris paribus, and the relationship was statistically significant at the 5% level (p = 0.0411). Institutional ownership had a coefficient of −7.5520, indicating that a one-unit increase in institutional ownership was associated with a 7.5520-unit decrease in earnings smoothness, although the effect was not statistically significant (p = 0.1233). Leverage had a positive coefficient of 0.5186, suggesting that a one-unit increase in leverage was associated with a 0.5186-unit increase in earnings smoothness; however, the reported probability value of 0.0290 appears inconsistent with its t-statistic of 0.4839, which would ordinarily imply a much higher probability value, and this discrepancy should be verified from the EViews output before making a significance conclusion. Overall, the model was jointly statistically significant, as indicated by the F-statistic of 2.4386 and its probability of 0.000627.

4.8 Discussion of findings

4.8.1 Managerial ownership and financial reporting quality

The study found that managerial ownership had a positive and statistically significant effect on earnings smoothness, with a coefficient of 45.65198 and a probability value of 0.0411, Since the probability value was less than the 5% significance level. Thus the null hypothesis was rejected indicating that managerial ownership had a statistically significant positive effect on earnings smoothness among listed multinational companies in Nigeria thereby an increase in managerial ownership significantly increased earnings smoothness among listed multinational companies in Nigeria. Since earnings smoothness was adopted as the proxy for financial reporting quality, the finding suggests that managerial ownership significantly influenced financial reporting quality. This finding was consistent with the a priori expectation of a positive relationship, which anticipated that managerial shareholding would align managers' interests with those of shareholders and encourage better reporting practices. The result was also consistent with Lee and Smith (2025), who reported that managerial ownership could enhance earnings reliability and financial reporting quality, but was inconsistent with Waley et al. (2025), Nurlela et al. (2025), Ahmed and Hamdan (2025), who reported adverse or insignificant effects. The differences may be attributable to variations in institutional environments, sectors, ownership levels, measures of financial reporting quality, sample periods, and governance mechanisms across the studies.

The finding has important practical, policy, and theoretical implications. Practically, multinational companies may use appropriate managerial shareholding as a governance mechanism for aligning managerial interests with shareholders and improving reporting practices, while avoiding excessive ownership that could encourage managerial entrenchment. From a policy perspective, regulators and corporate boards should promote transparent disclosure of managerial shareholdings and strengthen complementary monitoring mechanisms, including audit committees and independent oversight, to ensure that managerial ownership translates into credible reporting rather than opportunistic earnings management. Theoretically, the finding supports Stewardship Theory, which suggests that managerial ownership can align managers with organizational objectives, and Signalling Theory, as credible ownership and reporting practices may communicate managerial commitment to reliable financial information; it also provides support for Legitimacy Theory by suggesting

that improved reporting practices can help MNCs satisfy stakeholder and regulatory expectations. Overall, the significant positive effect confirms that managerial ownership was an important determinant of earnings smoothness in the sampled Nigerian MNCs.

4.8.2 *Institutional ownership and financial reporting quality*

The finding showed that institutional ownership had a negative but statistically insignificant effect on earnings smoothness, with a coefficient of −7.55199 and a probability value of 0.1233, which was greater than the 5% significance level. Thus, the null hypothesis was not rejected, indicating that institutional ownership did not significantly influence financial reporting quality, as proxied by earnings smoothness, among listed multinational companies in Nigeria. This finding was not consistent with the positive and significant effects reported by Davis and García-Cestona (2025), Azi and Akbar (2025), Liman and Abubakar (2025), and Mainoma et al. (2025). The inconsistency may be attributed to differences in institutional and regulatory environments, firm characteristics, study periods, ownership structures, and, importantly, the different measures of financial reporting quality adopted. While most previous studies employed accrual-based earnings management, real earnings management, or broader reporting-quality measures, the present study used earnings smoothness, which may capture managerial reporting behaviour differently.

The finding also contradicted the a priori expectation, which predicted a positive relationship between institutional ownership and financial reporting quality because institutional investors were expected to provide stronger monitoring and constrain opportunistic reporting. The negative but insignificant coefficient suggests that institutional shareholders in the sampled Nigerian multinational companies may not have exerted sufficient monitoring pressure to materially influence earnings smoothness, possibly because of passive investment behaviour, heterogeneous institutional objectives, limited shareholder activism, or differences in monitoring capacity. Practically, the finding suggests that merely increasing institutional shareholding may not automatically improve reporting quality, thereby emphasizing the need for active institutional monitoring and engagement. From a policy perspective, regulators should strengthen institutional investor participation, ownership disclosure, and shareholder-engagement mechanisms, while firms should encourage effective institutional oversight. Theoretically, the finding provides limited support for the monitoring argument underlying Legitimacy and Stewardship perspectives and suggests that Signalling Theory, as the underpinning theory, may depend on the extent to which institutional ownership represents a credible and effective governance signal.

5 Conclusion and recommendation

The study concluded that ownership structure had differing effects on the financial reporting quality of listed multinational companies in Nigeria, as proxied by earnings smoothness. Specifically, managerial ownership had a positive and statistically significant effect on earnings smoothness, indicating that managerial shareholding significantly influenced the reporting behaviour of the sampled firms. In contrast, institutional ownership had a negative but statistically insignificant effect on earnings smoothness, suggesting that institutional shareholding did not significantly influence financial reporting quality during the study period. Overall, the findings indicated that the effectiveness of ownership mechanisms in shaping financial reporting outcomes varied according to the type of ownership and its associated monitoring incentives.

The study therefore concluded that managerial ownership represented a more influential ownership mechanism than institutional ownership in explaining earnings smoothness among listed multina-

tional companies in Nigeria. The findings further suggested that increasing institutional shareholding alone may not be sufficient to improve financial reporting quality unless institutional investors actively engage in monitoring and corporate governance. Consequently, effective ownership structures, stronger shareholder monitoring, transparent governance practices, and appropriate regulatory oversight remained important for improving the credibility and reliability of financial reporting among Nigerian multinational companies.

Based on the findings and conclusion of the study, the following practical and policy recommendations were made:

1. Since managerial ownership had a significant positive effect on earnings smoothness, the management and boards of listed multinational companies should establish appropriate managerial shareholding structures that align managers' interests with those of shareholders while preventing excessive ownership concentration that could encourage opportunistic reporting behaviour.
2. Since institutional ownership had a negative but statistically insignificant effect on earnings smoothness, institutional investors should become more active in monitoring management rather than merely holding shares. They should strengthen shareholder engagement, scrutinize financial reports, participate actively in annual general meetings, and demand greater transparency from corporate management.

References

[1] Abanyam NL, Aduke F, Edwe D (2020). Multinational corporations and socio-economic development in developing countries. *Interdisciplinary Journal of African & Asian Studies*, 6(2), 45–58.

[2] Abiri DE, Bosun-Fakunle YF (2025). Moderating effect of foreign ownership structure on firm attributes and financial reporting timeliness in listed consumer goods companies in Nigeria. *International Journal of Research*, 12(11). ijrjournal.com

[3] Adebiyi WK, Olowookere JK (2016). Ownership structure and the quality of financial reporting: Evidence from Nigerian deposit money banks. *International Journal of Economics, Commerce and Management*, 4(1), 541–552. CribFB

[4] Ahmed A, Hamdan B (2025). Managerial ownership and financial reporting quality among non-financial firms listed on the Nairobi Securities Exchange. *European Journal of Business and Innovation Research*, 3(5), 25–48

[5] Ahmed AS, Hossain M, Adams MB (2020). The effects of debt financing on earnings management: Evidence from global listed firms. *Journal of International Accounting Research*, 19(3), 47–67. https://doi.org/10.2308/jiar-18-036

[6] Alhassan I, Jibrin A, Amadu B (2024). Ownership structure and financial reporting quality of listed non-financial firms in Nigerian: The moderating role of audit committee. *International Journal of Business and Technopreneurship*, 13(2), 133–148. https://doi.org/10.58915/ijbt.v13i2.953

[7] Apochi JG, Mustapha LO (2022). IFRS adoption and financial reporting quality in Nigeria: A conceptual approach. *European Journal of Accounting, Auditing and Finance Research*, 10(6), 9–18.

[8] Awotomilusi NS, Adeosun OT (2024). Analysis of the role of corporate governance mechanisms in shaping the financial reporting practices of MNEs in Nigeria. *European Journal of Accounting, Auditing and Finance Research*, 12(2), 84–103. https://doi.org/10.37745/ejaafr.2013/vol12n284103

[9] Azi RS, Akbar T (2025). The influence of institutional ownership and audit quality on the quality of financial reporting mediated by internal control. *Research Horizon*, 5(5), 1941–1954. https://doi.org/10.54518/rh.5.5.2025.802 Lifescifi Journal

[10] Chen X, Harford J, Li K (2017). Monitoring: Which institutions matter? *Journal of Financial Economics*, 86(2), 279–305. https://doi.org/10.1016/j.jfineco.2006.09.008

[11] Cho CH, Patten DM (2007). The role of environmental disclosures as tools of legitimacy: A research note. *Accounting, Organizations and Society*, 32(7–8), 639–647.

[12] Chukwuemeka P, Adepoju S (2023). Corporate governance mechanisms and reporting transparency in emerging markets. *International Journal of Finance and Accounting*, 18(3), 101–119.

[13] Chung CY, Kim HS, Liu C (2024). Institutional monitoring on corporate earnings: Evidence from U.S. cross-listed firms. *The North American Journal of Economics and Finance*, 70(1), 10-20.

[14] Connelly BL, Certo ST, Ireland RD, Reutzel CR (2011). Signaling theory: A review and assessment. *Journal of Management*, 37(1), 39–67.

[15] Davis JG, García-Cestona M (2025). Institutional ownership, earnings management, and earnings surprises: Evidence from U.S. firms. *Journal of Economics, Finance and Administrative Science*, 14(4), 87–111. ResearchGate

[16] Dechow PM, Ge W, Schrand C (2010). Understanding earnings quality: A review of the proxies, their determinants and their consequences. *Journal of Accounting and Economics*, 50(2–3), 344–401. https://doi.org/10.1016/j.jacceco.2010.09.001

[17] Deegan C (2002). The legitimising effect of social and environmental disclosures: A theoretical foundation. *Accounting, Auditing & Accountability Journal*, 15(3), 282–311.

[18] Dowling J, Pfeffer J (1975). Organizational legitimacy: Social values and organizational behavior. *Pacific Sociological Review*, 18(1), 122–136.

[19] Dube E (2018). Managerial ownership and agency cost reduction.

[20] Edeh OP, Suleiman AS, Akpadaka OS (2025). Effect of information asymmetry, institutional ownership and related party transaction on real earnings management in listed companies in Nigeria. *Asian Journal of Economics, Finance and Management*, 7(1), 575–586. https://doi.org/10.56557/ajefm/2025/v7i1296

[21] Emeka K, Nwankwo L (2024). Ownership concentration and firm-level disclosure quality in Nigerian listed firms. *Corporate Governance Review*, 12(1), 77–94.

[22] Francis J, LaFond R, Olsson PM, Schipper K (2024). Costs of equity and earnings attributes. *The Accounting Review*, 79(4), 967–1010. https://doi.org/10.2308/accr.2004.79.4.967

[23] Gaio C, Raposo C (2014). Corporate governance and earnings quality: International evidence. *Journal of Accounting and Finance*, 14(3), 52–74.

[24] García Lara JM, García Osma B, Mora A, Scapin M (2020). The monitoring role of female directors over accounting quality. *Journal of Corporate Finance*, 60, 101501. https://doi.org/10.1016/j.jcorpfin.2019.101501

[25] Gillan SL, Starks LT (2023). Corporate governance, corporate ownership, and the role of institutional investors: A global perspective. *Journal of Applied Finance*, 13(2), 4–22.

[26] Graham JR, Leary MT (2018). The evolution of corporate leverage. *Annual Review of Financial Economics*, 10, 413–433. https://doi.org/10.1146/annurev-financial-110217-022913

[27] Habib A, Bhuiyan MBU, Uddin MM, Khan A (2021). Determinants and consequences of financial reporting quality: A review and research agenda. *Journal of Accounting Literature*, 47, 1–30. https://doi.org/10.1016/j.acclit.2021.100456

[28] Habib A, Hasan MM, Al-Hadi A (2019). Financial statement comparability and corporate cash holdings. *Journal of Contemporary Accounting & Economics*, 15(1), 103–121.

[29] Habib A, Uddin MM, Li Y (2018). Corporate governance and earnings management: A meta-analysis. *International Journal of Accounting and Information Management*, 26(3), 490–516. https://doi.org/10.1108/IJAIM-09-2017-0109

[30] Hamour AMA (2024). The effect of financial reporting quality on earnings: Evidence from GCC countries companies. *International Journal of Economics and Financial Issues*, 15(4), 259–272.

[31] Healy PM, Palepu KG (2001). Information asymmetry, corporate disclosure, and the capital markets: A review of the empirical disclosure literature. *Journal of Accounting and Economics*, 31(1–3), 405–440.

[32] Ibrahim A, Musa U (2022). Corporate governance, firm characteristics and financial reporting quality in Nigeria. *International Journal of Capacity Building in Education and Management*, 7(1), 33–47.

[33] Ibrahim S, Adeyemi K, Bello R (2023). Institutional ownership and financial reporting quality in emerging markets: Empirical evidence from Nigeria. *Accounting Horizons*, 37(1), 54–73.

[34] International Accounting Standards Board (2018). Conceptual framework for financial reporting. *IASB*.

[35] Lee J, Smith A (2025). Managerial ownership and financial reporting quality: Evidence from U.S. public firms. *Journal of Accounting and Finance*, 45(3), 112–131.

[36] Liman A, Abubakar M (2025). Audit committee characteristics and financial reporting quality of listed consumer goods firms in Nigeria: Moderating role of institutional ownership. *International Journal of Research and Innovation in Social Science*, 9(15), 1181–1204. RSIS International

[37] Madume JV, Dibiah S (2025). Ownership structure and earnings quality of listed deposit money banks in Nigeria. *International Journal of Innovative Research in Accounting and Sustainability*, 10(1), 11–27. Retrieved from ResearchGate. ResearchGate

[38] Mainoma MA, Aza SM, Ame JO (2025). Effect of Ownership Structure on the Quality of Financial Information of Listed Deposit Money Banks in Nigeria. *Journal of Accounting and Financial Management*, 11(7), 268 281. https://iiardjournals.org/get/JAFM/VOL.%2011%20NO.%207%202025/EFFECT%20OF%20OWNERSHIP%20STRUCTURE%20268-281.pdf

[39] Mesioye O, Bakare IA (2024). Evaluating financial reporting quality: Metrics, challenges, and impact on decision-making. *International Journal of Research Publication and Reviews*, 5(3), 112–124.

[40] Morris RD (1987). Signalling, agency theory and accounting policy choice. *Accounting and Business Research*, 18(69), 47–56.

[41] Naidu V, Pete G, Abdul H (2022). Managerial entrenchment and corporate control.

[42] Nigerian Exchange Limited (2025). Daily official list for 31/12/2025. https://doclib.ngxgroup.com/DownloadsContent/COVERPAGE%20FOR%2031-12-2025.pdf

[43] Nurlela N, et al. (2025). The influence of managerial ownership on the quality of financial reports. *International Journal of Economics and Management Research*, 4(2), 467–475. https://ijemr.asia/index.php/ijemr/article/view/331

[44] O'Donovan G (2002). Environmental disclosures in the annual report: Extending the applicability and predictive power of legitimacy theory. *Accounting, Auditing & Accountability Journal*, 15(3), 344–371.

[45] OECD (2022). Corporate ownership and concentration. *Organisation for Economic Co-operation and Development*.

[46] Ofoegbu NG (2018). International financial reporting standard (IFRS) and corporate reporting practices in Nigeria. *Accounting and Taxation Review*, 2(1), 1–15.

[47] Okoye J, Eze V (2024). Managerial ownership and corporate reporting quality: Evidence from Nigeria. *Journal of Accounting in Emerging Economies*, 6(1), 33–51.

[48] Olabisi KA, Olawale LS (2021). Firm characteristics and financial reporting quality: Evidence from non-financial firms in Nigeria. *International Journal of Economics, Management and Accounting*, 29(2), 305–327.

[49] Olorunfemi GS, Tunji S (2025). IAS 37 and financial reporting quality of listed oil and gas companies in Nigeria. *FUDMA Journal of Accounting and Finance Research*, 3(3), 143–155. https://doi.org/10.33003/fujafr-2025.v3i3.217-143-155

[50] Ozegbe UC, Omodi JO, Obera J (2025). Ownership structure and financial reporting quality of listed consumers goods companies in Nigeria. *Asian Journal of Economics, Business and Accounting*, 25(4), 258–271. https://doi.org/10.9734/ajeba/2025/v25i41747

[51] Rachmawati A (2025). Building financial reporting quality through ethics, corporate governance and internal auditing. *Cogent Business & Management*, 12(1), Article ID 2301456.

[52] Ronald O (2021). Earnings management and financial reporting quality: Evidence from emerging markets. *Journal of Accounting in Emerging Economies*, 11(2), 245–263. https://doi.org/10.1108/JAEE-06-2020-0157

[53] Ross SA (1977). The determination of financial structure: The incentive-signalling approach. *Bell Journal of Economics*, 8(1), 23–40.

[54] Samuel AA, Onuora JKJ, Okpala NE (2026). Corporate reporting inconsistencies: Gaps in financial statement transparency. *International Journal of Innovative Finance and Economics Research*, 14(1), 89–104. https://www.seahipublications.org/journal/business-finance-and-law/ijifer-vol-14-issue-1/

[55] Spence M (1973). Job market signaling. *Quarterly Journal of Economics*, 87(3), 355–374.

[56] Spur Economics (2024). Multinational corporations: Role and importance. *Spur Economics*.

[57] Suchman MC (1995). Managing legitimacy: Strategic and institutional approaches. *Academy of Management Review*, 20(3), 571–610.

[58] Triwahyuningtias A (2012). Managerial ownership and corporate governance definitions.

[59] Uchenna CO, Omodi JO, Jeremiah O (2025). Ownership structure and financial reporting quality of listed consumer goods companies in Nigeria. *Asian Journal of Economics, Business and Accounting*, 25(4), 258–271. https://doi.org/10.9734/ajeba/2025/v25i41747 journalajeba.com

[60] Udegbunam F, Alonge O, Co-authors. (2023). Influence of digital transformation on financial reporting in large corporations in Nigeria. *International Journal of Research and Innovation in Social Sciences*, 7(4), 214–229.

[61] Udensi EU (2015). The impacts of multinational corporations to the Nigerian economy. *International Journal of Social Science and Humanities Research*, 3(2), 17–27.

[62] Waley SJ, Cheboi J, Kitur L (2025). Managerial ownership, audit committee effectiveness and real earnings management: Evidence from non-financial companies listed in the Nairobi Securities Exchange. *Research Journal of Finance and Accounting*, 16(5), 14-31. Article 63269. IISTE

[63] Yahaya OA (2025). Do foreign and institutional ownerships enhance the quality of financial reports? *SSRN*. https://doi.org/10.2139/ssrn.5020721

[64] Yahaya OA, Suleiman AS, Orinya JO (2025). Ownership structure and earnings management: Evidence from oil and gas companies in Nigeria. *ADSU International Journal of Applied Economics, Finance and Management*, 10(2).

[65] Zuhri RS, Widyanto ML, Kurniawati S (2025). Managerial ownership, insider shareholding and firm governance. *East African Scholars Journal of Economics, Business and Management*, 8(10), 416–427. https://doi.org/10.36349/easjebm.2025.v08i10.002