CORPORATE GOVERNANCE AND EARNINGS MANAGEMENT IN LISTED NIGERIAN MANUFACTURING COMPANIES

MSc FINANCE

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ABSTRACT

Earnings Management has become an international phenomenon with the harmful impacts on firms and has created an increased concern among academics and scholars. Aggressive earnings management practices have led to the occurrence of a number of corporate scandals like Enron and WorldCom. The effect of corporate governance on earnings management of listed manufacturing firms in Nigeria was studied. The ex post facto research design was applied. The population is the forty-nine (49) listed manufacturing companies in Nigeria as at 31st December 2019 on Nigeria Stock Exchange (NSE). A sample size twenty-six (26) firms were selected using the stratified random sampling technique and the period under review is 2010-2019 (10 years). Data used in the research were obtained from annual reports of the sampled companies. Data was analyzed using both Descriptive and Inferential statistics. The study revealed that corporate governance has no significant effect on earnings management of listed manufacturing companies in Nigeria (Adj.R^2= -0.005781, $F_{(4)}$= 0.627844, $p>0.05$); there is no significant effect of board meeting frequency on earnings management (β = 0.010544; R^2= 0.005122, $t_{(1)}$= 1.153890, $p>0.05$); board gender diversity has no significant effect on earnings management (β = 0.000765; R^2= 0.002453, $t_{(1)}$= 0.795011, $p>0.05$); and board size has no significant effect on earnings management of listed companies in Nigeria (β = 0.001132; R^2= 0.000395, $t_{(1)}$= 0.319628, $p>0.05$). The study concluded based on statistical results that corporate governance does not significantly affect earnings management of listed firms in Nigeria. It is however recommended that companies should adhere strictly to corporate governance code in order to increase positive perception among investors and other users that a company's earnings and overall financial is reliable.

Words Count: 272

Keywords: Corporate governance, Earnings management, Board size, Discretionary accruals, Gender diversity, Board meeting frequency, Audit committee meeting

DECLARATION

I, Iyobosa Evbuomwan, hereby declare that this paper being submitted is wholly written by me with citations and references included where appropriate. That is, all ideas and materials consulted and garnered during the curse of this research have been acknowledged.

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CHAPTER ONE
INTRODUCTION

1.1.Background to the Study

Earnings Management has become an international phenomenon with harmful impacts on firms and has created heightened concern among academics, scholars, and industry professionals. Investors analyze companies by the actual earnings in the financial statement or ratios that are based on these earnings (Kouaib & Almulhim, 2019). The weak control of shareholders over the activities of management has resulted in fraudulent earnings management activities (Dong, *et al.*, 2020). This accounting technique has culminated in infamous frauds by several firms, such as Enron, WorldCom. A variety of studies have been conducted to explain the trend of managers and several businesses from across the world to fabricate or falsify the financial statements (Harris, *et al.,* 2019; Fan, *et al.,* 2019). The deliberate effort of management to distort financial statements, limits the accuracy and integrity of the accounts and in essence, impacts decision making by firm's stakeholders (Kurawa & Ahmed, 2020).

Management of earnings has also been a cause for concern for regulatory authorities and accounting practitioners for many years (Wasan & Kalyani, 2020). The consider earnings to be give a significant overview of the financial performance of an enterprise and are frequently utilized in company assessment. Leuz *et al*., (2003) states that income management is essentially defined as the changes in economic performance of companies reported by insiders to deceive or affect the contractual results of stakeholders. In essence, the actual performance of companies is concealed, and information obscured that the parties involved should know (Ezekiel & Patrick, 2018). In principle, however, earnings management occurs when managers exercise personal judgement and opinion in financial reporting and accounting structuring to alter financial reports with the aim of misleading stakeholders about the company's actual economic performance (Healy & Wahlen, 1999). Kurawa & Ahmed, 2020 highlighted that many factors can motivate directors to engage in earnings management. Some of these factors include increasing stock market price, taking advance of performance-based bonuses, avoid taxes or influence contractual agreements. Managers may manipulate or influence earnings to promote their own interests or to communicate their private knowledge and therefore impact earnings information (Olayiwola, 2018). While earnings management does not violate the provisions of the financial reporting laws and regulations like the International Financial Reporting Standard (IFRS) or the GAAP, it has become excessive over the past years such that it has called the attention of many.

On the other hand, corporate governance describes a framework that encompasses laws, procedures, and processes that governs how companies are guided and regulated (Raut, 2003). Many controversies, discussions and research across the world have arisen due to an increased occurrence of profit smoothening of many companies and it has resulted to greater emphasis on corporate governance by emerging economies (Peterson, 2021). The notion of corporate governance (CG) incorporates a complex range of practices about what should contribute to optimizing accountability and cohesiveness within an organization. The international community recognizes corporate governance relevance (Wasan & Kalyani, 2020). Logically, as per the observations by OECD (1999), the framework should ensure the strategic guidance of the company, the effective monitoring of management by the board, and the board's accountability to the company and the shareholders. Corporate governance is a highly topical subject in the present time, which concerns the management structure of large companies and the way in which they use their power and influence in society today in such a way as to create value for all stakeholders especially the shareholders. It encompasses a wide range of issues extending from company law to business ethics. The complex three-way relationship among shareholders, boards, and top management has been the subject of a large literature (Adams *et al.*, 2009).

Research reveals those managers with little or no supervision are freer to engage in opportunistic profits management (Dechow *et al.*, 1996.). In addition, weaker management companies enable management to have more discretion and authority inside the Management Board (Asogwa *et al.*, 2019). They are thus more likely to be involved in profit management. Active monitoring by members of the board and the audit committee and savvy shareholders' organizations substantially restricts the flexibility of management for misrepresenting financial figures (Davidson *et al.*, 2003). The General Accepted Principles for Accounting (GAAP) permit alternate accounting information presentation. Alternate accounting methods provide the company freedom to maintain alternative books. Without false reporting, management may modify the reported income by selecting an accounting technique in order to raise or reduce reported income (Buniamin *et al.*, 2012). This choice may lead to incorrect and distorted financial information presented in alternative accounting practice.

Earnings management practice requires judgmental advice to change or manipulate business earnings within the GAAP or the IFRS framework, depending on the jurisdiction. This act, simply taking advantage of the loopholes that exist in the reporting framework which is similar to taking advantage of a backdoor scheme. In 2018, The Nigerian Code of Corporate Governance (the "Code") was issued by the Financial Reporting Council of Nigeria. The code set a new standard that is intended to bolster corporate governance, financial reporting integrity and accountability across the country. Currently, Nigeria is witnessing transition, growing transparency and consistency in this area (Peterson, 2020). However, there is need to have a steady rise in corporate governance practices amidst the rising misconduct cases in the stock market. In the fast-changing and competitive Nigerian economy, the manufacturing sector is going to play a rising part (Malek, *et al.*, 2020). Thus, the study seeks to contribute to the existing body of knowledge by examining the effect of corporate governance using audit committee size, audit committee meeting frequency and gender diversity on earnings management of listed companies in Nigeria through concepts, relevant theories and empirical findings reached in the research.

1.2 Rationale for the Study

Over the past two decades, several financial and non-financial companies in Nigeria have collapsed because of bad management, such as Oceanic Bank, Intercontinental Bank, Nitel and Vodafone, amongst others. These company failures in Nigeria have led to a greater interest in study of corporate governance in Nigeria. Many of the corporate governance studies in Nigeria center around how compliance to laws and regulations influence the occurrence of corruption and fraud. However, as earlier mentioned, there is a need to further research and deep dive into corporate governance and how companies and the wider economy can benefit from it. There is a conviction that managers prefer to conform with the CG code of a tougher regulator, while managers are unlikely to comply with the lax regulator's CG code. In Nigeria, more significantly, the CG concerns, such as the plurality of CG codes in the literature are partly linked to regulation multiplicity issues in international corporate governance systems (Harris, *et al.*, 2019).

Comparative literature on corporate governance emphasizes the challenges of compliance in various countries by multinationals with different rules and codes.

In the history of earnings management, Enron is a prime example. The last few decades have seen several failures of companies in Nigeria in terms of good corporate governance (Hamdan, 2020; Ana, 2020; Nik & Hassan, 2014). These corporate failings in Nigeria have spurred increased research into the impact of corporate governance practices in Nigeria. Researchers noted that this particular domain is poorly studied in comparison to the rising cases of misconduct and non-compliance (Dong *et al*., 2020; Harris *et al*., 2019; Fan *et al*., 2019; Tolulope *et al*., 2018; Arya, Glover, & Sunder, 2003; Guay *et al*., 1996; Healy & Palepu, 1993).

Prior studies in this area have focused majorly on how corporate governance characteristics impact the occurrence of earnings manipulation within the financial services industry like commercial banks and insurance companies. In these papers, firm ownership, board size and CEO duality are the key variables used as proxies for corporate governance. As a result, this paper seeks to assess how board gender diversity influences the accounting technique under review as this variable is not popularly considered (Harris, *et al.*, 2019). In addition, the board meeting frequency, board size and audit committee meeting frequency will also be evaluated to ascertain their relationship with earnings management both individually and holistically. The environment of this study is the listed Nigerian manufacturing companies.

1.3 Objective of the Study

The main objective is to examine the effect of corporate governance on earnings management of listed manufacturing firms in Nigeria. The specific objectives are to;

i. examine the effect of board meeting frequency on earnings management of listed manufacturing companies in Nigeria.

ii. evaluate the effect of board gender diversity on earnings management of listed manufacturing companies in Nigeria.

iii. identify the effect of board size on earnings management of listed manufacturing companies in Nigeria.

iv. ascertain the effect of audit committee meeting frequency on earnings management of listed manufacturing companies in Nigeria.

CHAPTER TWO
LITERATURE REVIEW

Having considered the general concept of corporate governance and earnings management, this chapter covers an examination of pertinent literature. The section will include a conceptual review, which is an in-depth study of the concept of corporate governance and earnings management by different scholars. It will also include an examination of the theory underlying the research. Lastly, it will cover an empirical review and gaps identified in literature.

2.1.1 Conceptual review

2.1.1.1 Earnings management

Earnings management as described in the previous chapter, is a method of taking deliberate action within the context of the Generally Accepted Accounting Principles (GAAP) to achieve the desired amount of declared profits (Isam, *et al*., 2020; Healy & Wahlen, 1999; Watts & Zimmerman, 1986). Earnings management in extreme cases can look like an attempt to mislead investors and other users of the financial statement. In literature, earnings management is synonymous with income smoothening, financial statement management, creative accounting, window dressing, amongst others. The concept of earnings management is as old as accounting itself (Healy & Wahlen, 1999). Lev (1989) opined that financial statement management is a legal method of financial reporting aimed at ensuring predictable bottom line. He further highlighted that the concept should not be confused with fraud and other illegal activities that aim at misrepresentation of financial results. In the preparation of financial reports, the GAAP and IFRS stipulate that the elements of the report should be presented in such a manner that helps users to make well-informed decisions. Earnings management seeks to achieve this. However, over the years directors have used existing loopholes in the financial reporting standards to manipulate financial results (Bhatttacharya, *et al*., 2009, Abu, *et al*., 2018).

Davidson *et al*. (1987) described earnings management in Schipper (1989) as the procedure of taking intentional actions to achieve a desired level of reported revenue under the restrictions of Generally Acceptable Accounting Principles (GAAP). Healy and Wahlen (1999) highlighted that earnings management occurs when actions are taken within the context of the law, to mislead certain stakeholders as to the company's underlying economic performance, or to influence contractual outcomes that depend on the accounts reported. Income smoothening is done for several reasons like increased compensation, influencing stock market views or prevent regulatory action but can have negative consequences on firms' prospects, since preliminary research demonstrate that company's performance is clearer in the long term (Kao, *et al.,* 2009; Teoh *et al*., 1998).

According to Roodposhti and Chashmi (2011) there are three main aspects of financial statement management: the structure of some revenue and/or expenditure transactions, changes in accounting practices and management of accruals. While the first two can only be measured by insider-informed researchers, the accrual technique may be externally measured and is based on disclosures in the annual report. Accruals within the context of the financials can be non-discretionary or discretionary (Bhatttacharya, *et al*., 2009). Earnings management is concerned with discretionary accruals because they are susceptible to management's judgement and opinion (Shleifer and Vishny, 2012). Therefore, discretionary accruals will be used as a proxy for earnings management in this study (Davidson *et al*.,1987; Bhatttacharya, *et al*., 2009; Johl *et al*., 2015; Ilaboya & Obaretin, 2015; Abu, *et al*., 2018; Damilola *et al*., 2018; Isam, *et al*., 2020)

2.1.1.1 Discretionary Accruals

Non-discretionary accruals when compared to discretionary accruals, do not require management's judgement and are the expected level of accruals assuming earnings are not manipulated (Kuang, 2007). These non-discretionary accruals are unlikely to represent the management of earnings (Abu, *et al*., 2018). However, anomalous accruals alternatively known as discretionary accruals could be the main problem in earnings management. Discretionary accruals are assets and liabilities that management are not mandated to include in the financial statement, however, they could be included if it would result increased understanding of the financials. It is computed by subtracting the non-discretionary accruals from the total accruals. In arriving at non-discretionary accruals, a number of models can be used (Agwor & Onukogu, 2018). According to Acer & Coskun (2020), these models include: the cashflow model, the balance sheet model, and the modified jones model. The cashflow model computes the total accrual as the excess of the income before extra-ordinary items and the operating cashflow. The balance sheet approach uses the current assets and current liabilities to determine the total accruals. Acer & Coskun (2020) further highlighted that the cashflow model has been observed to be more accurate than the balance sheet model.

In literature however, it is observed that the Modified Jones Model is the most commonly used model when computing discretionary accruals (Kuang, 2007; Abu, *et al*., 2018; Agyei-Mensah, 2018; Acer & Coskun, 2020). A closer analysis of literature revealed that compared to the cashflow and balance sheet models, the modified jones model is mostly adopted for its accuracy and ease of use. The model also requires a lesser number of variables than the other two (Acer & Coskun, 2020). Based on these observations and data availability, the modified jones model will be adopted to quantify discretionary accruals because it is the most efficient model. It effectively determines the total accruals and dissects it to discretionary and non-discretionary using the prediction error of ordinary least-square regression (Kuang, 2007; Bhatttacharya, *et al*., 2009; Johl *et al*., 2015; Abu, *et al*., 2018; Agyei-Mensah, 2018; Agwor & Onukogu, 2018; Acer & Coskun, 2020)

2.1.2. Corporate Governance

Corporate governance concepts vary based on researchers' opinions, perspectives, and visibility (Peterson, 2021). Some definitions were attacked for being too limited and others for being too broad (Mohamed, Siti & Rohaida, 2014). A definition is categorized as wide-ranging if it focuses on the safety of all parties concerned and does not identify who they are and is classified as narrow if it focuses on maximizing shareholder interests while neglecting or ignored the interests of other stakeholders. A popular idea is the description given in the Cadbury Report, which outlines corporate governance as the management and regulation of companies (Peterson, 2021; Arifin, Astuti & Arifin, 2014; Cadbury Report, 1992). This concept emphasizes the necessity for effective administration and strong control without the issue of maximizing shareholder interests or of safeguarding stakeholders.

The major goal of corporate governance as defined by Cadbury is to ensure that the business is managed effectively to ensure balance between the company's board and investors (Kelly & Ibama, 2021). As Shleifer & Vishny (2012) highlighted, good corporate governance is a way of guaranteeing capitalists returns for their investments. The framework consists of a collection of legislation to regulate the relationship between investors, trustees (supervisors), businesses, financial institutions, the federal government, staff, stakeholders and other external and internal responsibilities and civil liberties, as well as a business system.

As a body governing the connections between management and shareholders, the Organization for Economic Co-operation and Development (OECD) explains the concept of corporate governance. They defined corporate governance as collection of processes, traditions, policies, regulations, and structures affecting how a corporation is controlled, managed, or regulated. In order to limit the detrimental impact on the agency dispute, the OECD model focuses on the administration and supervision of the interaction between company managers and equity owners. It concerns how all stakeholders adopt frameworks to safeguard their interests, according to Velnampy, (2013). Velnampy idea is might be considered too wide because of the endless number of stakeholders. In March 2003, the Corporate Governance Council of the Australian Stock Exchange (ASX) issued corporate management standards for Australia, which describe corporate governance as the mechanism through which corporations are controlled, run and regulated risk. It can be argued that this notion is most comprehensive since it considers risk management.

Having considered the above definitions, it is observed that corporate governance definitions and scope vary among researchers, institutions, and corporations; this diversity is brought about by the increasing scope of the topic of corporate management itself and whether directors are responsible for both maximizing owners' wealth and protecting and maximizing the interests of other stakeholders.

2.1.2.1 Board meeting Frequency

To deliberate and deal with essential problems related to past experiences, present challenges and future difficulties related to the survival of the organization (going concern), board meetings are essential (Sabo, 2018). Outcomes of this exercise are implemented to ensure effective business operations that ensure maximization of shareholders' wealth. The exercise is an important tool for efficient harmonization of opinions to achieve the overall aims of companies (Damilola *et al*., 2018). It serves as a platform for discussions and crucial concerns with an aim of efficient, effective, and economic decisions making for success and growth within the organization. (Johl *et al*., 2015; Ilaboya & Obaretin, 2015).

Menozzi, *et al*., (2010) and Johl *et al*., (2015) opine that there is no legislation which stipulates, to the best of knowledge, the minimum number of meetings a member will attend. This indicates that the control over the individual diligence of board members is internal and subjective. Some countries like Ireland also have no legislation on the number of times the board should meet in a year. However, the Nigerian corporate governance code stipulates that the board in public companies should meet no less than 4 times a year, that is, at least once every quarter (Lasfer, 2011).

Johl, *et al*., (2015) argues that board meetings and meetings attendance are viewed as significant routes through which managers get information that enhances their monitoring function. The higher the number of meetings, the higher the ability to effectively advise, supervise and manage the company's financial performance. The numbers of board meetings are, according to Hahn and Lasfer (2011), one indicator of the participation of non-executive directors in the business and definitely one of the most apparent metrics of corporate decision monitoring. They further argued that boards who do not adjust meeting frequency to their company demands cannot give its NEDs the best opportunity to perform their key monitoring duties. Fadzil and Noor (2013) opined that the board is the principal means addressing companies' performance, business environments and strategic direction.

Also, the board votes on major decisions like merger and acquisitions, changes to the financial structure of the company, such as equity repurchases or new debt issuance. In addition to their monitoring duty, directors must advise management on the business plan of a company. However, Evans, *et al*. (2002) argues that as the board meeting rises, cost directly attributable to directors rise.

A company's well-being can be argued to be directly proportional to the number of board meetings (Chen, *et al*., 2006; Akram, *et al*., 2020). The objective of excellent corporate governance is to enable executives to brainstorm through meetings, monitor business operations and manage risk (Akram, *et al*., 2020).

2.1.2.1 Board gender diversity

Diversity is described as variety of age, race, ethnicity, gender, social/cultural identity and professional background in a group of people (Sabo, 2018). The variety of the Board's composition was described by Irge and Karaye (2014) as the diverse collection of attributes, qualities, and competences that members possess. It can also be described a structural phenomenon encompassing gender, age and ethnicity, while some refer to board diversity as consisting of independence of the board, CEO duality and ownership of directors (Hoang *et al*., 2018; Ogboi *et* *al.*, 2018). Suleiman *et al*. (2018), explains the concept as a feature within the boards and varies from expertise, personality, age, management background, style of learning, gender, values to training.

Eulerich *et al*., (2014) claimed that diversity on the Board is an important tool for corporate governance. This claim is in line with the Nigerian code of corporate governance which mandates that the board of directors should consist of professionals who are diverse in age, education, gender, race, ethnicity, and background. It is an approach to improve the quality of decisions made and overall corporate governance within a business organization. Board gender diversity is an area where many companies have struggled both locally and internationally (Krayyem, 2019). It is observed that women are underrepresented in boards in many sectors of the economy and their impact being underestimated (Olufemi, 2021). The Central Bank of Nigeria (CBN) Regulation mandates the presence of no less than 30% women in Nigerian traded deposit banks (International Finance Corporation, 2019). This is an example of the many initiatives that the regulatory bodies have put in place to ensure gender diversity on the board.

There are many arguments in favor of gender diversity, according to Women in Management and Business (WIMBIZ 2012), namely: remedies against injustice, better decision-making, improved business performance and innovation, maximum usage of a talent pool and market mirrors in women's consumer decision-making. Gender diversity and equity within the board contribute positively to organizations (Olufemi, 2021). Gender diversity can lead to increased social awareness. When challenges are solved, diversity in thinking is increased and business performance is improved (European Union, 2016). Groysberg and Bell (2013) discovered from a survey that women work better in teams and are more credible than male counterparts, and so improve the dynamics of boards (Olufemi, 2021).

According to McKinsey and Company (2020), firms with women in management teams are expected to be 25% more profitable than average. At least 20% of Nigeria's leading management board members are women, up from the world average of 17% for female board members (Osae-Brown, 2020). Three of Nigeria's top 20 most funded companies have women as Chairman of the Board (Osae-Brown, 2020). The necessity for gender diversity in the Nigerian Code is not absolutely essential, but subject to factors of competence, independence, and integrity (Deloitte Global, 2017).

Gallego, *et al*. (2010), opines that a gender diverse board can more effectively avoid the practice of income smoothening. Oscar and Daniel (2013) suggested that the female members of the board enhance monitoring and hence mostly avoid earnings management. They further explained that men may see leadership as a series of transactions with subalterns, whereas women tend to be more participatory. Despite these considerations, there's still an underrepresentation of women in boards and not enough effort is being made to bridge the gap (Gallego, *et al*., 2010).

2.1.2.3 Board size

The board must comprise the number of executive and non-executive directors (EDs & NEDs). Gambo *et al*, (2018) considered that a company's performance may be enhanced by smaller boards since the advantages of greater monitoring boards overweighs the ineffective communication and decision-making of larger sized boards and proposed the ideal board size of 7 to 9 directors. Boards of modest sizes are favorable for a high company value, as observed by Badu and Appiah (2017). In a study conducted in Nigeria, Sanda, *et al*., (2010) observed a correlation between firm's value and smaller boards. They highlighted that larger boards are less efficient and independent. The cost-benefit of larger sized boards is also a major consideration.

Board size is considered one of the distinctive characteristics of board dynamics with significant yet strategic impacts on independence and on the overall effectiveness of company governance (Shivdasani & Zenner, 2004). The size of the board is essential to efficiency and performance (Kiel & Nicholson, 2003). It impacts the quality of discussion between members and the board's capacity to make optimal business choices. In corporate governance, however, the establishment of an optimum board size is a constant and difficult discussion. Bello (2012) opines that one of the early board size proxy pioneers advocated at least seven board members, and a maximum of nine. Shaw (1981) suggested that eight members is the optimum number. Mak & Yuanto, (2005) and Bello (2012) shared similar views.

The board size can also influence the actions and/or inactions of the directors (Onyali & Uchenna, 2018). It means that the number of board members can impact the board's ability to oversee and evaluate management practices and processes. In literature, it is observed that there are controversies over whether the size of the board implies better corporate performance. This argument is premised on the crucial role of the board in the policies regulation and operations within firms.

The Corporate Governance Code (2011) requires that the size and scale of company activities shall be related to the board. The code also highlights that the board shall have no less than five (5) directors. The Governance law did not, however, define the maximum number of directors a business should appoint.

2.1.2.4 Audit committee meeting

Within the board of directors, key committees exist to oversee specific areas of the business. One of these committees is the audit committee. Nigeria's corporate governance code highlights that this committee should consist of six members, three of whom should be EDs and the other three NEDs (Loveday, 2017). The primary duty of this committee is oversight, (Krayyem, 2019). The corporate governance code also highlights that the committee is saddled with the responsibility of ensuring that the financials are prepared in accordance to the relevant accounting standard which in Nigeria is the International Financial Reporting Standard (IFRS). In addition to this, they are the point of contact between the company and the external auditors and ensure that all actions and processes relating to the external audit are executed in a timely manner. There is a direct relationship between the audit committee and the financial statement quality (Marrone & Oliva, 2020). The NEDs on the committee are to promote independence and transparency while ensuring that the interest of shareholders is at the core of decision making.

In addition to the general board meeting, the audit committee is also required to meet to deliberate on matters that relate to the financial statement and overall financial health of a company (Krayyem, 2019). Though the code does not specify the number of meetings the committee is to have in a year, it is encouraged that there must be at least one meeting in a year. The sections of the audit committee meeting should comprise of external auditing program planning, non-audit services, the scope of the previous year's work of the Internal Auditor, the post-audit reporting meeting to review auditor findings and, if necessary, the draft accounts and the management letter. (Monday & Agha, 2016). It is during these meetings policies and strategies relating to the financials are decided as well as an in-depth review of draft financial statements. (Ogoun & Owota, 2020).

2.1.3 The 2018 (Revised) Code of Corporate Governance and Administration of Companies in Nigeria

The Nigerian Code of Corporate Governance (the "Code") was issued in 2018 by the Financial Reporting Council of Nigeria (the "FRCN") pursuant to Sections 11(c) and 41(c) of the Financial Reporting Council of Nigeria Act, 2011. The issuance of the Code stemmed from the suspension of the National Code of Corporate Governance 2016 (the "2016 Code") by the Federal Government of Nigeria. A summary of key highlights of the Code are:

Code Philosophy: Companies are expected to implement and monitor compliance with the Code utilizing the 'Comply or Explain' method. The comply or explain method demands firms to demonstrate how their unique actions best accomplish the goals set forth in the corporate governance principles established in the Code.

Board Structure and Composition: The Code requires the Board to assume responsibility for its composition by setting out the direction and approving processes necessary to achieve diversity of knowledge, skills, experience, diversity, and independence to fulfill its governing role and responsibilities objectively and effectively. The Code provides the Board the flexibility to decide on its membership based on the perceived needs of the business.

Chairman: Under Principle 3.3 of the Code, a person previously appointed as a Director (MD), CEO or ED of a business must not be appointed President unless a ‘cool-off ‘period has been completed. The ‘cool-off’ period was recently reduced to three years from seven years in the 2016 code.

Managing Directors: In accordance with Principle 4.8 of the Code, the MD can be appointed as an NED in another organization unless such position is to the disadvantage of the enterprise in which he/she is MD or against the policy of the firm. The MD/CEO shall not be a member of the compensation, audit, appointment, and governance committees.

Non-Executive Directors: The Code provides for the choice of NEDs based on their broad expertise, knowledge, and personal qualities. They are not to be involved in the day-to-day operations of the company, which the MD/CEO and management is to be primarily responsible.

Meetings of the Board: In comparison with the 2016 code, the revised code encourages directors to participate in all board meetings as opposed to the previous mandate of at least 75% attendance. Furthermore, in accordance with Principle 10.3 of the Code, it is advisable to draw up and send to directors the minutes of the meetings on time, and to formally revise and approve them at the next meeting.

Risk Management Committee: The code stipulates that the committee meets at least twice a financial year in order to manage risks and provide effective internal control. The framework for risk management must be explicitly authorized by the committee and presented to all board members in a plain and concise manner before integration into the business operations.

Board Evaluation: The Code suggests that the committee must develop a framework for the performance review of committee members and the committee as a whole. The procedure must be supported by an impartial external expert at least once every three years.

Corporate Governance Evaluation: The Code advises that the Committee guarantee that an independent external consultant does a corporate governance assessment, covering the scope of the code, at least once every three years. The summary of the assessment report should be provided in the company's annual report and, when relevant, on the investors' site.

Remuneration: The Code suggests that the renumeration committee, which constitutes of majorly NEDs, should determine the appropriate pay for all directors and should be approved at the annual general meeting. It also suggests that firms adopt the claw back policy in order to reclaim the excess or unjustified benefits from directors and senior staff, including bonuses, incentives, profit shares, stock options or other performance-based awards.

Whistleblowing: The Whistleblowing clause in the revised code is less extensive than the 2016 code. The Code only stipulates the need for an efficient whistle-blowing system within the business. The Head of the Internal Audit Committee shall also oversee activities of this committee. In addition to these, an appropriate channel should be established to report inconsistencies and suspicions identified.

External Auditors: In addition to the provisions of the 2016 code, the revised code advises that the external auditors are allowed to perform additional non-audit work to firms, provided that such service does not constitute a self-review threat in accordance with the provisions of international auditing standards shall be provided to the Company by an external auditor. The Code also advises that external audit firms should not be maintained for more than 10 years to prevent potential threat to independence and the audit engagement partner be rotated every five years.

Protection of Shareholders rights: With regard to shareholder protection, the Code stresses the company's obligation to ensure its shareholders understand the company's ownership structure. It also requires that directors make decisions in the best interest of shareholders as well as increase firms' value.

2.2. Theoretical Framework

2.2.1 Agency Theory

Agency theory is the theory that underpins this study. The concept of the agency is rooted in economic theory. Jensen and Meckling (1976) propounded the agency theory, and they described this theory as a contractual relationship where one party called the agent has a fiduciary responsibility to carry out activities and make decisions on behalf of another party called the principal. They proposed this theory in order to understand the interest of principals and agents, as well as resolve conflicts that arise. The directors of publicly listed firms are the shareholders' representatives in this context. Shareholder's delegate to the directors, the authority to oversee the management of a company and in executing their contractual duties, the directors are responsible for ensuring that financial statements are prepared in a manner that complies with the relevant laws, gives a true and fair view of the financial position and aids accurate decision making by the users (Salah, 2010). In literature, academics and scholars commonly investigate the role of the board on profitability and a number of them have concluded that to improve company performance, an effective monitoring framework should be established to keep the activities of directors and senior management in check (Gallego, *et al.*, 2010).

As with every agency relationship, the shareholders and directors often have conflict of interest especially in the area of profit retention and risk appetite. The agency problem and conflict stems from the fact that it is impossible for directors to fulfill the interest of the equity holders 100% without considering their own interests/welfare. Eisenhardt (1979) and Panda & Lespha (2017) highlighted that to minimize losses and maintain a harmonious relationship between the directors and shareholders, certain costs need to ne incurred and these are called the agency cost. These costs are either in the form of residual losses, monitoring or bonding costs. The idea is supported by Damilola *et al*., (2018). They highlight that the annual audit of the financial reports is an example of monitoring agency costs. irrespective of what these costs are and the magnitude, they are captured and reflected in the share price of a company. (Krayyem, 2019).

The agency theory dominance was challenged by Donaldson (1990) as methodological individualism, narrow-defined models of motivation, regressive simplicity, disdain of research, the ideological framework and the defensive nature of organizational economics and governance. The focus is on individual studies of agency theory in accordance with human behavior's rational and economic paradigm. Agency theory advocates say that controls are compulsory to regulate opportunistic management behavior, but empirical studies confirmed that control creates a stronger individualistic behavior, lowers proactive decision, reduces confidence, and ultimately leads in lack of confidence (Ahmed, 2017). Kostyuk *et al*., (2011) noted that in each circumstance involving cooperation by two or more persons the link between organizations develops. Agency theory thus implies that both the principal and the agent are self-interest motivated. Though both sides are driven by self-interest, agents are likely to seek self-interested goals that diverge and contradict the principal's interests. These often result in losses for the shareholders which is reflected in the bottom-line or share price (Olufemi, 2021).

The impact of earnings management will presumably be reduced by corporate governance. Corporate governance will help increase the perception among investors that a company's performance is reliable in terms of its earnings. Based on reviewed literature, it is observed that earnings management in itself should not be detrimental, especially if managers apply it within the boundaries of financial reporting standards. (Tucker & Paul, 2006; Arya, Glover & Sunder, 2003; Watts & Zimmerman, 1986). In such circumstances, the earnings management may not be at the detriment of shareholders’ interest or mislead other users of the financial statement. The empirical data in Subramanyam (1996) reinforces the fact that managers utilize their discretion and judgement in financial statement preparation and presentation to create certain perception in the users of the financial statements.

2.3 Empirical Review and Hypothesis Development

2.3.1 Board meeting frequency and Earnings management

A competent corporate governance representative is required to be frequent at board meeting to oversee directors' conduct (Kuang, 2007). The board will meet often as required, to verify that the financial reporting process is effective and to keep track of important topics (Zhou & Chen, 2004). However, Jensen (1993) stated that most sessions of the Board were particularly ineffective since the board was always pushed to high-speed operations to resolve business issues.

In relation to frequency of board meetings and earnings management, reviewed literature reveals conflicting statistical conclusions. Studies carried out by Imoleayo, *et al*., (2016), Kankanamage (2015); Cyrus, Mirie & Gilbert (2015); and Binti (2017) observed that there is a positive relationship between the frequency of board meetings and earnings management practices. However, other studies showed that the higher frequency in board meetings, the lower the occurrence of earnings management (Cyril & Ethel, 2019; Hussaini, 2015, Alzo, 2012; Mohamad *et al*., 2012). Study by Kantudu and Ishaq (2015) revealed that the frequency of meetings increases the extent of benefit misuse, which in turn reduces the quality of the financial reporting. In addition, Moradi *et al*., (2012) observed that the frequency of board meetings had no significant impact on the income smoothening. Mohd (2017) also observed that the increased frequency of the board meetings does not equate increased supervision in family-owned firms with regard to income management. Luo and Jeyaraj (2019) study also showed that the degree of earnings management is not substantially attributable to board meetings, the number of indigenous directors, and board gender diversity. Frode *et al*. (2020) study revealed that employee representation on the executive board reduces the incidence of income management. Gulzar *et al*. (2011) discovered that if the frequencies of board meetings are higher than prior years, the value of discretionary accruals is less. Sarkar, Sarkar, and Sen (2006) highlighted that the board duality is important for lower level of occurrence of income management Aisha *et al*. (2021) during her investigation highlighted that higher number of board meetings have a considerable impact on the decrease in earnings management.

Kankanamage *et al*. (2016) have discovered that more board meetings are leading to a better control of directors' practices of profits management using a sample of 160 listed companies in Sri Lanka, between 2012 and 2015. Boards that hold meetings more than four times in the financial year, according to Bala and Kumai (2015), do not necessarily have greater surveillance on business operations. They therefore observed a strong negative relationship between board meeting frequency and earnings management.

$H_0$1: There is no significant effect of board meeting frequency on earnings management in listed Nigerian manufacturing companies.

H_a1: There is a significant effect of board meeting frequency on earnings management in listed Nigerian manufacturing companies.

2.3.2 Gender diversity and Earnings management

Similar to board meeting frequency and earnings management, mixed findings on the correlation between gender diversity and benefit management are evident in the literature. The effects of female representation and the proportion of representation of women on boards and audit committees on financial results in the African context have been studied by Chijioke, *et al*., (2020). They observed that performance is stronger for firms with at least two female directors, suggesting that building a critical mass of female representation enhances firm financial performance. Sergio and Poli (2017) and Umer, *et al*., (2020) both concluded that the gender diversity plays a crucial role in the reduction of income management practices by the boards, audit committee and senior management and concluded that diverse boards continue to effectiveness and eliminate extreme income management practices.

Arun, *et al*., (2015) claimed that these some companies tend to have lower discretionary accrual figures due to the involvement of more independent female directors. Adams and Ferreira (2009) findings indicated that these female directors are far more mindful of key details and are more present and involved. In addition, existing literature found that increased diversity leads to less financial error and tax avoidance activities (Lanis, *et al*., 2017; Owen & Temesvary, 2018). In comparison, Sun, *et al*., (2011) concluded that gender diversity and the presence of female board members has no statistical relationship with earnings efficiency and financial reporting quality.
In board diversity research, Waheed & Malik, 2019; Hussain & Shah, 2017; Sajjad, *et al*., 2019 and Imoleayo, *et al*., (2016) observed a negative significant relationship between gender diversity and earnings management, Gulzar & Wang (2011) and Sarkar, *et al*., (2008) argued that the financial statement management is not linked to board independence, but board quality.

Research has also shown that the board's supervisory role can benefit from the increasing of gender-based differences in the board (Campbell & Vera, 2008). Several more studies have demonstrably revealed that board gender diversity have a major impact on management discretion in respect of earnings management (Ferdinand, *et al*., 2011; Gavious, *et al*., 2012; Buniamin, Johari & Abdul, 2012; Bala & Kumai, 2015; Buse *et al.*, 2016). Another research further advocated that companies with the higher number of female directors on their boards have been empirically shown to have a more robust corporate governance than those with fewer women and this significantly impacts on the firm's environmental responsibility and disclosure (Fodio & Oba, 2012). Bernardi *et al*., (2002) focused on UK and found that with at least a woman on the board, the probability of bankruptcy is reduced, and transparency is increased. Therefore, 2018 revised corporate governance code provided a binding requirement for all companies to employ at least one woman on the board to enhance governance and track ethical problems in financial reporting.

Olufemi (2021) claimed that the participation of women in the board did not result in an increase in the financial performance of a firm. The finding of Paolo *et al*., (2020) indicated that the regulatory framework developed by jurisdictions for gender diversity plays a role in enhancing decision-making. Onuoha *et al*. (2021) studied the question of board diversity by analyzing the profits quality using regression analysis. The results revealed a substantial negative impact of diversity index on discretionary accruals in listed deposit banks. Aisha *et al*. (2021) reviewed the influence of earnings management on board's characteristics and indicated that gender diversity has no impact on decreasing earnings management.

$H_0$2: There is no significant relationship between board gender diversity and earnings management in Nigerian listed manufacturing companies.

H_A2: There is a significant relationship between board gender diversity and earnings management in Nigerian listed manufacturing companies.

2.3.3 Board size and Earnings management

The Board sizes shall vary from minimum of five (5) members to a maximum of 20 members for banks and financial service institutions, and a maximum 15 members for other public companies, as advised by governance regulations in Nigeria (CBN 2014; Imoleayo *et al*., 2016). Although the results are conflicting, empirical data suggests either the existence or absence of a link between corporate boards' sizes and earnings management (Abed, *et al*., 2012; Aygun *et al*., 2014; Olfa *et al*., 2016; Cyril & Ethel, 2019; Abdelkarim & Khaled, 2020, Alwan, 2021). Studies have shown that the relationship between income management and board size is negative, for example (Abed, *et al*., 2012). However, other literature shows the presence of a positive relationship between earnings management and board size; (Rahman & Ali, 2006). Despite these inconsistencies, another viewpoint is that there is no relationship between earnings management and the board size (Ideh *et al*., 2021; Abata & Migiro, 2016; Gulzar & Wang, 2011). The empirical test between board size and earnings management is insignificant according to Hosam *et al*., (2019) and a larger board size is complex to monitor. In addition, the size of the board would not have any influence on providing financial reporting quality as a result of complexity.

However, the size of the board has a favorable link with earnings management according to Kankanamage (2016), and he discovered that all the distinguishing features of the board have a major impact on earnings management. In addition, in a small-sized board, independent non-executive directors with a strong financial service industry experience might limit earnings management practices and promote quality financial reporting.

$H_0$3: There is no significant relationship between the size of the board and earnings management in Nigerian listed manufacturing companies.

H_a3: There is a significant relationship between board size and earnings management in Nigerian listed manufacturing companies.

2.3.4 Audit committee meeting frequency and Earnings management

In order to track financial reports effectively, the Sarbanes-Oxley (2002) Act stresses the value of the audit committee's independence and needs all members to be autonomous. Klein, (2002) suggests that the committee’s independence has an impact on financial reporting quality. Karamanou and Vafeas (2005) proposed that a higher frequency in audit committee meetings gives room to perform its monitoring function more effectively. Lin *et al*. (2010), reiterates this by highlighting that more meetings will allow the committee address concerns and challenges related to financial reporting practices and policies.

Existing literature reveals varying opinions and conclusions regarding the relationship between audit committee meeting frequency and earnings management, but the majority opine that successful monitoring of the financial statements and policies surrounding them are achieved through frequent meetings and communication. This in turn achieves integrity in financial reporting (Menon & Williams, 1994; Abed, *et al*., 2012; Ezekiel & Idode, 2018). Several studies advocated the negative correlation between audit committee characteristics and earnings management. Some of these results showed that discretionary accruals as a proxy for earnings management negatively correlated with AC size, according to Omar (2017). The results do not indicate any important correlation between AC autonomy, AC meetings and earnings management. Ibrahim *et al*. (2019) study found that the financial experience of audit committee members a huge negative influence on earnings management. Audit committee meetings frequency has an impact on financial quality reporting and decreased occurrence of earnings management (Osarumwense & Aderémi, 2016; Mishra and Kaur, 2016; Garven, 2015; Ioualalen *et al.*, 2015; Stewart & Munro, 2007; Xie *et al.*, 2003; Adel & Abidin, 2018; Onyabe *et al*., 2018; Menon & Williams, 1994). Musa *et al*. (2017) considered whether Audit Committee meetings and audit committee attendance are correlated with accrual earnings management and discovered a negative correlation between the two variables.

Based on these conflicting results, this study will statistically observe the frequency of audit committee meetings and its impact earnings management.

$H_0$4: There is no relationship between the audit committee meeting frequency and earnings management in Nigerian listed manufacturing companies.

H_a4: there is a relationship between the audit committee meeting frequency and earnings management in Nigerian listed manufacturing companies.

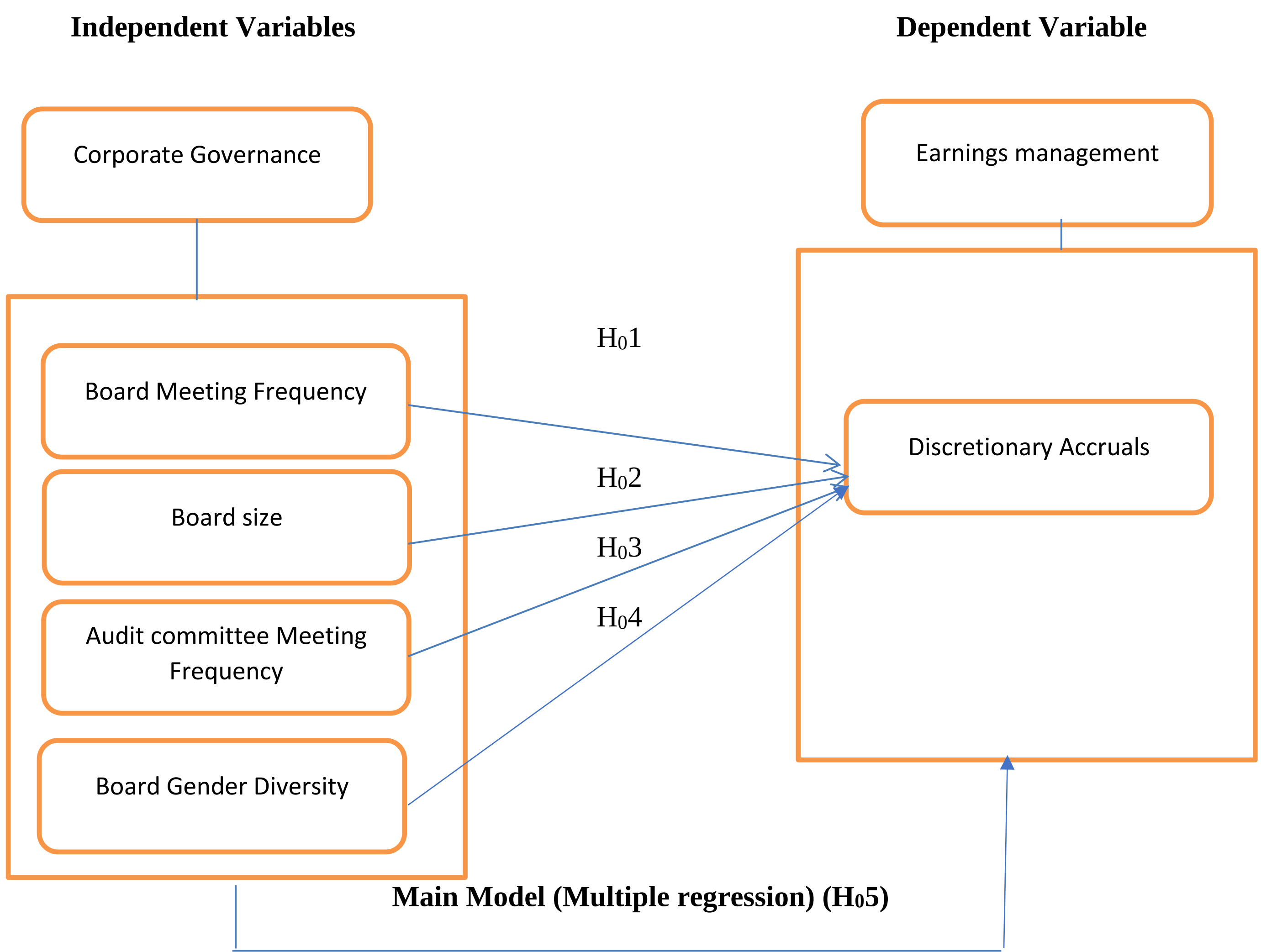
2.4 Gap(s) in Literature and Literature importance to Study

Recently, several studies in Nigeria have discussed corporate governance practices on earnings management (Kuye *et al.*, 2020, Ezekiel & Idode, 2018; Abdullahi & Ibrahim, 2018; Haruna *et al*., 2018; Salau & Che, 2016; Idode *et al*., 2018). In addition, further analyses on the individual corporate governance variables (audit committee, board size, owner structure of the board of

Directors) and the impact of income smoothening were carried out in 2020 due to the 2018 revised code (Kuye *et al*., 2020; Idode *et al*., 2018; Abata & Migiro, 2016). However, these studies were mainly carried out in the financial sector using majorly board dimensions, diversity of board structures, ownership structures and CEO duality as corporate governance proxies. Despite the contrary statistical conclusions on corporate governance and financial statement management using the variables highlighted above, this study aims to further test these two variables. However, this study will consider the listed manufacturing companies in Nigeria as the environment of study. It will also adopt board gender diversity as a corporate governance variable in addition to the board size, board meeting frequency and audit committee meeting frequency. Earnings management, the dependent variable will adopt the discretionary accruals as a proxy in accordance existing literature. The goal of this study is to bridge any existing gaps.

The literature will help researchers make important decisions on this topic, corporate governance and earnings management, add concepts and theories to the knowledge base on recent corporate governance in Nigeria and also provide empirical evidence in support of the findings and clear recommendations on the subject matter.

2.5 Researcher's Conceptual Model



Source: Candidate's Concept (2021)

CHAPTER THREE
RESEARCH QUESTIONS

Having considered the current need for a stricter compliance to corporate governance regulations to mitigate the occurrence of aggressive earnings management practices, this research aims at answering the following questions:

Main question: To what extent does corporate governance impact earnings management in Nigerian listed manufacturing companies?

Sub questions:

1) What is the impact of board meeting frequency on earnings management in Nigerian listed manufacturing companies?
2) To what extent does the board gender diversity affect the occurrence of earnings management in Nigerian listed manufacturing companies?
3) What is the effect of audit committee meeting frequency on earnings management in Nigerian listed manufacturing companies?
4) How does the board size affect the occurrence of earnings management in listed Nigerian manufacturing companies?

CHAPTER FOUR
METHODOLOGY

This chapter gives the methodological background and approach applied in this study. It gives details on the research design, research methods, and population of the study. It also provides information on the sampling units, sampling methods, sampling size, and how they are individually determined.

3.1 Research Design

This study will employ quasi-experimental methodology. This method is used to establish the relationship between the dependent variable and the independent variables in the social sciences field. The research work will employ *ex-post facto* research design using secondary data. The justification using this type of methodology is that the statistical relationship of interest is thought to be causal, but the researcher cannot manipulate the independent variable because it is impossible, impractical, or unethical. This research design has been adopted in the studies of Kurawa & Ahmed (2020); Malek, Costas & Alhadab, (2020), Fali, Alkanim, Udoh, and Yahaya (2019); Pranesh & Roy (2019).

3.2 Population of the Study

The population for this study will be the 49 listed manufacturing companies in Nigeria as at 31th December, 2019. This is limited to two sectors namely: Consumer and Industrial goods.

3.3 Sample size and Sampling Technique

Twenty-six (26) companies will be selected out of 49 manufacturing companies listed on the Nigeria Stock Exchange for a period of 10 years (2010-2019). Purposive technique is used for selecting firms from the different industrial industries. These companies were chosen due to the level of business transactions and the market share in Nigeria's manufacturing industry. The findings will be used to infer the whole population. Therefore in total, there will be 260 observations in this study.

3.4 Method of Data Collection

In this study, secondary data will be employed. This is because of the nature of the research variables. These research variables will be extracted from the audited published Annual Reports of the sampled companies.

3.5. Validity and Reliability of Research Instrument

The accurate extraction and recording of the data for the designed variables will be ascertained by supervisors of this study to ensure its validity. All the companies to be studied have subjected their financial statements to independent audit and examined by the statutory auditors in compliance with provisions of the Companies and Allied Matters Act (CAMA), LFN, 1990, sections 352 to 354 as well as the International Standards of Auditing (ISA).

3.6 Method of Data Analysis

This research adopted both descriptive and inferential statistical analysis. The statistical tool for this study will be Multiple Regression Model using Hausman test as adopted in the study of Kurawa and Ahmed (2020); Foyeke *et al*., (2016) and Tolulope *et al*., (2018). This will be used to predict the value and nature of relationship between the variables. The Econometric views (E-views) 10 is the software tool used for the statistical testing.

Justification of the Statistical Tool

The choice of Multiple Regression as a tool to be used in the analysis of data is orchestrated by the fact that it is a suitable model for assessing the existence and nature of the relationship between one dependent variable and multiple independent variables. It also considers the risks of making assumptions and it is flexible enough to easily address any complications as well as its ability to consider the significance of each variable and the effect that they may have on each other.

3.6 Variable definition and Measurement

Table 3.1: Definitions of the Proxies to be used for Models Testing

Variable	Abbreviation	Measurements	References
Corporate governance			
Board meeting frequency	BMF	Number of times board members have meeting in a company	Cyril & Ethel, 2019; Hussaini, 2015, Alzo, 2012; Imoleayo *et al*., (2016), Kankanamage (2015)
Board gender diversity	BGD	Percentage of women to total board members	Waheed & Malik, 2019; Hussain & Shah, 2017; Sajjad *et al*., (2019) and Imoleayo *et al*., (2016)
Board size	BSZ	Total board composition in a company	Hamdan (2020); Tuo & Rezaee (2019) and Zhang (2019)
Audit committee meeting frequency	ACM	Number of times audit board members have meeting in a company	Garven, 2015; Ioualalen *et al*., 2015; Stewart & Munro, 2007; Xie *et al.*, 2003; Menon & Williams, (1994).
Earnings management			
Discretionary accruals	DAC	Modified Jones model. The discretionary accruals is represented as a percentage of the total balance sheet.	Isam *et al*, 2020; Healy & Wahlen, 1999; Watts & Zimmerman, 1986.

Source: Author Compilation (2021)

3.8 Model Specification

Regression Model

$DAC = \alpha_0 + \beta_1 BMF_{it} + u_{it}$ …………………………………………………..…... Model 1

$DAC = \alpha_0 + \beta_2 BSZ_{it} + u_{it}$ …………………………………………………….……. Model 2

$DAC = \alpha_0 + \beta_3 ACM_{it} + u_{it}$ ……………………………….....……………….... Model 3

$DAC = \alpha_0 + \beta_4 BGM_{it} + u_{it}$ …………………………………………………….... Model 4

$DAC = \alpha_0 + \beta_5 BMF_{it} + \beta_6 BSZ_{it} + \beta_7 ACM_{it} + \beta_8 BGM_{it} + u_{it}$ …………….... Aggregate Model

Where:

α = Intercept of the model

u = Error term which denotes other variables that are not specified in the model.

β_0 = Coefficient of the explanatory variables

i = Organization of study

t = Period of study

BMF – Board meeting frequency

BSZ – Board size

ACM – Audit committee meeting frequency

BGM – Board Gender Meeting

DAC – Discretionary accruals adopted as a proxy of earnings management. The study will adopt the Modified Jones model as proposed by Dechow, Sloan & Sweeney (1995). this model is also applied in the studies of (Kuye *et al*., 2020; Haruna, *et al*., 2018; Salau & Che, 2016; Healy & Wahlen 1999).

3.8 *A priori* expectations

The expectation is that corporate governance (board meeting frequency, board size, board gender diversity and audit committee meeting frequency) will have a positive and a negative effect on earnings management. This is because corporate governance, when properly implemented, will reduce earnings management techniques of a firm but will have a negative contribution when badly implemented. Therefore, the coefficients $\beta_1 - \beta_4 > 0$ and all the coefficients are expected to either be positively or negatively signed.

Decision Rule – $H_0 1 - H_0 4$: $p < 0.05$, Reject Null hypothesis and accept alternate hypothesis.

3.9 Ethical Consideration

To ensure ethical honesty, the researcher shall avoid any form of manipulation such as design and procedures manipulation, data retention or manipulation, but shall utilize data acquired via the study instrument. The goal is to arrive at a statistical conclusion based on the data extracted from audited annual reports.

3.10 Expected Contribution to Knowledge

This research is expected to contribute to the existing body of knowledge on the impact of corporate governance structures on the occurrence of earnings management in Nigerian manufacturing companies' and the economy as a whole. This study is intended to develop the understanding and the use of corporate governance structures and corporate governance codes in private and public sector managers to the benefit of their business. The perspectives that the study provides can be used to leverage the advantages of corporate governance by finance managers, customers, financial analysts, policy makers and others. Regulators and policymakers are not exempt. Their interest in studying other corporate management variables and their relation to other micro and macroeconomic variables would also benefit from the analysis.

3.11 Philosophy Positioning

The study will adopt positivism research philosophy. This is because positivism depends on quantifiable observations that lead to statistical analyses. It has been noted that as a philosophy, positivism is in accordance with the empiricist view that knowledge stems from human experience. It has an atomistic, ontological view of the world as comprising discrete, observable elements and events that interact in an observable, determined and regular manner (Kuye *et al*., 2020). The methodologies largely followed in corporate governance studies depends on research questions and objectives. Most of the studies examined the interrelationships among corporate governance variables and earnings management. The empirical approach largely followed is deductive as it involves identification of theories that inform the subject area, generation and use of quantitative data, testing of hypothesis, analysis of causal relationship which is linked to positivism research philosophy. The empirical approach largely followed is deductive as it involves identification of theories that inform the subject area, generation and use of quantitative data, testing of hypothesis, analysis of causal relationship. This approach also leads to quantitative approach in reference to the sample size, data collection and analysis. It is apparent from literature that the authors use large samples, and data is analyzed using regression analysis.

CHAPTER FIVE
DATA ANALYSES AND MAIN FINDINGS

In this section of the report contains results of statistical tests carried out on the sampled data. It also shows the main finding identified from the results. In achieving this, the E-views software was used, applying both descriptive and inferential statistical methods. The Hausman test is the primary test used in determine the existence, nature and magnitude of the relationship that exists between the variables. This test is deemed suitable for the panel data set as the random effects is of higher efficiency. All tests are carried out at a 95% level of confidence.

5.1 Descriptive Statistics

The table below reveals the result of the descriptive statistics. These explain the nature of the data being to carry out this analysis.

Table 5.1: Descriptive Statistics

	DAC	ACM	BSZ	BMF	BGD
Mean	-0.066016	3.803846	9.876923	4.669231	12.34883
Median	-0.064500	4.000000	9.000000	4.000000	11.11110
Maximum	0.611700	6.000000	19.00000	10.00000	50.00000
Minimum	-1.052300	1.000000	4.000000	1.000000	0.000000
Std. Dev.	0.166970	0.672103	3.165976	1.151722	11.29759
Observations	260	260	260	260	260

Source: Author's Computation using E – View 9 (2021)

Interpretation

Table 5.1 summarises the key descriptive attributes of the data extracted from the annual reports of the sampled companies. The priority in this preliminary analysis is on the mean, minimum, maximum and measures of dispersion of the variables involved in this study. The discretionary accruals (DAC) appears to be volatile with standard deviation value of 0.167 which measures the dispersion of the range of the figure from the mean. Also, the minimum value of -1.05 indicated that there are periods within the time frame when the companies reported low earnings management as evidenced in the data. The maximum figure recorded is 0.612 (that is, 61.2% of the total balance sheet) Companies with the lower ratios performed better in terms of earnings quality and management and showing efficiency in predicting the future earnings of the firms indicating the presence of low operating cash.

The characteristics of Audit committee meeting (ACM), Board size (BSZ), Board meeting frequency (BMF) and Board gender diversity (BGD) showed that ACM, BSZ, BMF and BGD in manufacturing firms are lowly volatile with standard deviation values of 0.67, 3.17, 1.15 and 11.30 respectively. This which measures the dispersion of the range of the figures from the means of 3.8, 9.8, 4.67 and 12.3 respectively. Also, the minimum values of 1, 4, 1 and 0 indicated that there are periods within the time frame when manufacturing firms audit committee had meeting less than the required amount for audit related matters, reduced board size, board had lower numbers meeting than required and there were no women in the board of directors. The maximum figures of 6, 19, 10 and 50% implies that during the period under review, the sampled companies' audit committee had more meetings, increased board size, higher than required board meetings and there were more women in the board compared to industry peers. The maximum value observed in board gender diversity is attributable to a sampled consumer goods company who has a female CEO and also other women with the board and board committees.

5.2 Testing of Hypotheses

5.2.1 Test of Hypothesis One (H_o1)

Research Hypothesis 1

(H_o1): There is no significant effect of board meeting frequency on earnings management in listed Nigerian manufacturing companies.

(H_a1): There is a significant effect of board meeting frequency on earnings management in listed Nigerian manufacturing companies.

Table 5.2: Regression Analysis for Model One: Random effect

Variable	Coefficient	Std Error	t-Stat.	Prob.
C	-0.115248	0.044033	-2.617321	0.0094
BMF	0.010544	0.009138	1.153890	0.2496
R-squared	0.005122			
Adjusted R-squared	0.001266			
F-Statistics	1.328216			
Prob(F-Stat)	0.250190			

Diagnostic Tests	Probability
Hausman Test	chi2($_1$) = 1.63 (0.2016)

Source: Researcher's Study, 2021 ***significance level: 5%**

Interpretation of Diagnostic Test

The result of the Hausman test showed a probability value of 0.2016 which is greater than 5% level of significance hence, the decision is to fail to reject the null hypothesis.

Model 1

DAC = *f* (BMF)

$DAC_{jt} = \alpha_0 + \beta_1 BMF_{it} + \mu_1$

$DAC_{jt} = -0.115248 + 0.010544 BMF_{it} + \mu_1$

Interpretation of Findings

The result of the regression analysis for board meeting frequency on Table 4.2 shows that board meeting frequency has no effect on earnings management measured by Discretionary accruals (DAC). This is indicated by the signs of the coefficients, that is $\beta_1 = 0.010544 > 0$. This result is inconsistent with *a priori* expectation as it was expected that BMF will have positive effect on DAC. The overall coefficient of determination of R^2 which is the explanatory power of the model is 0.005122. This implies that within the model context, the independence of board meeting frequency is responsible for 0.5% variations in discretionary accruals while the remaining 99.5% is explained by other factors that can impact on the dependent variable not captured in this model.

DECISION:

At the level of significance of 0.05, the t-statistics is 1.15, where the *p-value* is 0.2496 which is greater than 0.05 level of significance adopted for this study. The null hypothesis one that there is no significant effect of board meeting frequency on earnings management in listed Nigerian manufacturing companies was not rejected. Therefore, from these regression estimates, there is no significant effect of board meeting frequency on earnings management of listed Nigerian manufacturing companies.

5.2.2 Test of Hypothesis Two (H_o2)

Research Hypothesis 2

H_02: There is no significant relationship between board gender diversity and earnings management in Nigerian listed manufacturing companies.

H_A2: There is a significant relationship between board gender diversity and earnings management in Nigerian listed manufacturing companies.

Table 5.3: Regression Analysis for Model Two: Random effect

Variable	Coefficient	Std Error	t-Stat.	Prob.
C	-0.075457	0.016464	-4.583105	0.0000
BGD	0.000765	0.000962	0.795011	0.4273
R-squared	0.002453			
Adjusted R-squared	-0.001414			
F-Statistics	0.634339			
Prob(F-Stat)	0.426500			
Diagnostic Tests	**Probability**			
Hausman Test	chi2(1) = 0.07 (0.7976)			

***significance level: 5%**

Interpretation of Diagnostic Test

The result of the Hausman test showed a probability value of 0.7976 which is greater than 5% level of significance hence, we fail to reject the null hypothesis of the Hausman specification test.

Model 2

DAC = *f* (BGD)

$DAC_{jt} = \alpha_0 + \beta_2 BGD_{it} + \mu_2$

$DAC_{jt} = -0.075457 + 0.000765 BGD_{it} + \mu_2$

Interpretation of Findings

The result of the regression analysis for board meeting frequency on Table 4.3 shows that board gender diversity has no effect on earnings management measured by Discretionary accruals (DAC). This is indicated by the signs of the coefficients, that is $\beta_2 = 0.000765>0$. This result is also inconsistent with *a priori* expectation as it was expected that BGD will have positive effect on DAC. The coefficient of determination (R^2) is 0.002453. This implies that within the context of the model, board gender diversity is responsible for 0.2% variations in discretionary accruals while the remaining 99.8% is explained by other factors not captured in this model.

DECISION:

At the level of significance of 0.05, the t-statistics is 0.795, where the *p-value* is 0.4273 which is less than 0.05 level of significance, we fail to reject the null hypothesis two that there is no significant effect of board gender diversity on earnings management of listed manufacturing companies in Nigeria companies in Nigeria was accepted. Therefore, from these regression estimates, there is no significant effect of board gender diversity on earnings within the population under review.

5.2.3 Test of Hypothesis Three (H_o3)

Research Hypothesis 3

$H_0$3: There is no significant relationship between the size of the board and earnings management in Nigerian listed manufacturing companies.

H_a3: There is a significant relationship between board size and earnings management in Nigerian listed manufacturing companies.

Table 5.4: Regression Analysis for Model Three: Random effect

Variable	Coefficient	Std Error	t-Stat.	Prob.
C	-0.138390	0.061124	-2.264105	0.0244
ACM	0.019027	0.015784	1.205441	0.2291
R-squared	0.005622			
Adjusted R-squared	0.001768			
F-Statistics	1.458702			
Prob(F-Stat)	0.228243			
Diagnostic Tests	**Probability**			
Hausman Test	chi2(5) = 0.007 (0.9341)			

***significance level: 5%**

Source: Researcher's Study, 2021

Interpretation of Diagnostic Test

The result of the Hausman test showed a probability value of 0.9341 which is greater than 5% level of significance hence, the null hypothesis of the Hausman specification test cannot be rejected by the study. As such, the model was estimated using random effect estimation technique.

Model 3

DAC = f (ACM)

$DAC_{jt} = \alpha_0 + \beta_3 ACM_{it} + \mu_3$

$DAC_{jt} = -0.138390 + 0.019027 ACM_{it} + \mu_3$

Interpretation of Findings

The result of the regression analysis for audit committee meeting on Table 4.4 shows that audit committee meeting has no effect on earnings management measured by Discretionary accruals

(DAC). This is indicated by the signs of the coefficients, that is $\beta_3 = 0.019027>0$. This result is inconsistent with *a priori* expectation as it was expected that ACM will have positive effect on DAC. The coefficient of determination (R^2) is 0.005622. This implies that within the model context, audit committee meeting is responsible for 0.6% variations in discretionary accruals while the remaining 99.4% is explained by other factors not captured in this model.

DECISION:

At the level of significance of 0.05, the t-statistics is 1.205, where the *p-value* is 0.2291 which is greater than 0.05 level of significance adopted for this study. The null hypothesis three that frequency of Audit committee meeting has no significant effect on earnings management in listed manufacturing companies in Nigeria was not rejected. Therefore, from the regression estimates, frequency of Audit committee meeting has no significant effect on earnings management of listed companies in Nigeria.

5.2.4 Test of Hypothesis Four (H_o4)

Research Hypothesis 4

$H_0$4: There is no relationship between the audit committee meeting frequency and earnings management in Nigerian listed manufacturing companies.

H_a4: there is a relationship between the audit committee meeting frequency and earnings management in Nigerian listed manufacturing companies.

Table 4.5: ***Regression Analysis for Model Four: Random effect***

Variable	Coefficient	Std Error	t-Stat.	Prob.
C	-0.077195	0.036818	-2.096672	0.0370
BSZ	0.001132	0.003541	0.319628	0.7495
R-squared	0.000395			
Adjusted R-squared	-0.003479			
F-Statistics	0.101962			
Prob(F-Stat)	0.749747			
Diagnostic Tests	**Probability**			
Hausman Test	chi2(1) = 1.51 (0.2194)			

***significance level: 5%**

Source: Researcher's Study, 2021

Interpretation of Diagnostic Test

The result of the Hausman test showed a probability value of 0.2194 which is less than 5% level of significance hence, we fail to reject the null hypothesis of the Hausman specification test

Model 4

$DAC_{it} = \alpha_0 + \beta_4 BSZ_{it} + \mu_4$

$DAC_{it} = -0.077195 + 0.001132 BSZ_{it} + \mu_4$

Interpretation

The result of the regression analysis for board size on Table 5.5 shows that board size has a positive effect on earnings management measured by Discretionary accruals (DAC). This is indicated by the signs of the coefficients, that is $\beta_4 = 0.001132 > 0$. This result is consistent with *a priori* expectation as it was expected that BSZ will have positive effect on DAC. The coefficient of determination (R^2) is 0.000395. This implies that within the model context, the board size is responsible for 0.04% variations in discretionary accruals while the remaining 99.96% is explained by other factors not captured in this model.

DECISION:

At the level of significance of 0.05, the t-statistics is 0.320, where the *p-value* is 0.7495 which is greater than 0.05 level of significance adopted for this study. The null hypothesis four that board size has no effect on earnings management of listed manufacturing companies in Nigeria was not rejected. Therefore, from the regression estimates, board size has no significant effect on earnings management of listed companies in Nigeria.

5.2.4 Test of Main Hypothesis

Main Hypothesis: Corporate governance has no significant effect on earnings management of listed manufacturing companies in Nigeria.

Table 5.6: Regression Analysis for Main model: Random effect

Variable	Coefficient	Std Error	t-Stat.	Prob.
C	-0.171453	0.074853	-2.290529	0.0228
BMF	0.008216	0.009698	0.847232	0.3977
BGD	0.000371	0.001010	0.366923	0.7140
ACM	0.016698	0.016457	1.014685	0.3112
BSZ	-0.000103	0.003647	-0.028374	0.9774
R-squared	0.009752			
Adjusted R-squared	-0.005781			
F-Statistics	0.627844			
Prob(F-Stat)	0.643050			
Diagnostic Tests	**Probability**			
Hausman Test	chi2(4) = 3.396 (0.4939)			

***significance level: 5%**

Source: Researcher's Study, 2021

Interpretation of Diagnostic Test

The result of the Hausman test showed a probability value of 0.4939 which is greater than 5% level of significance hence, the null hypothesis of the Hausman specification test cannot be rejected.

Main Model

$DAC_{it} = \alpha_0 + \beta_1 BMF_{it} + \beta_2 BGD_{it} + \beta_3 ACM_{it} + \beta_4 BSZ_{it} + \mu_{it}$

$DAC_{it} = -0.171453 + 0.008216 BMF_{it} + 0.000371 BGD_{it} + 0.016698 ACM_{it} – 0.000103 BSZ_{it} + \mu_{it}$

Interpretation

The result of the regression analysis for corporate governance on Table 4.6 shows that the constant -0.171453 shows a negative beta coefficient. The coefficient of the independent variable corporate governance proxies (BMF, BGD, ACM) is positive and BSZ is negative. This is indicated by the signs of the coefficients, that is β_1 = 0.08216>0, β_2 = 0.000371>0, β_3 = 0.016698>0 and β_4 = 0-0.000103<0. That is, an increase in board meeting frequency by 1% would cause a 0.008 increase in discretionary accruals, an increase in board gender diversity by 1% would cause a 0.0004 increase in discretionary accruals, an increase in audit committee meeting by 1% would cause a 0.017 increase in discretionary accruals and, an increase in board size by 1% would decrease discretionary accruals by -0.0001. This result is consistent with *a priori* expectation as it was expected that corporate governance proxies (BMF, BGD and ACM) will have positive effects on DAC and inconsistent with *a priori* expectation as it was expected that BSZ will have positive effect on DAC.

The coefficient of determination of adjusted R^2 which is the explanatory power of the model is -0.005781. This implies that within the model context, corporate governance is responsible for 0% variations in discretionary accruals while the remaining 100% is explained by other factors that is not captured by the model.

DECISION:

At the level of significance of 0.05, the F-statistics is 0.63, where the *p-value* is 0.643050 which is greater than 0.05 level of significance adopted for this study. The null hypothesis five that corporate governance has no significant effect on earnings management of listed manufacturing companies in Nigeria was not rejected. Therefore, from these regression estimates, corporate governance has no significant effect on earnings management of listed manufacturing companies in Nigeria.

CHAPTER SIX
DISCUSSION OF FINDINGS

6.1 Discussion

The regression for the first model showed that the board meeting frequency has a positive effect on earnings management measured by Discretionary accruals. This variable is responsible for 0.5% variations in discretionary accruals while the remaining 99.5% is explained by other factors that can impact on the dependent variable not captured in this model. There is no significant effect of board meeting frequency on earnings management of listed companies in Nigeria. The study aligned with the findings of Jensen (1993), Moradi *et al*., (2012) which concluded that most sessions of the Board were not particularly effective, since the Board was always pushed to high-speed operations to resolve business issues. However, these results are inconsistent with that of Imoleayo, *et al*., (2016), Kankanamage (2015); Cyrus *et al*., (2015); and Binti (2017) that observed a significant relationship between the frequency of board meetings and earnings management practice, but other studies showed that the more periodic meetings are, the less likely the occurrence of financial statement management (Cyril & Ethel, 2019; Hussaini, 2015, Alzo, 2012; Mohamad *et al*., 2012). The study of Kantudu and Ishaq (2015) revealed that the frequency of meetings increases the extent of fund misuse, which in turn reduces the quality of the financial reporting.

Mohd (2017) also agreed and concluded that the increased frequency of the board meetings does not result in better supervision in the operations of family-owned firms with regard to earnings management. Luo and Jeyaraj (2019) also observed that the degree of income smoothening is not substantially linked with board meetings and Aisha *et al*. (2021) made a similar conclusion.

The second model discovered that board gender diversity has a positive effect on earnings management measured by discretionary accruals. The board gender diversity is responsible for 0.2% variations in discretionary accruals while the remaining 99.8% is explained by other factors that can impact on the dependent variable not captured in this model. Therefore, we concluded based on the statistical result, that there is no significant effect of board gender diversity on earnings management of listed manufacturing companies in Nigeria. Several studies had contrary conclusions and stated that board gender diversity have a major impact on management discretion in respect of EM (Ferdinand, *et al*., 2011; Gavious, *et al*., 2012; Buniamin *et al*., 2012; Bala & Kumai, 2015; Buse *et al.*, 2016). The study of Olufemi (2021) aligned with the result and claimed that the participation of women in the board did not inevitably mean an increase in the financial reporting quality of a firm. The results of Wicaksana, *et al*., (2017) even revealed that diversity of the board has adverse effects on earnings management. The study of Aisha *et al*. (2021) aligned with the result and indicated that gender diversity has no impact on decreasing earnings management. Umer *et al*., (2020) showed a negative link between earnings management and female leadership within organizations.

However, Hosam *et al*., (2019) concluded with the statistical findings and stated the board's increased gender diversity leads to improved monitoring of systems and to better monitoring of board in firm’s operations. In addition to their findings, they agreed that female managers seek to reduce disputes between managers and the Board of Management and hence promote the performance of the company. The number of women in the board also enhances the company's innovation and originality according to Hosam *et al*., (2019).

In the third model, we observed that audit committee meeting has a positive effect on earnings management measured by discretionary accruals. The audit committee meeting is responsible for 0.6% variations in discretionary accruals while the remaining 99.4% is explained by other factors that can impact on the dependent variable not captured in this model. Therefore, based on the statistical results, we conclude that frequency of Audit committee meeting has no significant effect on earnings management of listed manufacturing companies in Nigeria. These results are in line with the conclusions of Omar (2017) and Ibrahim *et al*., (2019) where they observed that the audit committee meetings have no significant impact on the occurrence of income smoothening. The findings of Karamanou and Vafeas (2005) negated the study by proposing that more frequently met AC would perform its monitoring function more effectively.

Other researchers also had similar results in terms of this model concluding an insignificant link between audit committee meeting frequency and financial statement management. (Garven, 2015; Ioualalen *et al.,* 2015; Stewart & Munro, 2007; Xie *et al.,* 2003; Menon & Williams, 1994; Tuo & Rezaee 2019; Zhang 2019). Musa *et al.,* (2017) considered whether Audit Committee meetings and audit committee attendance are correlated with accrual earnings management and discovered negative and significantly association. It also follows on from the conclusions of Nelson and Jamal (2011) and Soliman and Ragab (2014), who found that the independence of the Audit Committee and earnings management were positive, but not significant. Hamdan (2020); Nelson and Jamil (2011) study showed a positive correlation between audit committee meeting and earnings management.

The fourth model stated that board size has a positive effect on earnings management measured by discretionary accruals. This variable is responsible for 0.04% variations in discretionary accruals while the remaining 99.96% is explained by other factors that can impact on the dependent variable not captured in this model. Board size has no significant effect on earnings management of listed manufacturing companies in Nigeria. Abed, *et al*., (2012) have contrary views, concluding that the relationship between earnings management and board size is negative. The findings of Rahman and Ali, (2006) and Kankanamage (2016), showed that the presence of a positive relationship between earnings management and board size which aligned with the findings. Ideh *et al*., (2021); Abata and Migiro, (2016); Gulzar and Wang, (2011) and Hosam *et al.*, (2019) aligned with the findings of this paper and stated that the relationship between board size and earnings management is insignificant.

Finally, the main model revealed that the coefficient of the independent variable corporate governance proxies (BMF, BGD, ACM) is positive and BSZ is negative. The corporate governance is responsible for 0% variations in discretionary accruals while the remaining 100% is explained by other factors that can impact on the dependent variable. Therefore, based on these results, we conclude that corporate governance has no significant effect on earnings management of listed manufacturing companies in Nigeria. Several studies in Nigeria have researched on the impact of corporate governance practices on earnings management (Kuye *et al.*, 2020, Ezekiel & Idode, 2018; Abdullahi & Ibrahim, 2018; Haruna *et al*., 2018; Salau & Che, 2016; Idode *et al*., 2018). These authors concluded that there is a significant effect of corporate governance and earnings management. However, Kuye *et al*., 2020; Idode *et al*., 2018; Abata & Migiro, 2016 had conclusions in line with that of this paper, which is that no significant relationship exists between corporate governance and earnings management.

It is important to note here that though we predicted that the model would provide some explanation to the occurrence of earnings management in listed Nigerian manufacturing companies, the statistical conclusions tell a different story and this could be due to a number of reasons

6.2 Implication of Findings

The implications of the findings of this study are:

- **To the management:** The implication of these findings to management is that corporate governance (board size, audit committee meeting, gender diversity and board meeting frequency) had positive insignificant effect on earnings management of listed manufacturing firms in Nigeria. This implies that there is need for an increase in audit committee and board meeting, more female participation in the board as stated in the 2018 New Corporate governance code in Nigeria to decrease earnings management.
- **To the regulators e.g., Central Bank of Nigeria and Securities and Exchange Commission (SEC):** The study will assist them in ensure that the 2018 New code of corporate governance are enforced and are followed by listed companies. Instead of the proposed four meetings annually, there might also be a need to increase the number of audit committee meetings to ensure effective decision relating to earnings management reduction and overall financial reporting quality. This is because the audit committee meeting plays significant role in checkmating the financial reports provided by managers and in making effective decisions.
- **To the investors:** The implication to investors is that it gives a different perspective to consider before investing in a particular company. That is, understanding how the corporate governance framework within a firm affects the quality of earnings reported, the financial statement as a whole company as well as overall business operations.

CHAPTER SEVEN
SUMMARY, CONCLUSION AND RECOMMENDATIONS

This chapter of the study details the summary of the study on corporate governance and earnings management of listed manufacturing firms in Nigeria. Based on the findings, the chapter draws the conclusion and recommendations for the study.

7.1 Summary of findings

The regression for the first model showed that the board meeting frequency has a positive effect on earnings management measured by discretionary accruals. The board meeting frequency is responsible for only 0.5% variations in discretionary accruals. There is no significant effect of board meeting frequency on earnings management of listed manufacturing companies in Nigeria. The second model discovered that board gender diversity has a positive effect on earnings management measured by discretionary accruals. The board gender diversity is responsible for 0.2% variations in discretionary accruals. There is no significant effect of board gender diversity on earnings management of listed manufacturing companies in Nigeria.

The third model also showed a positive effect of audit committee meeting on earnings management. This independent variable is is responsible for 0.6% variations in discretionary accruals while the remaining 99.4% is explained by other factors not captured in this model. Frequency of Audit committee meeting has no significant effect on earnings management of listed manufacturing companies in Nigeria.

The fourth model revealed that board size has a positive effect on earnings management The independence of board size is responsible for 0.04% variations in discretionary accruals while the remaining 99.96% not captured in this model. Board size has no significant effect on earnings management of listed manufacturing companies in Nigeria. Finally, the main model stated that the coefficient of the independent variable corporate governance proxies (BMF, BGD, ACM) is positive while BSZ is negative. The independence of corporate governance is responsible for 0% variations in discretionary accruals while the remaining 100% is explained by other factors that can impact on the dependent variable not captured by the model.

7.2 Conclusion

Having considered an extensive review of literature and a quantitative analysis, the study concluded that corporate governance has no impact on earnings management in listed Nigerian manufacturing companies. In addition to this, the independent variables when assessed in isolation with the dependent variable also showed insignificant effects. Though these results were inconsistent with the a priori expectations, they are in line with the results of some researchers.

7.3 Recommendation

The study findings and literature review have led to the following recommendations.

i. There should be increase in female membership and participation in the board to enhance a more robust and diverse decision making and reduce earnings management. This should be adhered as stated in the 2016 revised corporate governance code.

ii. For reduced earnings management within companies, emphasis on strict attendance should be made. All members must attend all or majority of the board and audit committee meetings to address challenges, issues and concerns relating to financial reporting quality.

iii. In accordance with the 2016 revised corporate governance code, the board size should be no less than eight (8) members in order to handle all duties effectively and efficiently as well as increase performance and productivity.

iv. It is in the best interest of all companies, both in Nigeria and globally, to adhere to corporate governance guidelines. The implication of this is that an increased perception of adherence to the framework has potential to increase firm value and most importantly, avoid possible litigation.

7.4 Contribution to Knowledge

From this study, we concluded based on the data available and on the statistical results that corporate governance has no significant relationship on the occurrence of earnings management practices in listed Nigerian manufacturing companies. However, it is not to imply that corporate governance practices are not important. In practice, improved corporate governance practices do impact on financial reporting quality.

What can also be intuitively concluded from this research is that the impact of earnings management takes a long period of time to manifest itself in financial reporting data and this is also the case with corporate governance. due to the time period adopted for this study (10 years), earnings management, measured using discretionary accruals might not have been fully captured in the data. For future studies, it is suggested that extensive periods are considered to ensure that the data captures changes in corporate governance variables and earnings management.

7.5 Future Research Suggestions

An empirical study of Nigerian listed firms should be conducted in order to gain a better understanding of how corporate governance (board size, audit committee meeting, gender diversity and board meeting frequency) affects the occurrence of earnings management in all the companies listed on the Nigerian Stock Exchange (NSE). It is also suggested that this same study should be carried out using a larger time period, like 20 or 30 years to get a more robust view on the impact of the independent variable on the dependent since it is assumed that manifest more clearly in the long term.

7.6 Limitation of the Study

In carry out this study, time constraint was the major limitation experienced. This impacted the number of samples collected and the period reviewed. Also, the study is limited to only manufacturing companies in Nigeria, specifically the industrial and consumer goods industry and this impacts the scope of use of this paper.

APPENDIX

1) DESCRIPTIVE STATISTICS

	DAC	ACM	BSZ	BMF	BGD
Mean	-0.066016	3.803846	9.876923	4.669231	12.34883
Median	-0.064500	4.000000	9.000000	4.000000	11.11110
Maximum	0.611700	6.000000	19.00000	10.00000	50.00000
Minimum	-1.052300	1.000000	4.000000	1.000000	0.000000
Std. Dev.	0.166970	0.672103	3.165976	1.151722	11.29759
Skewness	-0.534458	-0.894344	0.518945	1.246643	0.487143
Kurtosis	9.521129	5.632535	2.661278	5.874411	2.405757
Jarque-Bera	473.0668	109.7378	12.91275	156.8527	14.10887
Probability	0.000000	0.000000	0.001570	0.000000	0.000864
Sum	-17.16413	989.0000	2568.000	1214.000	3210.697
Sum Sq. Dev.	7.220690	116.9962	2596.062	343.5538	33057.63
Observations	260	260	260	260	260

2) MODEL ONE

HAUSMAN TEST

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

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	1.630801	1	0.2016

Cross-section random effects test comparisons:

Variable	Fixed	Random	Var(Diff.)	Prob.
BMF	0.001547	0.010544	0.000050	0.2016

Cross-section random effects test equation:
Dependent Variable: DAC
Method: Panel Least Squares

Date: 08/09/21 Time: 18:36
Sample: 2010 2019
Periods included: 10
Cross-sections included: 26
Total panel (balanced) observations: 260

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.073239	0.054845	-1.335372	0.1831
BMF	0.001547	0.011538	0.134071	0.8935

Effects Specification

Cross-section fixed (dummy variables)

R-squared	0.115024	Mean dependent var	-0.066016
Adjusted R-squared	0.016272	S.D. dependent var	0.166970
S.E. of regression	0.165606	Akaike info criterion	-0.660357
Sum squared resid	6.390135	Schwarz criterion	-0.290594
Log likelihood	112.8464	Hannan-Quinn criter.	-0.511707
F-statistic	1.164772	Durbin-Watson stat	2.229024
Prob(F-statistic)	0.271402		

RANDOM EFFECT

Dependent Variable: DAC
Method: Panel EGLS (Cross-section random effects)
Date: 08/09/21 Time: 18:38
Sample: 2010 2019
Periods included: 10
Cross-sections included: 26
Total panel (balanced) observations: 260
Swamy and Arora estimator of component variances

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.115248	0.044033	-2.617321	0.0094
BMF	0.010544	0.009138	1.153890	0.2496

Effects Specification

	S.D.	Rho
Cross-section random	0.018388	0.0122
Idiosyncratic random	0.165606	0.9878

Weighted Statistics

R-squared	0.005122	Mean dependent var	-0.062288
Adjusted R-squared	0.001266	S.D. dependent var	0.165914
S.E. of regression	0.165809	Sum squared resid	7.093072
F-statistic	1.328216	Durbin-Watson stat	2.011476
Prob(F-statistic)	0.250190		

Unweighted Statistics

R-squared	0.005957	Mean dependent var	-0.066016
Sum squared resid	7.177677	Durbin-Watson stat	1.987766

3) **MODEL TWO**

HAUSMAN TEST

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

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	0.065894	1	0.7974

Cross-section random effects test comparisons:

Variable	Fixed	Random	Var(Diff.)	Prob.
BGD	0.000521	0.000765	0.000001	0.7974

Cross-section random effects test equation:
Dependent Variable: DAC
Method: Panel Least Squares
Date: 08/09/21 Time: 18:53
Sample: 2010 2019
Periods included: 10
Cross-sections included: 26
Total panel (balanced) observations: 260

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.072446	0.019596	-3.697082	0.0003
BGD	0.000521	0.001352	0.385286	0.7004

Effects Specification

Cross-section fixed (dummy variables)

R-squared	0.115520	Mean dependent var	-0.066016
Adjusted R-squared	0.016822	S.D. dependent var	0.166970
S.E. of regression	0.165560	Akaike info criterion	-0.660917
Sum squared resid	6.386559	Schwarz criterion	-0.291153
Log likelihood	112.9192	Hannan-Quinn criter.	-0.512267
F-statistic	1.170442	Durbin-Watson stat	2.233596
Prob(F-statistic)	0.265716		

RANDOM EFFECT

Dependent Variable: DAC
Method: Panel EGLS (Cross-section random effects)
Date: 08/09/21 Time: 18:53
Sample: 2010 2019
Periods included: 10
Cross-sections included: 26
Total panel (balanced) observations: 260
Swamy and Arora estimator of component variances

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.075457	0.016464	-4.583105	0.0000
BGD	0.000765	0.000962	0.795011	0.4273

Effects Specification

		S.D.	Rho
Cross-section random		0.025301	0.0228
Idiosyncratic random		0.165560	0.9772

Weighted Statistics

R-squared	0.002453	Mean dependent var	-0.059439
Adjusted R-squared	-0.001414	S.D. dependent var	0.165143
S.E. of regression	0.165260	Sum squared resid	7.046208
F-statistic	0.634339	Durbin-Watson stat	2.026149
Prob(F-statistic)	0.426500		

Unweighted Statistics

R-squared	0.002857	Mean dependent var	-0.066016
Sum squared resid	7.200062	Durbin-Watson stat	1.982854

4**) MODEL THREE**

HAUSMAN TEST

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

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	0.006837	1	0.9341

Cross-section random effects test comparisons:

Variable	Fixed	Random	Var(Diff.)	Prob.
ACM	0.019822	0.019027	0.000092	0.9341

Cross-section random effects test equation:
Dependent Variable: DAC
Method: Panel Least Squares
Date: 08/09/21 Time: 18:58
Sample: 2010 2019
Periods included: 10
Cross-sections included: 26
Total panel (balanced) observations: 260

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.141414	0.071046	-1.990472	0.0477
ACM	0.019822	0.018482	1.072479	0.2846

Effects Specification

Cross-section fixed (dummy variables)

R-squared	0.119304	Mean dependent var	-0.066016
Adjusted R-squared	0.021029	S.D. dependent var	0.166970
S.E. of regression	0.165205	Akaike info criterion	-0.665204
Sum squared resid	6.359236	Schwarz criterion	-0.295441
Log likelihood	113.4765	Hannan-Quinn criter.	-0.516554
F-statistic	1.213976	Durbin-Watson stat	2.246726
Prob(F-statistic)	0.224761		

RANDOM EFFECT

Dependent Variable: DAC
Method: Panel EGLS (Cross-section random effects)
Date: 08/09/21 Time: 18:59
Sample: 2010 2019
Periods included: 10
Cross-sections included: 26
Total panel (balanced) observations: 260
Swamy and Arora estimator of component variances

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.138390	0.061124	-2.264105	0.0244
ACM	0.019027	0.015784	1.205441	0.2291

Effects Specification

		S.D.	Rho
Cross-section random		0.026177	0.0245
Idiosyncratic random		0.165205	0.9755

Weighted Statistics

R-squared	0.005622	Mean dependent var	-0.059021
Adjusted R-squared	0.001768	S.D. dependent var	0.165033
S.E. of regression	0.164887	Sum squared resid	7.014451
F-statistic	1.458702	Durbin-Watson stat	2.036396
Prob(F-statistic)	0.228243		

Unweighted Statistics

R-squared	0.005782	Mean dependent var	-0.066016
Sum squared resid	7.178943	Durbin-Watson stat	1.989736

5) **MODEL FOUR**

HAUSMAN TEST

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

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.

Cross-section random	1.508212	1	0.2194

Cross-section random effects test comparisons:

Variable	Fixed	Random	Var(Diff.)	Prob.
BSZ	0.008475	0.001132	0.000036	0.2194

Cross-section random effects test equation:
Dependent Variable: DAC
Method: Panel Least Squares
Date: 08/09/21 Time: 19:06
Sample: 2010 2019
Periods included: 10
Cross-sections included: 26
Total panel (balanced) observations: 260

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.149719	0.069394	-2.157537	0.0320
BSZ	0.008475	0.006949	1.219558	0.2239

Effects Specification

Cross-section fixed (dummy variables)

R-squared	0.120570	Mean dependent var	-0.066016
Adjusted R-squared	0.022436	S.D. dependent var	0.166970
S.E. of regression	0.165087	Akaike info criterion	-0.666643
Sum squared resid	6.350093	Schwarz criterion	-0.296880
Log likelihood	113.6636	Hannan-Quinn criter.	-0.517993
F-statistic	1.228626	Durbin-Watson stat	2.232361
Prob(F-statistic)	0.212053		

Dependent Variable: DAC
Method: Panel EGLS (Cross-section random effects)
Date: 08/09/21 Time: 19:06
Sample: 2010 2019
Periods included: 10
Cross-sections included: 26
Total panel (balanced) observations: 260
Swamy and Arora estimator of component variances

Variable	Coefficient	Std. Error	t-Statistic	Prob.

C	-0.077195	0.036818	-2.096672	0.0370
BSZ	0.001132	0.003541	0.319628	0.7495

Effects Specification

	S.D.	Rho
Cross-section random	0.026750	0.0256
Idiosyncratic random	0.165087	0.9744

Weighted Statistics

R-squared	0.000395	Mean dependent var	-0.058752
Adjusted R-squared	-0.003479	S.D. dependent var	0.164962
S.E. of regression	0.165249	Sum squared resid	7.045284
F-statistic	0.101962	Durbin-Watson stat	2.019977
Prob(F-statistic)	0.749747		

Unweighted Statistics

R-squared	0.000119	Mean dependent var	-0.066016
Sum squared resid	7.219828	Durbin-Watson stat	1.971143

6**) MAIN MODEL**

HAUSMAN TEST

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

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	3.395812	4	0.4939

Cross-section random effects test comparisons:

Variable	Fixed	Random	Var(Diff.)	Prob.
BMF	-0.000853	0.008216	0.000045	0.1770
BGD	0.000184	0.000371	0.000001	0.8443
ACM	0.019723	0.016698	0.000080	0.7349
BSZ	0.008529	-0.000103	0.000037	0.1535

Cross-section random effects test equation:

Dependent Variable: DAC
Method: Panel Least Squares
Date: 08/09/21 Time: 19:15
Sample: 2010 2019
Periods included: 10
Cross-sections included: 26
Total panel (balanced) observations: 260

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.223567	0.108925	-2.052494	0.0413
BMF	-0.000853	0.011797	-0.072322	0.9424
BGD	0.000184	0.001389	0.132140	0.8950
ACM	0.019723	0.018725	1.053318	0.2933
BSZ	0.008529	0.007062	1.207742	0.2284

Effects Specification

Cross-section fixed (dummy variables)

R-squared	0.125093	Mean dependent var	-0.066016
Adjusted R-squared	0.014779	S.D. dependent var	0.166970
S.E. of regression	0.165732	Akaike info criterion	-0.648722
Sum squared resid	6.317432	Schwarz criterion	-0.237875
Log likelihood	114.3339	Hannan-Quinn criter.	-0.483556
F-statistic	1.133969	Durbin-Watson stat	2.250390
Prob(F-statistic)	0.298296		

RANDOM EFFECT

Dependent Variable: DAC
Method: Panel EGLS (Cross-section random effects)
Date: 08/09/21 Time: 19:16
Sample: 2010 2019
Periods included: 10
Cross-sections included: 26
Total panel (balanced) observations: 260
Swamy and Arora estimator of component variances

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.171453	0.074853	-2.290529	0.0228
BMF	0.008216	0.009698	0.847232	0.3977
BGD	0.000371	0.001010	0.366923	0.7140
ACM	0.016698	0.016457	1.014685	0.3112
BSZ	-0.000103	0.003647	-0.028374	0.9774

Effects Specification			
		S.D.	Rho
Cross-section random		0.026041	0.0241
Idiosyncratic random		0.165732	0.9759

Weighted Statistics			
R-squared	0.009752	Mean dependent var	-0.059120
Adjusted R-squared	-0.005781	S.D. dependent var	0.165059
S.E. of regression	0.165536	Sum squared resid	6.987514
F-statistic	0.627844	Durbin-Watson stat	2.047365
Prob(F-statistic)	0.643050		

Unweighted Statistics			
R-squared	0.011183	Mean dependent var	-0.066016
Sum squared resid	7.139945	Durbin-Watson stat	2.003656

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