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Corporate Governance and Earnings Management Among Listed Companies in Nigeria

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Abstract: *The relevance of preparing quality financial statement reveals the need to rely on corporate governance mechanism, which can warn against earnings management. Global corporate scandals that took its toll with the collapse of once prestigious companies around the globe has increased the clamoring for a better governance mechanism worldwide and captivated the concern of academia to empirically establish any association between corporate governance and the earnings management among non-financial companies in Nigeria. It is against this backdrop this study specifically evaluated the influence of board size, board independence, board activity, board diversity and audit committee independence and expertise on real earnings management. The study sample 46 non-financial listed companies from 82 listed companies between the period of 2018 to 2021 and the result from panel corrected standard error regression analyses revealed a relationship between real earnings management and independent variables (board size, board independence, diversity, and audit committee expertise) with 0.006065, -0.27174, -0.03364 and 0.137426 as coefficient, and 0.027, 0.000, 0.000, and 0.000 as p-value respectively. Thus, in accordance with the findings, it can be concluded that collective corporate governance mechanism and real earnings management are related. Based on the above conclusion, it was recommended that firms should encourage larger board members with independence and sensitivity to constrain manipulation annual reports. Finally, companies should persist in expanding audit committee expertise and independence in order to promote effectiveness of the committee which, thus, increases the quality of financial reporting.*

Keywords: accounting earnings, corporate governance, earning management, financial statement, non-financial companies,

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INTRODUCTION

Accounting information systems as often been a complicated whole which are intended to provide all stakeholders with reasonably, accurate, and timely data to assist them in making decisions that are in line with the aims of their company. Accounting earnings are a major component of the annual report because the primary purpose of the report, which is one of the essential duties of company management, is to account for the company's operations during the previous fiscal year and deliver annual financial information to both external and internal stakeholders (shareholders, creditors, analysts, government, and general public) in a reliable and timely manner (Micah, Ibitomi & Ibrahim, 2022).

Earnings have always been the most essential component of financial reports because they indicate the underlying financial performance that serves as the foundation for investment decisions. However, the fundamental assumption in making judgments is that the results disclosed in the yearly financial statement are clear, relevant, and dependable. Nonetheless, because certain reports are perceived to be a product of management, the breadth of financial reports created by management can leave grounds for doubt about the veracity of the information conveyed (Degeorge *et al.,* 2013). The relevance of preparing correct information reveals the need to rely on an act such as corporate governance (CG), which can warn against earnings management.

Corporate governance is concerned with rules, procedures, laws, accountability, and transparency in decision-making and disclosure to balance the interests of owners and other stakeholders in all organizations (Biswas *et al.,* 2022). Some stakeholders (for example, managers and controlling shareholders) may profit from the ambiguity in the corporate governance framework. The most typical consequences of a weak company governance system are EM and accounting fraud (Arora & Sharma, 2016). The manager has more leeway to alter earnings when a company's governance is poor. Such methods must be limited because they usually end in scams that have a negative impact on society (Perols & Lougee, 2011). Strong and diligent corporate governance measures can limit these opportunistic EM behaviors (Abdou, *et al*., 2010).

Global corporate scandals that took its toll with the collapse of once prestigious companies such as Xerox (2000), Enron (2001), WorldCom (2002), Palmalat (2003), Adecco (2008), Allied Nationwide Finance (2010), Cadbuty Nigeria Plc. (2006), Afribank Nigeria Plc. (2009), Intercontinental Bank Plc, Bank PHB and Lever Brothers Nigeria Plc., Oceanic Bank Plc. and Sky Bank Plc. (2018) among others reiterated the need for an investigation into the quality of financial reports and increased the clamoring for a better governance mechanism worldwide. It has been

observed by accountants and financial analysts/economist that central to these corporate failures is that "there are systematic deficiencies in accounting standards and governance systems that generate financial information" (Bowen *et al*., 2008). In a bid to prevent such future failure of companies, most nations across the globe introduced new codes of best governance practices to align managers' interest with the wealth maximization objective of the shareholders (Hassan & Ahmed, 2012).

Nonetheless, despite the introduction of best governance practices codes around the world, such as the establishment of the Sarbanes-Oxley (SOX) Act, 2002 in the US, enactment of the Security and Exchange Commission Code (2011), 2004 bank recapitalization reform (increase in capital reserve from N2 billion to N25 billion), and the adoption of IFRS in 2011, adoption Code of Corporate Governance, 2018, amendment of Companies and Allied Matters Act (CAMA), 2020 and Finance Act, 2020, the results that it has achieved can be said to be minimal as there are fresh cases of governance malpractices that threaten the survival of quite a number of firms in different sectors of the economy.

This has captivated the concern of academia who sought to empirically establish any association between corporate governance and the probability of material misstatements (earnings management) among companies. Hence, this study will be examining the effect of corporate governance on management of earnings among listed companies in Nigeria. The specific objectives of the study are to:

i. examine the impact of board size on non-financial listed firms' earnings management practices;
ii. assess the influence of board independence on earnings management practices of listed non-financial companies in Nigeria;
iii. investigate the effect of board activity on earnings management practices of listed non-financial companies in Nigeria;
iv. determine the impact of board gender diversity on earnings management practices of listed non-financial companies in Nigeria; and
v. explore the influences of audit committee variables (independence and expertise) on earnings management practices of Nigeria's publicly traded non-financial companies.

The research questions and hypotheses were stated in line with the research objectives stated. This study adds to the existing literature in a variety of ways. First, in contrast to previous literature, which focused primarily on accruals-based manipulation as the sole method of managing earnings figures in both developed and developing countries, real activities manipulation was used in this

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study, which Nigeria is used as a sample of an understudied emerging market region. Companies can also manage their earnings by manipulating their real-world operations (real-world earning management) (Roychowdhury, 2006; Omid, 2015). The distinction is significant because earnings management based on accruals activities has no direct cash flow effects, whereas manipulations of real operations affect cash flows. Omid (2015) posited that, managers' willingness to manipulate earnings through real activities than through accruals is because of using ARM only is risky and AEM is more likely to draw the attention of auditors of regulators than REM.

Second, with the exception of the more recent study by Ideh, Jeroh, and Ebiaghan (2021), the most of the studies in this field (Dauda and Yahaya, 2018); Otuya, Donwa, and Egware, 2017; Patrick, Paulinus, and Nympha, 2015; Okougbo and Okike, 2015; Kurawa and Saheed, 2015) are before the enactment of Code of Corporate Governance, 2018. This will fill the timing gap. As a result, the third contribution advances the present empirical research on actual activities manipulation by taking a more complete approach by studying board qualities as well as audit committee variables and their effect on real activities manipulation. As a result, this study emphasizes the significance of independence and competence in detecting income manipulation in Nigerian enterprises. Thirdly, the methodology employed in the research enables us to effectively adjust for various econometric issues identified in earlier empirical work. As a result, we address the endogeneity problem as well as the individual, time invariant heterogeneity problem by developing an appropriate empirical technique that yields consistent and robust results.

Finally, in compared to similar studies in developed countries, the study will specifically improve understanding of the relationship between earnings management and corporate governance in emerging countries such as Nigeria. It would also assist investors, stockholders, and creditors who consider company governance while making investment decisions. Policymakers will also receive assistance in developing suggested laws and regulations.

The study is within the timeframe of four years (2020-2023). 2020 was chosen as beginning year of the study because it was the year Nigeria Code of Corporate Governance was implemented fully while 2023 was used as ending year because of availability of data. The data used for the research is annual data.

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LITERATURE REVIEW

Conceptual Issues

Earnings Management (EM)

Schipper (1989) described EM as "disclosure management in the sense of an intentional intervention in the external financial reporting process with the objective of attaining some private gain." Similarly, Healy and Wahlen define it as the use of judgment in presenting financial reports and arranging transactions in a way that alters the financial reports in order to either mislead stakeholders about the underlying economic performance of the company or influence contracts that rely on the reported accounting numbers. While Akers, Giacomino, and Bellovary (2007) define EM as attempts by management to influence or manipulate reported earnings by using specific accounting methods (or changing methods), recognizing one-time non-recurring items, deferring or accelerating expense or revenue transactions, or using other methods designed to influence short-term earnings.

According to Leuz, Nanda, and Wysocki (2003), EM is the manipulation of organizations' stated economic performance by insiders in order to deceive some stakeholders or affect contractual outcomes. EM is also seen as the employment of accounting standards that allow managers to affect reported earnings, leading reported income to be bigger or smaller than it would otherwise be. What is common among the various definitions is the idea of management deliberately manipulating reported information. Firms can modify reported accounting earnings even in the absence of fraudulent reporting since GAAP provides for alternative representations of accounting events (Park & Shin, 2004). This is a possibility in nations such as Nigeria that practice principle-based accounting, which allows managers to exercise professional judgment and discretion.

According to Roychowdhury (2006), there are two main forms of EM (accrual and real) that are both supported by GAAP. According to Joosten (2012), the primary purpose of accruals earnings management (AEM) is to demonstrate the actual and fair performance of the organization by tracking income and expenditures to the period in which they are incurred, rather than displaying the cash in and out-flow. For example, differential revenue, bad debt losses, asset impairment, and the residual value of long-term assets. The differed revenue is an accrual that is accounted for or projected when the cash flow from a sale is received prior to the transaction being recorded (IFRS 15, IAS 18 and IAS 11). AEM has been used if these estimates are distorted in order to alter the underlying genuine economic performance (Healy & Wahlen, 1998). AEM is used to distinguish

non-discretionary accruals from discretionary accruals. Non-discretionary accruals result from ordinary and routine business activity or prior transactions that have been recorded in the books but have not yet been realized.

According to Anh and Khoung (2022), real earnings management (REM) is the separations of EM from AEM that can help firms adjust cash flow from operational activities. Roychowdhury (2006) characterizes REM as take-offs from normal operational practices with the target of meeting short-term earning objectives. This is to mislead probably a few stakeholders into accepting certain financial related reporting objectives which these actions are less likely to be challenge by regulators. Realizing short-term objectives, the repercussions of REM have cost effect on future cash-flow.

The study used the following model to estimate the level of production costs:

$PRODit/TA_{it}\text{-}1 = \beta_0[1/ TA_{it}\text{-}1] + \beta_1[SALE_{it} / TA_{it}\text{-}1] + \beta_2[\Delta SALE_{it}/TA_{it}\text{-}1] + \beta_3[\Delta SALE_{it} \text{-}1/TAit\text{-}1] + \varepsilon_{it}$................1

Where PRODit is sum of cost of goods sold and change in inventory during the year for firm i year t, TA it-1 is total assets for firm i year t-1, SALEit is sales for firm i year t, ΔSALEit is change in sales for firm i from year t – 1 to year t, and ΔSALEit -1 is change in sales for firm i from year t - 2 to year t-1.

Corporate Management (CG): According to Shah, Butt and Hassan (2009), good governance entails limited expropriation of company resources by management or controlling shareholders, which leads to better resource allocation and performance. This translates to corporate governance, in which executives at the helm of a business demonstrate their managerial skills in the interests of the owners and other stakeholders. Corporate governance is the method and technique by which the activities of a business are directed by a board of directors who discharge their duties on behalf the shareholders' (Abubakar, Ishak & Chandren, 2017). According to Dignam and Galanis (2009), corporate governance is the act of balancing the opposing interests of a corporation's stakeholders (shareholders, employees, creditors, government, local community, and, more recently, the environment) in order to achieve societal benefit. As a result, corporate governance can be defined as a framework for managing and controlling organizations in order to minimize opportunistic behavior such as earnings management.

According to Oso and Semiu (2012), the essential ingredients of corporate governance, such as trust, honesty, integrity, accountability, complete transparency, protection of stakeholders'

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interests and satisfaction, participation, business ethics and values, performance orientation, openness, mutual respect, and commitment to the organization, are quite convincing that sincere compliance or adherence to them would pave the way for the sustenance of business cordial relations. After careful consideration, these substances were reduced to two major categories. There are two types of relationships: long-term relationships that deal with checks and balances, incentives for managers, and communication between management and investors, and transactional relationships that deal with disclosure and authority.

However, there are differences in these corporate governance characteristics dependent on country-specific circumstances. As a result, the connections revealed by these studies differ depending on the economic, legal, and social context. The broad concept of corporate governance has been reflected in various studies through various practices and attributes, such as board size, board autonomy/independence, board gender diversity, and board number meetings, which are stated in best practice codes, as well as related laws and regulations on governance. Nonetheless, these corporate governance features fluctuate based on country-specific circumstances (Naveed, Khurshid & Shakeel, 2015).

Board Size: Board size is often cited as one of the key elements of a board's efficacy and effectiveness (Wang & Hussainey, 2013). It refers to the total number of executive and non-executive members of the board at the time of the annual general meeting. The corporate governance studies offer a variety of arguments that could lead to different hypotheses about the connection between board sizes and reporting quality. Despite its significance, there hasn't been much agreement in prior research on the connection between board size and earnings manipulation. For instance, Khan, Khidmat, Ullah, and Khan (2019) suggested that on larger boards, it is inevitable that there would be capable chiefs with varied levels of competence, which will promote high-quality reporting. Studies by Githaiga, Kabete and Bonareri (2022); Daniel, Ameh and Aza (2020); and Gelderen (2013) found a strong and positive correlation between board size and performance. According to research by Abdou, Ellelly, Elamer, Hussainey, and Yazdifar (2020); Sow and Tozo (2019); and Okougbo and Okike (2015), organizations with smaller boards are more likely to have lower levels of EM.

Given this, the study anticipates that bigger boards will have more notable control and monitoring capabilities and will distribute high-quality integrated reports.

Board Independence: The independence of the board is another crucial component of corporate governance that is extensively discussed in the disclosure literature and is frequently linked to composition and structure. Those directors who do not receive a salary from the corporations and

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who are not reliant on the companies for employment or other advantages are referred to be independent directors (Hillman and Dalziel, 2003). According to Abdelkarim and Zuriqi (2020), it is the proportion of non-executive board members who are capable of exercising independent judgment in matters involving potential conflicts of interest. The majority of the company board is made up of independent and non-executive (non-executive) members. Since they are not directly involved in corporate operations, dependent people either directly manage the company, while independent people primarily look out for the interests of small investors (Akbas, 2016).

Non-executive board members are more focused on making sure that company is done ethically and that corporate goals are attained. This is because they are supposed to administer and examine organizational conduct with a higher degree of objectivity and autonomy than executive members are. A larger percentage of independent directors might be able to influence the board to produce high-quality reporting. Board independence, board gender diversity, and board financial knowledge were found to have a negative and significant impact on EM by Githaiga *et al*. (2022).

Both board independence and board financial experience have a detrimental and statistically significant impact on actual operations, according to Gelderen (2013); Aleqab and Ighnaim (2021).

In this regard, the study predicts that the larger the presence of director independence, the greater the likelihood of managers not practicing EM.

Diversity of gender on the Board: Board diversity promotes critical thinking, increases initiative viability, and fosters global linkages, according to Anh and Khoung (2022). Board members with a variety of attributes bring different perspectives and ideas to the table with a wide range of knowledge. The gender diversity in associations is one of the notable diversity metrics. Gender diversity has become a key concern for practically all firms as a result of the dramatically increased number of female employees. The promoters of the gender diverse boards' contentions fall into two classes. The first class is equity and fairness with regards to best business practices and the second class is investors' worth with regards to company's performance (Vafaei, Ahmed & Mather, 2015). Women in administrative posts frequently inspire more participatory debate among board members, as indicated by Bear et al. (2010); consequently, gender diversity boards may better represent the interests of other stakeholders. Arun, Almahrog and Aribi (2015); Hassan and Ibrahim (2014); and Bala and Kumai (2015) found a positive significant relationship between reporting quality and board diversity while Abubakar, Ishak and Chandren (2017) found negative relationship.

The correlation between CG and board gender diversity is projected to be good in this study.

Board Meetings: The control and monitoring ability of a board of directors is directly related to board level of activities (Khan *et al*., 2020). The number of board meetings helps board members to understand each other, discuss strategies and make inform decisions. There are two opposing viewpoints on the possible impact of the board's level of participation on corporate disclosure. On the one hand, it has been suggested that the existence of continuous board meetings is an indicator of the board's non-viability, or that directors are exceeding their powers and so negatively affecting the firm's business. In contrast, research like Abubakar *et al*. (2017) claim that a functioning board is more feasible since the frequency of its meetings empowers members to effectively manage the firm's operations.

Several studies have shown that boards that meet more frequently perform their supervisory functions more effectively (Abubakar *et al*. (2017). Other studies, such as Kjærland, Haugdal, Søndergaard and Vågslid (2020); Sow and Tozo (2019) claimed that there is no link between Board meetings and financial reporting quality. The study forecasts that the stronger management and monitoring power of the most active boards will promote the transmission of high-quality integrated reports in this regard.

Independence of the Audit Committee: An audit committee is composed of people appointed by the board of directors and shareholders to oversee the quality of audits and the hiring of outside auditors. The audit committee, according to Salawu, Okpanachi, Yahaya and Dikki (2017), is a board sub-committee made up of a majority of independent (non-executive) directors tasked with providing oversight to help the directors meet their financial reporting, risk management, and control, and audit-related responsibilities. The audit committee's responsibility for overseeing financial reporting is closely connected to the members' independence (Ibitomi & Micah, 2021) . The audit committee's independence from entrenched interests offers it more authority and independence (Hamid, Othman & Rahim., 2015). In this regard, greater audit committee independence as a result of improved supervisory and monitoring operations may favor the quality of the process of obtaining and representing information in a quality manner (Akinola, Sanni & Ogunsola, 2021; Agwor & Osinachi, 2018; Gelderen, 2013). According to this logic, the more independent the audit committee, the less managers engage in real earnings manipulation.

Audit Committee Expertise: The audit committee's expertise refers to the members' in-depth understanding of financial accounting and other associated accounting skills, which allows them to carry out their duties efficiently (Agwor & Osinachi, 2018; Gelderen, 2013). Audit committee knowledge is a critical component in safeguarding shareholders' interests. In order to comprehend the challenges of auditing methods, all members of the audit committee must have some

experience (accounting, financial, and supervisory). However, Ali (2022); Akinola *et al*. (2021) depicted that EM is negatively but significantly associated with audit committee financial expertise.

The Securities and Exchange Commission's (SEC, 2016), the Nigeria Corporate Governance Code (NCGC, 2018), and CAMA (2020) all recommend that the audit committee include members with a good understanding of the corporate financial contest and at least one member with a financial background and experience. As a result, the presence of financial professionals may help the process of collecting and representing data in a comprehensive and high-quality manner to succeed.

Theoretical Discussion

Theory of Agency

The second theory applied in this research is the agency theory of Jensen and Meckling (1976). According to agency theory, which focuses on the interaction between principals and agents, principals desire to increase the firm's value while agents strive to maximize profit. The purpose of agency theory is supported by the separation of ownership from management and control in contemporary business organizations. The focus of agency theory, according to Hill and Jones (1992), is on the conflicting interests of stockholders and management.

Companies face difficulties, according to Jensen and Meckling (1976), when stakeholders and management have different motives and when stakeholders are unable to observe management behavior. The crucial role of the boards, which is to oversee management on behalf of shareholders, is logically understood by the agency theory. Corporate governance essentially acts as a crucial monitoring tool for reducing challenges and worries that develop in the shareholder-management interaction. Furthermore, to fulfill its oversight duty by preventing profits manipulation, the board of directors and audit committee members need a mix of abilities and capabilities to analyze business objectives and evaluate management (Hillman & Dalziel, 2003).

The huge knowledge gap between shareholders and management persists despite firms' continuous efforts to offer more information about their performance (Abdelkarim and Zuriqi, 2020), which is a fundamental challenge in the reporting system. When one party has more information than the other, such as between management (agent) and shareholders, information asymmetry and profits manipulation occur (principal). Eliminating information asymmetry between managers and stockholders is one strategy to handle this issue, leading to a high level of corporate transparency that enables owners to thoroughly evaluate the firm's performance (Jensen & Berg, 2012). The

issue of information asymmetry is lessened through increased disclosure of information and monitoring mechanisms (board size, independence, activities, audit committee independence, and competence).

Empirical Review

State-ownership (SOE) and firm growth were examined as moderating factors in Anh and Khoung's (2022) study of the association between gender diversity boards and earnings management. The feasible generalized least squares (FGLS) method was used to analyze data from 404 Vietnamese listed companies between 2015 and 2019. According to the research, real earnings management and women on boards have good associations. Additionally, from 2010 to 2019, Biswas, Bhattacharya, Sadarangani, and Jin (2022) looked at how corporate governance affected the management of earnings across 22 publicly traded commercial banks in India. The study discovered that CG significantly negatively affects EM in Indian commercial banks using a Panel Corrected Standard Error (PCSE) methodology. Furthermore, the result depicted positive association between earnings management and board gender diversity.

Data from 88 listed companies in the East African Community (EAC) were used by Githaiga *et al*. (2022) to explore the impact of board features on earnings management from the perspective of a developing region. This study included the years 2011 through 2020. For the purpose of the study, potential endogeneity and reverse causality were handled by the system generalized method of moments (SGMM) estimate model. The results showed a strong and positive correlation between board size and EM. The results also showed a negative and significant impact on EM of board independence and board gender diversity.

Ali (2022) conducted an empirical investigation to determine whether the audit committee's features are related to the management of earnings for listed businesses in the GCC nations' growing markets from 2017 to 2020. The results of the regression analysis showed a substantial negative relationship between EM and the number of meetings, financial expertise, and independence of the audit committee. On the other hand, the size of the audit committee is not significantly correlated with EM. Similar to this, Akinola *et al*. (2021) looked into how the audit committee affected the management of earnings in Nigerian deposit money banks. A significant negative impact of audit committee independence on earnings management and a significant positive relationship between the financial expertise of the audit committee and earnings management of particular deposit money banks in Nigeria were found after applying ordinary least square regression to the variable estimates. This result is in consonance with the result of Hamdan (2020) but contradict the result of Fodio, Ibikunle and Oba (2013).

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In order to investigate the impact of the board of directors' characteristics on real earnings management among Jordanian non-financial firms listed on the Amman Stock Exchange between 2015 and 2017, Aleqab and Ighnaim (2021) employed multiple regression analysis (panel data). The study discovered that both board independence and board financial experience had a detrimental and statistically significant impact on real activity. Additionally, Ashraf and Qian (2021) used annual data from 2,899 Chinese listed non-financial firms with 16,638 firm-year observations from 2008 to 2017 to assess the effects of board internationalization on real earnings management. The end result indicated that board internationalization enhances the standard of earnings reported to external shareholders.

Ideh *et al*. (2021) observed the relationship between the board structure of corporate organizations and earnings management among Nigerian firms. Secondary data, meanwhile, were pooled from the financial statements of ninety-two (92) firms spanning ten (10) industrial sectors from 2007 to 2018. (12 years). The results of the regression analysis demonstrated that the size of corporate boards and the number of independent directors (board independence) could not significantly affect the degree of earnings management among Nigerian firms without the inclusion of IFRS adoption and firm age as mediating variables. Abdou *et al*. (2020) examined the association between CG and EM for a sample of British and Egyptian enterprises using traditional regressions and generalized regression neural networks (GRNNs). According to the study's findings, UK firms are more likely to have lower levels of EM if their boards are smaller, independent outside directors dominate them, and there are fewer women on them, while Egyptian firms are more likely to have lower levels of EM if their boards are larger, independent outside directors dominate them, and there are fewer women on them.

From the years of 2010 to 2018, Agyeman (2020) examined the variables affecting the earnings management strategies used by financial institutions listed on the Ghana Stock Exchange. The board size of listed financial institutions is a factor influencing earnings management practice, according to the regression model's results. By selecting 163 businesses in non-financial industries listed on the Indonesia Stock Exchange between 2014 and 2018, Kirana, Wibawaningsih, and Wijayanti (2020) observed if corporate governance has an effective function in limiting earnings management. The research hypothesis was tested using regression analysis, which revealed a strong positive relationship between the size of the board of commissioners and effective earnings management. The relationship between Nordic corporate governance standards and earnings management was investigated by Kjaerland *et al*. (2020) among 168 businesses listed on the Oslo Stock Exchange from 2014 to 2017. The results of the regression analysis demonstrated that having

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audit committee and employee participation on the board are both practices that lessen the likelihood of earnings management.

Additionally, Nyatichi, Iraya, Mwangi, and Njihia (2020) established that board activity has no influence on earnings management, while board independence favorably affect earnings management among firms listed at the Nairobi Securities Exchange, Kenya from a correlational panel regression carried out. According to the overall findings, corporate governance has a big impact on how earnings management is handled for companies listed on the Nairobi Securities Exchange.

Sow and Tozo (2019) looked at 2,098 Chinese listed companies from 2008 to 2014 to see how corporate governance affected the company' performance and earnings management. The hypothesis was tested using two distinct regression models, including pooled OLS and fixed effects, and the major conclusions showed that companies with smaller boards have higher-quality earnings. Similar to this, Khan *et al*. (2019) looked into the relationship between corporate governance traits and earnings management in the Chinese environment from 2008 to 2016. The regression analysis's findings showed that board size affects earnings management, but board independence has little impact because top management is closely scrutinized. Similar to how board meetings are useless and do not help manage earnings.

The impact of board size on the management of real earnings for listed companies in Nigeria was evaluated by Daniel et al. in 2020. Out of 57 companies, 31 were chosen using the simple random sample technique for the 2009–2018 fiscal years, and panel regression estimation was utilized for analysis. The results demonstrated that board size has little to no effect on real earning management. Gonçalves, Gaio, and Santos (2019) examined how the gender of CEOs and CFOs and the representation of women on boards of directors affected the quality of financial information (EM) for European listed companies from 2007 to 2013. The primary findings of the regression analysis revealed that only the gender of the CFO has an effect on the level and scope of earnings management.

Agwor and Osinachi (2018) investigated the effect of audit committee knowledge on earnings management methods in Nigeria. Through the use of a modified Jones (1991) model, discretionary accruals were employed to imply earnings management. Time series data were used to estimate discretionary accrual for each sampled company. Findings from Ordinary Least Squares regression analysis showed that audit committee expertise can restrict the earnings management strategies used by listed manufacturing companies in Nigeria.

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In a study published in 2018, Dauda and Yahaya looked at how corporate governance affected earnings management in 11 out of 13 publicly traded oil and gas companies in Nigeria over the course of a decade, from 2007 to 2016. The study's regression analysis showed a negative association between board structure, board composition, and earnings management. In a similar vein, Otuya *et al*. (2017) used regressional statistics to conduct research on the relationship between earnings management and quality of corporate governance in Nigeria. The results of the study demonstrated a significant negative correlation between earnings management and the strength of the audit committee.

Furthermore, Abubakar *et al*. (2017) investigated the connection between board characteristics and the management of real earnings of listed Nigerian financial institutions. From 2011 to 2016, information was gathered from 45 financial organizations listed on the Nigerian Stock Exchange (NSE). Panel Corrected Standard Errors (PCSEs) regression was used for analyses and the results showed that female directors had a significant negative impact on real earnings management while board meetings have large beneficial impact.

Banseh and Khansalar (2016) looked into how the UK CG Code affects accruals EM related to M&A's in the UK. In order to analyze a sample of data from 66 firms listed on the LSE that have completed M&As between January 2007 and December 2014, the study used Pearson Product Moment Correlation. Therefore, it was asserted that the level of earnings management around mergers and acquisitions in the UK has dramatically decreased with the passage of the UK Corporate Governance code 2010. In their study, Patrick *et al*. (2015) explored how corporate governance affected the ways in which Nigerian quoted businesses managed their earnings between 2011 and 2014. Tables and simple regression techniques were used to evaluate the data, and the results demonstrated that factors such as board size, board independence, and the effectiveness of the audit committee have a substantial impact on accounting standards.

Arun *et al*. (2015) assessed how female directors affected the management of earnings in UK enterprises. Regression analysis revealed that earnings management methods are being retrained as the number of female board members and independent female directors' increases. This outcome is consistent with that of Hassan and Ibrahim (2014) and Bala and Kumai (2015) in Nigeria, which found a strong correlation between female directors and effective earnings management. For listed companies on the Nigeria Stock Exchange, Okougbo and Okike (2015) examined the relationship between corporate governance and earnings management. They found that, compared to companies with large boards, those with tiny boards had lower procedures for managing earnings. They did this by performing content analysis on 62 chosen non-financial listed companies.

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Kurawa and Saheed (2014) studied the relationship between corporate governance and earnings management. Data were gathered from the sampled companies' annual reports and accounts, which covered the ten-year period from 2003 to 2012. The study's analytical methods included descriptive statistics, correlation, and panel data analysis (using Random-effect GLS regression techniques). The findings suggest that board composition and management equity holding considerably and favorably influence going concern, whereas board composition showed a negligible negative association.

Ugbede, Lizam, and Kaseri (2013) used all of the listed Nigerian banks and Malaysian commercial banks during the years 2007 to 2011 as their case studies to examine the effect of CG on EM. Their findings suggest that the earnings management of Nigerian banks has a negative mean, which denotes that the total accrual was generally negative in the sample. For Malaysian sample banks, however, total accruals have a positive mean. As a result, Nigerian banks had greater residual values in the equation than Malaysian banks, which corresponded to lower/higher accruals and earnings quality, respectively.

METHODOLOGY

In order to establish a relationship between variables whose data were obtained from secondary sources over which the researcher had no control, the ex-post facto research strategy was used in this study. The population of the study consisted of eighty-two (82) companies listed on the Nigerian Stock Exchange (NSE). This population does not include the 49 publicly traded financial service companies.

Because all of the sample's participants have the common trait of making items, homogenous subjective sampling was chosen in order to achieve the study's aims. So, 46 non-financial enterprises, including those in agriculture (4), conglomerates (5), consumer goods (13), industrial goods (14), natural resources (3), and healthcare, make up the study's sample size (7). The objectives of the study were achieved by sourcing secondary data which were collected from annual reports of the sampled companies.

The objectives of the study were also achieved by adapting the study of Daniel et al. (2020) which is stated as:

Earnings Management =f {Corporate Governance}……………………..……………………………………......……………………1

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REM = *f* {board size, board independent, board gender diversity, board activity} …………………………………….2

This is expressed econometrically as follows:

$REM_{it} = \beta_0 + \beta_1 BSIZE_{it} + \beta_2 BINDP_{it} + \beta_3 BGDIV_{it} + \beta_4 BACTY_{it} + \mu_{it}$……………………..…………………………………….……3

Akinola, Sanni, and Ogunsola, 2021; Agwor and Osinachi, 2018; Gelderen, 2013 are a few examples of other studies that have found their relevance and significance. These studies' findings informed the addition of audit committee independence and audit committee expertise to the model for this study. The audit committee is a crucial component of corporate governance and the cornerstone of ethical leadership. This is due to the fact that the board relied heavily on its audit committees to efficiently monitor the annual auditing process. In order to prevent insiders from influencing the committee's work and oversight of external auditors, audit committee independence is necessary. More specifically, it is essential for each committee member to have some knowledge of accounting, finance, and supervision in order for the audit committee to comprehend the challenges of audit methods.

The modified model now becomes:

$REM_{it} = \beta_0 + \beta_1 BSIZE_{it} + \beta_2 BINDP_{it} + \beta_3 BGDIV_{it} + \beta_4 BACTY_{it} + \beta_5 ACIND_{it} + \beta_6 ACEXP_{it} + \mu_{it}$……………..………………….…4

Where:

REM = Real Earnings Management

BSIZE = Board Size

BINDP = Board Independent

BGDIV = Board Gender Diversity

BACTY = Board Activity

ACIND = Audit Committee Independence

ACEXP = Audit Committee Expertise

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μ= Error term

β (1 to 6) : coefficients to be estimated

The adopted model has concerns with autocorrelation and heteroskedasticity, thus this study adopted Panel Corrected Standard Errors (PCSE) approach that produces robust estimates (coefficients) in order to examine the association between CG and EM. OLS generates is an inaccurate estimates when autocorrelation, hetero skedasticity, and cross-sectional dependency are present (Beck & Katz, 1995). In the PCSE method, serial correlation is initially removed from the data. In order to improve estimate efficiency, the modified data is then subjected to OLS with standard errors corrected for heteroskedasticity, and autocorrelation.

DATA ANALYSIS AND DISCUSIONS

Descriptive Statistics

Table 1 depicted the summary statistics of all variables (dependent and independent).

Table 1: Summary Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
REM	184	0.40067	0. 28955	0	1.473787
BSIZE	184	8.70101	2. 60156	4	16
BINDP	184	0.69648	0.13339	0.4	0.91
BGDIV	184	1.60333	1.27618	0	5
BACTY	184	4.68478	1.12526	3	8
ACIND	184	0.49304	0.09626	0.33	1
ACEXP	184	2.35326	0.66955	1	4

Source: Authors computation (2024)

From Table 1, the standard deviation signifies that the data deviate from the mean (.0.40067) by value of .306652 which implies that REM among sampled companies does not relatively differ from one company to another. Using the total number of directors to measure the size of the board in Table 1, maximum value is 16, and minimum value is 4 with mean value 8.70101, while the standard deviation is 2. 60156. The standard deviation dispersion from the average signifies that the data deviate from the mean which implies that BSIZE among sampled non-financial companies do relatively differ from one company to another and on average sample companies have 9 members on board for the period of 4years.

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The board independence of mean value as shown in Table 1 is 70%, maximum value is 0.91, and minimum value is 0.4 while the standard deviation is 0.13339. This implies that majority of sampled non-financial companies have greater percentage of independent directors. The number of females on the board of sample non-financial companies in Table 1 ranges between maximum values of 5 to minimum value of 0 with a mean of 1.60333 and a standard deviation of 1.27618. This infers a low enforcement level of gender diversity among non-financial companies in Nigeria. For the board activity measured by number of board meetings, Table 1 shows a minimum of 3times and maximum of 8times in a year and an average of 4.68478 with a standard deviation of 1.12526. This suggests that most sampled non-financial companies hold meetings on average of 5 times which is a good one.

Table 1 further shows mean value of 0.49304 and 2.35326 with maximum value of 1 and 4, and minimum value of 0.33 and 1 for audit committee independence and expertise respectively. The standard deviation (0.09626 and 0.66955) dispersions of data around the mean suggested a considerable clustering around the average. This implies, audit committee independence and expertise relatively differ among sample non-financial companies in Nigeria.

Multicollinearity Test

Table 2 presented the correlation coefficient among the independent variables which all less 0.8 thresholds. A further test of variance inflation factor was carried out and by rule of thumb, every variable exceeding 10 is strongly collinear and vice-versa (Gujarati, 2003). From Table 2, all VIFs are below 10, which mean they are not collinear.

Table 2: Correlation Matrix and VIF Test

	BSIZE	BINDP	BGDIV	BACTY	ACIND	ACEXP	VIF	1/VIF
BSIZE	1.0000						1.29	0.75908
BINDP	0.2856	1.0000					1.18	0.870096
BGDIV	0.3163	0.1904	1.0000				1.6	0.635445
BACTY	0.1431	0.1016	0.5306	1.0000			1.38	0.71558
ACIND	0.0229	0.1779	-0.1369	-0.0336	1.0000		1.06	0.93424
ACEXP	0.3621	0.0979	0.2375	0.1601	0.0451	1.0000	1.18	0.836531
Mean VIF							**1.28**	

Source: Author's Computation (2024)

Before estimating the model, preliminary residual diagnostics was performed using the Wooldridge test for autocorrelation, which tests the hypothesis that the residuals or errors have

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constant variance. Table 3 shows that the Wooldridge test for autocorrelation accepts its null hypothesis (H_0) at 1% significance level, thus indicating that the residuals are not autocorrelated, in other words, there is no first order autocorrelation. More so, in order to test for a relationship between the residuals of the regression and whether the variance of errors from a regression is dependent on the values of the independent variables, Breusch-Pagan / Cook-Weisberg was also employed to test for heteroskedasticity. Table 3 indicated the presence of heteroskedasticity because the test generated a p-value of 0.0000 which is less than chosen significance value of 0.05, indicating a statistically significant Chi-square test.

Table3: Autocorrelation and Heteroskedastic Test

Autocorrelation	Residual are not auto correlated	F(1, 45)	8.421	Prob > F	**0.0057**	Decision rule: Reject H_0
Heteroskedastic	Residuals are not heteroskedastic	chi2(1)	11.16	Prob > chi2	**0.0008**	Decision rule: Reject H_0

Source: Author's Computation (2022)

Model Estimation

Table 4 showed the PCSE regression of establishing the relationship between corporate governance proxy by (BSIZE, BINDP, BGDIV, BACTY, ACIND and ACEXP), and earnings management proxy by REM. Overall, the Wald chi2 for the model is 141.86 and the Prob>Chi is significant at 0.0000 which is higher than critical F-value of 1% and 5% significance levels. This suggests that this is a good predictive model of real earnings management behavior for the sampled non-financial companies in Nigeria. In other words, CG mechanism function more in constraining real earnings management when they are collectively deployed.

Table 4: Estimation Results

REM	**Coefficient**	**Panel corrected standard error**	**Z**	**p-value**
BSIZE	0.006065	0.002742	2.21	0.027**
BINDP	-0.27174	0.058249	-4.67	0.000***
BGDIV	-0.03364	0.00858	-3.92	0.000***
BACTY	-0.00435	0.010256	-0.42	0.672
ACIND	-0.15023	0.139825	-1.07	0.283
ACEXP	0.137426	0.021848	6.29	0.000***
Model Diagnostics				
Wald chi-square (p-value)	141.86 (0.000)***			
R^2	0.1263			

***, ** and * indicate statistically significant at 1%, 5% and 10% significance level, respectively.
Source: Author's computation (2024)

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Based on the individual statistics significant level, both board size and audit committee expertise are positively and significantly related to real earnings management with coefficient of 0.006065, 0.137426, and p-value of 0.027, 0.000 respectively. This result led to the rejection of null hypothesis (H_0) 1 and 5 and it implies that both corporate governance variables constrain manipulation of earning among Nigeria listed non-financial companies. This is in consonance with the study of (Ali, 2022; Githaiga *et al*., 2020; Agyeman, 2020; Khan *et al*., 2019) where strong and positive correlation between board size and EM was reported. On the other hand, the finding is contrary to the study of Ideh et al. (2021); Kurawa and saheed (2014) reported insignificant relationship. Similarly, Akintola *et al*. (2021); Agwor and Osinachi (2018) revealed positive significant relationship between audit committee expertise and real earnings management while Ali (2022); Otuya *et al*. (2017) revealed insignificant relationship. These suggest that majority of audit committee members are financial and accounting expertise, and experienced.

Furthermore, the relationship between board independent, board gender diversity, and real earnings management depict a negative but significant relationship with coefficient of -0.27174, -0.03364 and p-value of 0.000, 0.000 respectively. This has led to the rejection of null hypothesis (H_0) 2 and 3. This means that both BIND and BGDIV somewhat reduce real earnings management among sampled firms. This is contrary to the findings of Alqab and Ighnaim (2021); Nyatichi *et al*. (2020); Anh and Khoung (2022); Arun *et al*. (2015). Nonetheless, Ideh *et al*. (2021) asserted that women directors are deficient among listed non-financial firms in Nigeria.

Finally, corporate governance variables (BACTY and ACIND) are not related to real earnings management among Nigeria listed non-financial firms with coefficient of -0.00435, -0.15023 and p-value of 0.672, 0.283 respectively which has led to the acceptance of null hypothesis (H_0) 4 and 5. The result indicates that real earnings management is reduce among sampled companies with number of board meetings and more independence of audit committee. This is in tandem with the study of Nyatichi *et al*. (2020) and the study of Ali (2022); Akintola *et al*. (2021) where insignificant relationship between board meetings, audit committee independence were reported.

CONCLUSION AND RECOMMENDATIONS

The relationship between corporate governance mechanism and earnings management among Nigeria non-financial listed companies was carried out using board size, independence, gender diversity, activity, and audit committee independence and expertise as proxy for corporate governance while real earnings management was used as a proxy to earnings management. Notwithstanding the growing trend of good corporate governance in annual reports, this study found that board size, independence, gender diversity and audit committee and expertise attributes

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had a significant impact on real earnings management, in other words, the corporate governance mechanism have the ability to curb and constrain Nigerian non-financial listed firm from opportunistic behavior of illegally manipulating earnings management. Thus, in accordance with the findings, it can be concluded that board composition and audit committee characteristics can influence the quality of integrated reporting. Additionally, by having more diverse board composition in terms of gender in the boardroom and effective audit committee in terms of financial and accounting experience will provide the potentials of experiences which can be of help in addressing financial and non-financial issues.

In line with the findings, it is recommended that:

i. Non-financial firms should encourage larger board members to increase acceptability of stakeholders and promote quality information in their annual report.
ii. Companies should promote large boards compose of independent and non-executive directors.
iii. Non-financial firms should further consider the gender diversity of boards in order to providing a cohesive and diverse management skill.
iv. The non-financial companies' board members should ensure punctual attendance.
v. Companies should persist in expanding audit committee expertise and independence in order to promote effectiveness of the committee which, thus, increases the quality of annual report.

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