

The Influence of Corporate Governance on Earnings Management Practices: A Study of Some Selected Quoted Companies in Nigeria

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Abstract

Accountants and financial economists have for long identified that corporate governance affects both financial performance and the opportunistic behavior of managers. This study seeks to explore the influence of corporate governance and earnings management practices in Nigerian quoted companies. This is premised on the increasing failure of corporate organizations which translate into the inability of organizations to meet the expectations of their various stakeholders. Jones Model is explored to investigate the influence of corporate governance on earnings management. Primary and secondary data were used on a sampled of quoted Nigerian companies' selected through purposive sampling technique between a period of 2011-2014. Collected data were analyzed using tables, simple regression techniques done with the aid of SPSS. The research findings show that corporate governance practices such as the board size, firm size, board independence, and strength of the audit committee have significant influence on earnings management practices among Nigerian quoted companies. Consequent upon this study, it was recommended that there should be improvement in corporate governance codes governing corporations.

Keywords

Influence, Corporate Governance, Earnings Management, Quoted Companies, Nigeria

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1. Introduction

The bulk of evidence suggests a positive association between corporate governance and earnings management (Love, 2011). In this regard, sub-optimal or outright failure of governance systems can therefore be argued to be a major contributor to the collapse of many of the well-celebrated organizations that have littered the world's corporate landscape. This failure, which translates into an inability of organizations to meet the expectations of their various stakeholders, has often been traced to weaknesses in the internal control infrastructures and operating environments, and a lack of commitment to high ethical standards. These

weaknesses are sometimes deliberately or intentionally induced by organizational designers and controllers, and at other times they may be a result of the naïve assumption that managers will always act in a way that suggests or promotes enlightened self-interest, which should ultimately have positive implications for all stakeholders. (Donaldson and Preston, 1995).

The manipulations of financial statements and subsequent corporate collapses are currently recurring phenomena globally. Various countries have tried to address this situation in order to guarantee the credibility of the financial statements through

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ensuring strong corporate mechanisms and strict compliance with accounting standards. Since the 1990s, the Nigerian corporate world has been beset bank distresses, corporate frauds and collapses in various dimensions. In Nigeria, this was further heightened subsequent to the collapse of several financial and non-financial institutions which includes the Bank PHB, Spring Bank Plc, Oceanic Bank Plc, Intercontinental Bank Plc., African Petroleum Plc., Levers brother and Cadbury plc. An investigation into the cause revealed significant, deep-rooted problems in the account preparation and also the intentional misconduct of managers which led to the concurrent sack of eight (8) bank chiefs by the governor of central bank of Nigeria and the call for an investigation of the efficacy of the monitoring and controlling of managerial and financial behaviour of managers (Ndukwe and Onwuchekwa 2014). A good corporate governance structure helps ensure that the management properly utilizes the enterprises resources in the best interest of absentee owners, and fairly reports the financial condition and operating performance of the enterprise (Lin and Hwang 2010). Dabor and Ibadin (2013) notes that corporate governance is a factor, that determine whether management will engage in earnings management or not. Studies on earnings management have shown that weak corporate governance is associated with greater earnings management (Beasley 1999; Klien, 2002 as cited in Dabor and Ibadin 2013). The function of the corporate governance formation in financial reporting is to ensure compliance with generally accepted accounting principles (GAAP) and to maintain the credibility of corporate governance mechanisms are expected to reduce earnings management because they provide effective monitoring of management in the financial report process.

Corporate governance mechanisms such as CEO duality, directors shareholdings, board size, board composition, quality audit committee, executive compensation, quality audit committee, executive compensation and board independence have been found to relate to measures of earnings management (Bedard, Chtourou, and Courteau 2004; Tehranian, Cornett, Marens and Saunders 2006; Xie, Davidson and Dadalt, 2001; Zhou and Chen, 2004). Due to the growing concerns and need to align practices in Nigeria to international best practices, the Peterside's Code of corporate governance in Nigeria was released in 2003 for public companies. The Central Bank of Nigeria released the code of best practice on corporate governance for banks in the post-consolidation era in 2006.

But, despite the introduction of the codes of best governance practices in Nigeria in 2003 and its continuous modifications, the result 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 (Hassan and Ahmed, 2012).

Regulators of accounting profession in Nigeria seem to be silent on the issue of earnings management accounting, yet it is widely practice among many companies in the country. Further users of accounting information seem not to have perceived this practice of earnings management which has led to collapse of many major companies globally such as Enron and WorldCom (Ayala and Giancarlo 2006) and locally such as African Petroleum Plc, Leventis, Cadbury plc, Exide battery etc.

With increasing harsh economic times, companies may be propelled to practice earnings management for diverse reasons. Players in the accounting profession may not fully understand the operations of earnings management because of different reasons. Predicated on this, the study is set out to examine the influence of corporate governance and earnings management practices among Nigeria quoted companies. At the backdrop of these arguments, the researchers therefore formulated the following hypotheses to guide their study:

1. Ho: Board size does not have significant impact on earnings management practices in Nigeria quoted companies.
2. Ho: Firm size does not have a significant impact on earnings management in Nigeria quoted companies.
3. Ho: Board independence does not exert significant influence on earnings management in Nigeria quoted companies.
4. Ho: Audit committee independence does not exert significant effect on earnings management in Nigeria quoted companies.

The rest of the paper is organized as follows: Section one introduces the background and the formulated hypotheses under investigation. Section two presents theoretical framework on which the work is based and their related critical variables. Section three contains the research design and methodology. Section four presents test of hypotheses and discussion therein. Section five shows the details the conclusion and recommendation.

2. Review of Related Literature

2.1. Theoretical Framework

There are several theoretical perspectives on corporate governance available to scholars in exploring the issues of corporate governance. These theories include: agency theory, stewardship theory, resource dependence theory, transaction cost theory, organisation theory, political theory and ethics related theories such as business ethics theory, virtue ethics

theory, feminists ethics theory, discourse theory and postmodernism ethics theory; some of these theories are examined:

2.2. Agency Theory

Agency theory has its roots in economic theory expounded by Alchian and Demsetz (1972), and further developed by Jensen and Meckling (1976). The theory focuses on separation of ownership and control Bhimani, (2008). It highlights relationship between the principals (e.g. shareholders), the agents (e.g. company executives) and the managers. The theory advocates that shareholders (who are the owners or principals of the company) hire agents to perform work; but, the principals delegate the running of the business to directors or managers (who are the shareholder's agents) (Clarke, 2004). Thus, agency problems can arise when one part (the 'principals') contracts with another part (the 'agents') to make decisions on behalf of the principals. Agency problems may occur as agents can hide information and manage firms' in their own interest; for example, as in the cases of Adelphia, Enron, WorldCom and Parmalat. According to Jensen and Meckling (1976), agency problem is concerned with the consumption of perquisites by managers and other types of empire building. (La Porta *et al.*, 2000).

Daily *et al.* (2003) identify two major factors which influence the prominence of agency theory. First, the theory is conceptual and simple one that reduces firm to two participants: managers and shareholders; and second, the theory suggests that employees or managers in firms can be self-interested. However, Roberts (2004) argues that the remedy to agency problems within corporate governance involve acceptance of certain agency costs as either incentives or sanctions to align both the executives' and shareholders' interests. In essence, agency theory highlights the significant role of corporate governance to facilitate compliance by curtailing executives' self-serving inclinations to compensate their risk through opportunistic means (Lubatkin, 2005).

2.3. Stewardship Theory

Stewardship theory postulates that managers are motivated by a desire to achieve and gain intrinsic satisfaction by performing challenging tasks; hence, their motivation transcends mere monetary considerations. Stewardship theory recognizes the need for executives to act more autonomously to maximise the shareholders returns. Consequently, managers require authority and desire recognition from peers and bosses to effectively perform their tasks. Hence, shareholders must authorise the appropriate empowering governance structure, mechanisms, authority and information to facilitate managers' autonomy,

built on trust, to take decisions that would minimise their liability while achieving firm's objectives (Donaldson and Davis, 1991).

Unlike agency theory, stewardship theory emphasises the role of top management as stewards because they are expected to integrate their goals as part of the organisation. Daily *et al.* (2003) argue that executives and directors are inclined to protect their reputations by ensuring that their organisations are properly operated to maximise financial performance. Managers are expected to maximise investors profit and to establish a good reputation to enable them retain their positions. (Shleifer and Vishny, 1997). Thus, stewardship theory advocates unifying the role of the CEO and the chairman to reduce agency costs (Abdullah and Valentine, 2009). Furthermore, Davis *et al.* (1997) highlight five components of the management philosophy of stewardship: trust, open communication, empowerment, long-term orientation and performance enhancement.

2.4. Resource Dependency Theory

The resource dependency theory, developed by Pfeffer (1973) and Pfeffer and Salancik (1978), emphasise the importance role played by board of directors (BODs) in providing access to resources that would enhance the firm's performance. Boards enhance organisational function through accessibility to resources (Daily *et al.*, 2003); through linkages with the external environment to appropriate resources and create buffers against adverse external changes (Hillman *et al.*, 2000); Abdullah and Valentine (2009) classify directors into four categories: insiders, business experts, support specialists and community influential. One, 'insiders' are current and former executives that provide expertise in specific areas of the firm. Two, 'business experts' are current, former senior executives and directors of other large for-profit firms that provide expertise on business strategy, decision making and problem solving. Three, 'support specialists' are specialists like lawyers, bankers, insurance company representatives that provide support in their individual specialised field. Lastly, 'community influentials' are political leaders, university faculty, members of clergy, and leaders of social or community organisations. Outside directors play positive role in monitoring and control function of the board, because a firm's value increases with the number of outside directors (Coles *et al.*, 2006); Abdullah and Valentine, (2009); Boubakri, (2011). Resource dependency theory is highly relevant to firms' as diverse background of directors enhance the quality of their advice (Zahra and Pearce, 1989). The theory favours larger boards, as coordination and agreement are harder to reach in larger boards (Booth and Deli, 1996); Dalton *et al.*, (1999). However, Cheng (2008) shows that large Board of Directors (BODs) does not seem to be

associated with a higher firm value. Likewise, Brick and Chidambaran (2008) observe that board independence (i.e., higher percentage of outsiders) is negatively related to firm risk when measured by the volatility of stock returns.

2.5. Stakeholder Theory

The stakeholder theory advocates that managers in organisations have a network of relationships to serve; this include employees, shareholders, suppliers, business partners and contractors. The theory is developed by Freeman (1984). The theory is at variance with agency theory which advocates that there is contractual relationship between managers and shareholders; whereby managers have the sole objective of maximising shareholders wealth. Stakeholder theory considers this view to be too narrow, as manager actions impact other interested parties, other than shareholders. In essence, the stakeholder theory emphasises the need for managers to be accountable to stakeholders. Stakeholders are “any group or individual that can affect or is affected by the achievement of a corporation’s purpose” (Freeman, 1984). To ensure adequate protection of stakeholders’ interest, stakeholder theory proposes the representation of various interest groups on the organisation’s board to ensure consensus building, avoid conflicts, and harmonise efforts to achieve organisational objectives (Donaldson and Preston, 1995).

Stakeholder theory have been criticised for over saddling managers with responsibility of being accountable to several stakeholders without specific guidelines for solving problems associated with conflict of interests. However, Freeman (1984) contends that the network of relationships with many groups can impact decision making processes, as stakeholder theory is concerned with the nature of these relationships in terms of processes and outcomes for the firm and its stakeholders. Likewise, Donaldson and Preston (1995) assert that stakeholder theory focuses on managerial decision making and interests of all stakeholders have intrinsic value, and no sets of interests is assumed to dominate the others. This suggests that managers are expected to consider the interests and influences of people who are either affected or may be affected by a firm’s policies and operations (Frederick *et al.*, 1992). Similarly, Jensen (2001) affirms that managers should pursue objectives that would promote the long-term value of the firm by protecting the interest of all stakeholders.

2.6. Corporate Governance and Earnings Management

There are many factors or variables that may constitute yardsticks by which corporate governance can be measured in an organization and how they relate to earnings

management in Nigeria. These include:

(i) Board Size and Earnings Management

This is the total number of executive and non-executive directors in the board. A considerable literature exists on the effect of board size on earnings management. Jensen (1993) submits that small boards are more effective in monitoring the Chief Executive Officer (CEO’s) activities than large boards as large boards concentrate more on “politeness and courtesy” and are therefore easier for the CEO to control. This is in line with Yermack (1997) who concludes that small boards are more effective monitors than large boards. Implying that, the size of a firm’s board should be inversely related to earnings management. Therefore if small boards lead to more effective monitoring in a firm, they would also be associated with less use of discretionary accruals. Baysinger and Zardkoohi (1986) suggest that boards of regulated firms have more symbolic directors than boards of less regulated firms. Agrawal and Knoeber (2001) find that outside directors play a political role by providing advice and insight into the workings of government to influence the government directly. Rahman and Ali (2006), documents that large board size is positively related with earnings management. In the same way, Peasnell, Pope, and Young (2004) found that having a large board is better in reducing earnings management compared to smaller boards. This is contrary to Xie, Davidson, and DaDalt (2003) who argue that smaller boards are better able to make timely decisions than large boards. Although, they agree that larger boards with diverse knowledge are more effective for constraining earnings management than smaller boards.

(ii) Audit Committee Independence and Earnings Management

Independence is an essential quality required for an audit committee to fulfill its oversight function which includes oversight of the financial statements, external audit and oversight of the internal control system. A common expectation is that a more independent audit committee would provide more effective oversight of the financial reporting process and ensure better quality of earnings reported by the firm by restraining opportunistic earnings management (BRC 1999); (SEC, 1999). The code of best governance practice in Nigeria mandates that the committee should be largely independent, highly competent and possess high level of integrity. Audit committee is responsible for the review of the integrity of financial reporting and oversees the independence and objectivity of the external auditors. DeZoort and Salterio (2001) notice that audit committee members who have accounting experience as well as knowledge in auditing are positively associated with the likelihood that they will support the auditor in an auditor-corporate management dispute. In US, McMullen and

Randghun (1996) show that firms under SEC enforcement actions are less likely to have an audit committee composed entirely of non-executive directors. According to Carcello and Neal (2000) the population of independent external directors on the audit committee is positively associated with the probability of the auditor issuing a going concern report for a firm experiencing financial distress.

Chytourou, Bedard, and Courteau, (2001) examine the relationship between audit committee, board of directors characteristics and the extent of corporate earnings management as measured by the level of positive and negative discretionary accruals. Using two groups of US firms, one with relatively high and the other relatively low levels of discretionary accruals. The study find that, earnings management is significantly associated with a larger proportion of outside members who are not managers in other firms; that short-term stocks options held by non-executive committee members are associated with income increasing earnings management; that income decreasing earnings management is relatively associated with the presence of at least a member with financial expertise and a clear mandate for overseeing both the financial statements and external audit. In Indonesia Murhadi, (2009) investigates whether the effect of good governance practice can reduce earnings management practice done by company. The samples taken were made up of companies registered in the quoted sector in the Indonesia Stock Exchange for the period 2005-2007. The result shows that audit committee independence does not have any effect to earnings management. Lin and Yang (2006) conducted a research to test the effect of audit committee existence with earning management. The result shows a negative effect, this suggest that audit committee can reduce earnings management practice done by the management. García-Meca and Sánchez-Ballesta, (2009) argue that audit committee independence can improve investor confidence by constraining earnings management. In Lin, and Hwang, (2010) a positive association was observed between audit committee ownership and earnings management. While Abbott, Park & Parker, (2000) document that audit committee independence decreases the occurrence of earnings management, Choi, Jeon & Park, (2004) find no such effect. In the same vein Xie, Davidson, and DaDalt, (2003) find no significant association between the number of directors on the audit committee and earnings management. Yang & Krishnan (2005) report that audit committee size is negatively associated with earnings management. This implies that a certain minimum number of audit committee members may be relevant to quality of financial reporting. Hence we expect that audit committee composed of only independent directors will be negatively associated with the

level of earnings management.

(iii) Board Independence and Earnings Management

This is the percentage of independent outside directors on the board. According to Dunn (1987), boards dominated by outsiders stand in a better position to monitor and control managers. Outside directors are independent of the firm's management and they bring in their wealth of experience to the firm (Firstenberg and Makiel, 1980). From an agency standpoint, the ability of the board to act as an effective monitoring mechanism depends on its independence of management (Beasley, 1999). Fama and Jensen (1983) note that independent directors on boards make boards more effective in monitoring managers and exercising control on behalf of shareholders. Davidson, Goodwin-Stewart, and Kent (2005) find empirical support for the effective role of independent directors in constraining earnings management in Australian firms. Lin and Hwang, (2010) observe that the independence of the board of directors and its expertise have a negative relationship with earnings management. Klein, (2002) documents that, boards with more independent outside directors engage less frequently in earnings management through abnormal accruals.

(iv) Firm Size and Earnings Management

Shen, and Chih (2007) detected that large firms are prone to conduct smoothing, but good corporate governance can mitigate the effect on average. The study also observed that a highly leveraged firm with poor governance is prone to be scrutinised closely and thus finds it harder to deceive the market by manipulating earnings. Naz, Bhatti, Ghafoor, and Khan, (2011) investigated the impact of firm size on earnings management and find no statistical significance between firm size and earnings management in Pakistan. Sun and Rath (2009) analyzed the activities of earning management in Australia by analyzing a sample of 4844 firms for the period 2000 to 2006. The result indicates that small companies indulge more in earning management. The study of Burgstahler and Dichev (1997), show that, both small and large sized firms manage earnings to circumvent the small negative or small decrease in earnings.

3. Research Design and Methodology

3.1. Research Design

This study is based on the quantitative research design. According to Ukenna (2014) quantitative research design is directly and specifically related to descriptive, diagnostics and hypotheses-testing research studies. Quantitative research methods attempt to maximize objectivity,

replicability, and generalizability of findings, and are typically interested in prediction (Harwell, 2011).

3.2. The Population and Sampling Technique

The population of the study is made up of companies quoted on the Nigerian Stock Exchange as at 2013; the figures were respectively 6 for conglomerates and 27 for consumer goods companies giving a total of 33 companies.

In determining the sample size of the study, A total of 23 companies represent approximately 2/3 of the companies, in addition companies with up to date annual financial reports as at 2013 were also selected. The companies are as follows:

Livestock Feeds; Neimeth Plc; Nigerian Breweries; PZ Cussons; SCOA; A.G. Leventis; Ashaka Cement; Beta Glass; Cadbury Nigeria Plc; CAP Plc; CHAMS; GSK; Guinness Nigeria Plc; Honeywell Flour; John Holt; Julius Berger; Chellarams; Dangote Cement; Dangote Sugar; First Aluminum; Flour Mills; Transnational Plc and UACN Plc.

3.3. Description of Variables

1. This study adopted the Jones Model (1991). Jones (1991) proposed a model that relaxes the assumption that nondiscretionary accruals are constant. Her model attempts to control the effect of changes in a firm's economic circumstances on nondiscretionary accruals. The Jones Model for nondiscretionary accruals in the event year is:

$$NDA_{\tau} = \alpha_1(1/A_{\tau-1}) + \alpha_2(\Delta REV_{\tau}) + \alpha_3(PPE_{\tau})$$

where

ΔREV_{τ} = revenues in year τ less revenues in year $\tau - 1$ scaled by total assets at $\tau - 1$;

PPE_{τ} = gross property plant and equipment in year τ scaled by

total assets at $\tau - 1$;

$A_{\tau-1}$ = total assets at $\tau - 1$; and

$\alpha_1, \alpha_2, \alpha_3$ = firm - specific parameters.

Estimates of the firm-specific parameters, α_1, α_2 and α_3 are generated using the following model in the estimation period:

$$TA_{\tau} = a_1(1/A_{\tau-1}) + a_2(\Delta REV_{\tau}) + a_3(PPE_{\tau}) + u_{\tau}$$

where

$\alpha_1, \alpha_2,$ and α_3 denote the OLS estimates of $\alpha_1, \alpha_2,$ and α_3 and TA is total accruals scaled by lagged total assets. The results in Jones (1991) indicate that the model is successful at explaining around one quarter of the variation in total accruals.

2. Corporate Governance Elements:

- a. Board Size (BS): BS is measured as the total number of directors on the board.
- b. Firm Size: Studies suggest that the best proxy for firm size is the total assets of the company.
- c. Proportion of Independent Non-Executive Directors: This is measured as the number of independent non-executive directors divided by the total number of directors and expressed in percentage.
- d. Audit Strength: This is derived as the ratio of Audit Committee Size (ACS) [total number of audit committee members] divided by the total number of directors on the board.

4. Data Presentation and Analysis

4.1. Descriptive Statistics of Corporate Governance Variable

Table 1. Descriptive Statistics.

	N	Minimum	Maximum	Mean	Std. Deviation
Board Size (BS)	56	6	17	10.54	2.607
Independent Non-Executive Directors	53	2	11	6.02	2.366
Proportion of Independent Non-Executive Directors [%]	53	14	92	58.43	19.946
Audit Committee Size (ACS)	56	6	6	6.00	.000
Valid N (listwise)	53				

Source: SPSS Ver. 22

From the table above, the average size of the board of directors of the studied companies is 10, approximately 11, while the average size of independent non-executive directors amounted to 6 of the entire board size. This would

account for 58% of the board size. The average audit committee size recorded was 6.

4.2. Descriptive Statistics of Earnings Management Variables

Table 2. Descriptive Statistics.

	N	Minimum	Maximum	Mean	Std. Deviation
PPEt	66	1875	581465116	55480195.56	108140032.027
Total Assets	66	9258	843203275	102054088.74	155178817.920
Net Income	66	-1236982	196678391	12851690.29	33394523.214
CFO	65	-2650343	281738274	18382103.88	45173257.467
Valid N (listwise)	65				

Source: SPSS Ver. 22

4.3. Test of Hypotheses

Hypothesis 1

H₁: Board Size has a significant impact on Earnings Management practices in Nigerian quoted companies

$$\text{Model Specification: } NDA = \alpha + \beta X_1 + \beta X_2 + \mu \quad (\text{Where: } X_1 = \text{Board Size; } X_2 = \text{Total Assets})$$

Table 3. Model Summary.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.982 ^a	.965	.964	22642674.07000

a. Predictors: (Constant), Total Assets, Board Size (BS)

Source: SPSS Ver. 22

R², the coefficient of determination 0.965, adjusted R Square value showed a value of .964. This implies that 96.4% of earnings management practices are explained by the independent variables. This indicates a good fit of the regression line.

Table 4. ANOVA^a.

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	740549330681703420.000	2	370274665340851710.000	722.218	.000 ^b
	Residual	26659915830084528.000	52	512690689040087.250		
	Total	767209246511787900.000	54			

a. Dependent Variable: NDA
b. Predictors: (Constant), Total Assets, Board Size (BS)

Source: SPSS Ver. 22.

The ANOVA Table is used to check the statistical significance of the model.

The Decision Rule is based on the computed F value

If $F_{\text{calculated}} > F_{\text{table value}}$ - Reject the Null Hypothesis, otherwise accept. Since 722.2 is greater than table value of F 3.15 we reject the null and accept the alternate. Thus, Board Size has a significant impact on Earnings Management practices in Nigerian quoted companies.

Table 5. Coefficients^a.

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	21079568.410	13039969.043		1.617	.112
	Board Size (BS)	-3564471.889	1230435.581	-.077	-2.897	.006
	Total Assets	.771	.021	.999	37.417	.000

a. Dependent Variable: NDA

Source: SPSS Ver. 22.

Table 6. Model Summary.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.980 ^a	.960	.959	24170185.48864

Predictors: (Constant), Total Assets

Source: SPSS Ver. 22

R², the coefficient of determination 0.960, adjusted R Square value showed a value of .959. This implies that 96.0% of earnings management practices are explained by the independent variables. This indicates a good fit of the regression line.

Hypothesis Two

H₁: Firm size has a significant impact on Earnings Management practices in Nigerian quoted companies.

Model Specification: $NDA = \alpha + \beta X_1 + \mu$ (Where: $X_1 = \text{Total Assets}$)

Table 7. ANOVA^a.

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	736246759584368770.000	1	736246759584368770.000	1260.270	.000 ^b
	Residual	30962486927419152.000	53	584197866555078.200		
	Total	767209246511787900.000	54			

a. Dependent Variable: NDA
Predictors: (Constant), Total Assets

Source: SPSS Ver. 22

The Decision Rule is based on the computed F value

If $F_{\text{calculated}} > F_{\text{table value}}$ – Reject the Null Hypothesis, otherwise accept. 1260.3 is greater than table value of F 4.00. We reject the null and accept the alternate. Thus, Firm Size has a significant impact on Earnings Management practices in Nigerian quoted companies.

Table 8. Coefficients^a.

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-15148245.021	3943810.863		-3.841	.000
	Total Assets	.756	.021	.980	35.500	.000

a. Dependent Variable: NDA

Source: SPSS Ver. 22

Hypothesis Three

H_1 : Board Independence has a significant impact on Earnings Management practices in Nigerian quoted companies.

Model Specification: $NDA = \alpha + \beta X_1 + \beta X_2 + \mu$ (Where: $X_1 = \text{Board Independence}$; $X_2 = \text{Total Assets}$)

Table 9. Model Summary.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.981 ^a	.962	.960	24310147.73822

a. Predictors: (Constant), Total Assets, Proportion of Independent Non-Executive Directors [%]

Source: SPSS Ver. 22

R^2 , the coefficient of determination 0.962, adjusted R Square value showed a value of .960. This implies that 96.0% of earnings management practices are explained by the independent variables. This indicates a good fit of the regression line.

Table 10. ANOVA^a.

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	733517907015057540.000	2	366758953507528770.000	620.591	.000 ^b
	Residual	28958180869642900.000	49	590983283053936.900		
	Total	762476087884700540.000	51			

a. Dependent Variable: NDA
b. Predictors: (Constant), Total Assets, Proportion of Independent Non-Executive Directors [%]

Source: SPSS Ver. 22

The Decision Rule is based on the computed F value

If $F_{\text{calculated}} > F_{\text{table value}}$ – Reject the Null Hypothesis, otherwise accept. 620.6 is greater than table value of F 3.15. We reject the null and accept the alternate. Thus, Board Independence has a significant impact on Earnings Management practices in Nigerian quoted companies.

Table 11. Coefficients^a.

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-22397517.997	11118487.505		-2.014	.049
	Proportion of Independent Non-Executive Directors [%]	140963.811	171795.868	.023	.821	.416
	Total Assets	.758	.022	.984	34.923	.000

a. Dependent Variable: NDA

Source: SPSS Ver.22

Hypothesis Four

H_1 : Audit Strength has a significant impact on Earnings Management practices in Nigerian quoted companies.

$$\text{Model Specification: } NDA = \alpha + \beta X_1 + \beta X_2 + \mu \quad (\text{Where: } X_1 = \text{Audit Strength; } X_2 = \text{Total Assets})$$

Table 12. Model Summary.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.982 ^a	.965	.963	22858558.68869

a. Predictors: (Constant), ACS, Total Assets

Source: SPSS Ver. 22

R², the coefficient of determination 0.965, adjusted R Square value showed a value of .963. This implies that 96.3% of earnings management practices are explained by the independent variables. This indicates a good fit of the regression line.

Table 13. ANOVA^a.

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	740038533834932610.000	2	370019266917466300.000	708.152	.000 ^b
	Residual	27170712676855348.000	52	522513705324141.400		
	Total	767209246511787900.000	54			

a. Dependent Variable: NDA
b. Predictors: (Constant), ACS, Total Assets

Source: SPSS Ver. 22

The Decision Rule is based on the computed F value

If $F_{\text{calculated}} > F_{\text{table value}}$ – Reject the Null Hypothesis, otherwise accept. 708.2 is greater than table value of F 3.15. We reject the null and accept the alternate. Thus, Audit Strength has a significant impact on Earnings Management practices in Nigerian quoted companies.

Table 14. Coefficients^a.

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-49567652.017	13310322.072		-3.724	.000
	Total Assets	.768	.021	.995	37.238	.000
	ACS	55135656.210	20467281.109	.072	2.694	.009

a. Dependent Variable: NDA

Source: SPSS Ver. 22

4.4. Discussion of Results

1. Board Size has significant impact on earning management practices in Nigerian quoted companies. This is indicated by R-square with coefficient determinant of 0.965 and adjusted R-square of a value of 0.964 which implies that 96.4% of earnings management practices are caused by board size. This is reaffirmed with F-cal of 722.2 which is greater than F-table value of 3.15. Thus, board size has significant impact on earnings management practices in Nigeria quoted companies.
2. Firm Size has significant impact on earning management practices in Nigerian quoted companies. This is justified by the fact that R² with 0.960 and adjusted R-square value of 0.959 which infers that 96% of earnings management practices are explained by the independent variable (firm size). This is further justified by F-cal of 126.3 which is greater than F-table value of 4.00, thus implying that firm size has significant effect on earnings management practices in Nigerian quoted companies.

3. Board Independence has significant impact on earnings management practices in Nigerian quoted companies with R² value of 0.962 and adjusted R-square value of .960 implying that 96% of earnings management practices are caused by Board Independence. This is further reaffirmed when it was noticed that F-cal of 620.6 is greater than F-table values of 3.15, thus showing that Board Independence has significant impact on earnings management practices among companies in Nigeria.
4. Audit Strength has a significant impact on earnings management practices in Nigerian quoted companies. This is justified when noticed that R² value is 0.982 and adjusted R-square value is .963. This implies that 96.3% of earnings management practices are explained by the independent variable (Audit Strength). Further to this, the F-cal is 708.2 is greater than F-table value of 3.15. This, further confirms that Audit Strength has a significant impact on earnings management practices in Nigerian quoted companies.

5. From the table above (4.1), the average size of the Board of Directors of the studied companies is 10 approximately 11, while the average size of independent Non-Executive Directors equaled to 6 of the entire Board Size. This would account to 58% of the Board Size and the average audit committed size.
6. The change in revenue and Net Income of the studied companies were positive indicating a steady increase in revenue and income. Equally affected is the change in the operating cash flow of the studied companies which showed positive indicating a steady increase in operating cash flow.

5. Conclusion and Recommendations

The result of this study has shown that, among our studied firms, corporate governance has an influence on earnings management. The issue of corporate governance has come to stay as a veritable concept needed to achieve efficiency, increased productivity and growth in the economy. The key to wealth creation and the maintenance of a free society require that a broad based system of accountability be built into the corporate governance structure of corporations. Against this backdrop, the researchers recommended that:

Improvements in Corporate Governance Codes on Trivial issues that can influence managerial ability to engage in earnings management should be addressed, Issues such:

- a. Audit Quality/Strength and Engagement Procedure should be addressed;
- b. Board Related Issues: This should encompass matters on corporate board size and composition, moreover a more qualitative issue of the qualification of directors and basis of appointment should also be looked at; and,
- c. The issue of Non-executive directors: Most of our studied companies do not disclose adequate information on the activities of non-executive directors. This disclosure is encouraged in order to improve transparency of the activities of corporations.

Secondly, the Financial Reporting Council of Nigeria (FRCN) must do more in ensuring that companies operating in Nigeria comply with the IFRS. She must strengthen her operation towards inspecting, investigating and monitoring companies' compliance. Further FRCN should also work in issuing new standards or reviewing existing ones to narrow the gaps or address the grey areas which give rooms for managers to engage in creative accounting practices

Thirdly, there is need for heavy sanctioning for any auditor who joins management in such ignoble act, and also to encourage the audit-committee members for more effective

performance to curtail the practices in Nigeria. An auditor should not hesitate to qualify the account if the company is unable or unwilling to prepare financial statement, which gives a true and fair view.

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