THE RELATIONSHIP BETWEEN CEO DUALITIES, DIRECTORS’ INDEPENDENCE AND DISCRETIONARY ACCRUALS IN THE NIGERIAN INDUSTRIAL GOODS COMPANIES

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ABSTRACT: Separation of the two positions of CEO and Chairman as well as number of independent directors included in the board are important governance mechanisms that affect companies’ reported earnings, as requested by the code of governance due to the fact that managers are attempting to manipulate the earnings in order to meet their personal objectives. The objective of this study is to examine the relationship between CEO-duality, directors’ independence and discretionary accruals in the Nigerian industrial goods companies. A total of 24 companies in the industrial goods sector of the Nigerian stock exchange were analyzed using multiple linear regressions. Data was obtained from secondary sources alone using annual report and account of the companies for the periods of 2011 to 2014, using SPSS version 22. The results show that CEO-dualities is are significantly related to discretionary accruals, the result further suggests that holding two position by one person is not efficient in minimizing the possibility of managing earnings, therefore it is recommended that the, two position should be separated to minimize the likelihood of managing discretionary accruals practice, also, the study recommends more independent directors to be included on board, as it is capable of minimizing the tendency of manipulating accruals.

KEYWORDS: CEO-Duality, Directors’ Independence, Discretionary Accruals

INTRODUCTION

Board governance is a mechanism that is employed to reduce the agency cost that arises as a result of the conflict of interest that exists between managers and shareholders. The conflict emanates, almost naturally, because the separation of ownership from control of the modern day business places the managers at a privileged position that gives them the latitude to take decisions that could either converge with or entrench the value maximization objective of the firm. Thus, managers can use their control over the firm to achieve personal objectives at the expense of stakeholders. In this regard, Kang and Kim (2011) note that management could influence reported earnings by making accounting choices or by making operating decisions discretionally. One of such discretionary decisions to manipulate reported earnings is imbedded in the accrual-based accounting.

Moreover, earnings discretionary accruals are motivated by a number of earnings and/or accounting manipulation as well as its allocation made. This might be done for a number of reasons such as amplifying reward, evading debt covenants, and assembling analyst forecasts(Subramanyam,2014).Companies can violate the provision of the GAAP but they are still not considered as fraud since such violation is allowed in form of different accounting choices.
Thus, it is important to ensure that the accounting earnings are computed and reported in accordance with GAAP. This action becomes necessary for the corporation in order to ensure that financial statements have revealed and disclosed a true and correct picture of the corporate activities financially.

Agency theory has its own heredity from the economic theory as expounded by Alchian and Demsetz (1972). The theory is the product of a study conducted by Jensen and Meckling (1979). According to Bhimani (2008) (cited in Fadun, 2013), agency theory emphasizes on the partition of ownership and managing the organization, which is highlighting the relationship between the principal (i.e. shareholders) and the agent (i.e. company executives) as well as the managers. In addition, agency theory and stewardship have conflicting assumption of human behavior and different prescription regarding governance mechanisms with firm performance (Fama & Jensen, 1983; Yu, 2008).

Jensen and Meckling (1976) examine the nature of the agency cost and suggest its relationship to the separation of ownership and control issue. However, this implies the theorists’ attempt to advocate that the separation of the CEO/Chair positions will maximize corporation performance. Hence, the board has an unbiased authority to oversee the CEO’s functions (Gillan, 2006; Harris & Helfat, 1998; Shleifer & Vishny, 1997). Agency theory stipulates system which minimize agency predicament (Eisenhardt, 1989), which consists of motivational scheme for managers to be remunerated financially for maximizing shareholders interest, and these schemes typically include a situation whereby senior executives plan to obtain shares, in order to lower prices, by supporting financial interest of directors with that of owners (Jensen & Meckling, 1976). In modern corporations, agency theory argued that managerial ownership is broadly executive actions leaving from those required to increase shareholders return (Berle & Means, 1932).

Therefore, it is expected that separation of power between chairman and chief executive officer will minimize the level of accounting/earnings management, as such the main objectives of this study is examines whether CEO duality and directors independence have effects on the discretionary accrual for Nigerian industrial sector listed companies.

This paper is organized in seven sections, section one is the introduction, section two is the review of the related literature and hypothesis development, section three was the methodology employed in this study, section four is the results and its discussions, section five is the conclusion, section six is the recommendations and finally, section seven was the references.

LITERATURE AND HYPOTHESIS DEVELOPMENT

CEO Duality

The CEO duality was described as the situation whereby companies separated the two positions of Chairman and CEO, and such offices been held by different persons in order to evade concentration of power in individual, because holding the two position single person may rob the board of the required checks and balances in the discharge of duties (SEC-CCG, 2003).
The CEO duality is highly considered when assessing the quality of earnings reported, since the two posts of CEO and chairman played a significant role in minimizing the possibility of accounting enforcement by SEC for alleged violation of GAAP (Cadbury, 1992; Exchange, 1998). As such it is suggested that the roles of Chairman and CEO should be allocated to different persons (Fama & Jensen, 1983).

According to SEC Code of Corporate Governance 2003, there should be a separation of positions of the chairman and CEO. Since the separation between the two positions will offer fundamental check and balances over management performance. In addition, Cadbury Report suggests that corporations should have no role duality to guarantees a stability of power and authority which will lead toward additional independent boards (Yong & Guan, 2000).

Syriopoulos and Tsatsaronis (2012) described CEO duality with two approaches, one in a situation whereby the two top managerial positions (CEO/chairman of the board of directors) are occupied by one person and secondly, when there is separation of CEO and chairman position. However, agency theory disagreed that CEO duality might have adverse implication to the firms, since joint duties of chairman and CEO was performed by single person, and such depressed the successful supervising and control of the chairmen performance, which may guide to the manipulation of board of directors’ decisions beside shareholders’ benefit.

Sridharan and Marsinko (1997) who examine the impact of CEO duality on the market value of firms by in U.S paper and forest products industry shows that firms with a chairman duality lead to better performance than those without. Kim (2008) argued that CEO’s duality minimized the companies’ managerial inefficiency. Hashim and Devi (2008) suggest that chairman duality reduce the occurrence of earnings management in developing economies, where high concentrations on ownership exist.

Kurawa and Saheed (2014) study the interaction of board composition, CEO duality, Ownership concentration and earnings management for six listed Nigerian petroleum companies for the period of ten years. The result shows that CEO duality and board composition are positively and insignificantly related to earnings management. Amer and Abdel-karim (2010) study the relationship between governance characteristics (size of the board, directors’ independence, chairman duality, among others) and earnings management for a sample of 22 Palestinian listed companies between 2009 and 2010. The result shows that CEO duality positively and insignificantly related to earnings management.

Jouber and Falehfakh (2013) assess whether there is a link between CEO duality and earnings management, within 1500 European countries for the period of 2004 to 2008. The result indicates that chairman’s duality is positively and significantly associated with earnings management. Roodposhti and Chashmi (2011) examine the impact of internal and external mechanisms on earnings management for the Tehran quoted securities market between the periods of 2004 to 2008. The study comprises a total sample of 196 companies. The result shows a positive significant association among CEO/Chairman duality and earnings management.

Mohamad, Rashid and Shawkari (2012) ascertain the effect of the tapering governance mechanisms such as board meetings, CEO duality on the earnings management activities for Malaysian Government Link Companies (GLCs) taking into account pre and post revolution period. The
result shows that chairman is negatively affecting accounting manipulation activities. Johari, Saleh, Jaffar and Hassan (2008) study the functions of independent members on board, chairman’s duality. The result shows CEO’s duality is negatively related to earnings management. Ugwuigbe, Peter and Onyeniyi (2014) studied the effect of governance mechanisms on earnings management. The result showed CEO’s dualities had a positive and significant effect on earnings management. Solimon and Ragab (2013) examined the board of directors’ attributes on managing earnings practices and reported positive and significant relationship between CEO duality and earnings management. Some of the previous studies showed inconsistent results of positive and negative relationship such as Saleh, Iskandar and Rahmat (2005) examined the efficiency of board attributes on earnings management. The results revealed that CEO dualities had a positive significant relationship with earnings management practices. Chekili (2012) also found that CEO duality was positively related to earnings management. Similarly, Zgarni, Halioui and Zehri (2014) found a positive relationship between CEO duality and earnings management. Supawadee, Yarram and Al-farooque (2013) discovered CEO duality had a positive relationship to earnings management. Kumari and Puttana (2014) examined the role of board characteristics on managing earnings practices and found a significant association between chairman duality and accounting manipulation. Similarly, Mohamad et al. (2012) revealed that CEO duality had a negative relationship with managing earnings practices. Johari et al. (2008) also found that CEO duality was negatively related to earnings management. Based on agency theory hypothesis is constructed as follows:

**H1: There is a significant relationship between CEO duality and earnings management.**

**Directors’ Independence**

An independent outside director plays a significant role in providing efficient board governance (Cadbury Committee, 1992). This emphasis on the NEDs was grounded from agency theory to oversee the board activities (Fama & Jensen, 1983; Shleifer & Vishny, 1997). Therefore, it is anticipated that efficient board dominated by outside independent directors’ on board will mitigate the level of earnings management.

Directors’ independence was defined as the number of non-executives divided by total number of executives on board of directors (Klein, 2002; Xie, Davidson & DaDalt, 2003). According to agency theory there is need to raise the board independence from management of the organization, as such board should be ruled by outside directors, suggesting that independent directors are needed to monitor and control the action of the executives whose behavior have been exposted by Jensen & Meckling (1976) as “opportunistic”. Therefore, the existence of directors’ independence is expected to improve the quality of the decision making process (Abdulrahman & Mohamed Ali 2006). Agency theory also described that valuable boards would be invented mainly by outside non-executive directors occupying managerial position on other companies (Fama & Jensen, 1983; McColgan, 2001). Thus, corporate board should generally include outside member that hold a majority of the seats (Fama & Jensen, 1983).
Independent directors are usually regarded in a better position to supervise the corporations’ activities than other executives because since they have the “ability to act with a view of the best interest of the organizations”. In addition, independent executives have enticement to build up a reputation as professionals in monitoring and controlling (Fama & Jensen, 1983).

Several studies displayed relationship between the board independence from management and the board’s supervision efficiency. Beasley (1996) discovered negative relationship between the percentages of independent members and the possibility of fraud. Dechow, Sloan & Sweeney (1996) posit that firms with large proportion of non-executive members are less expected to employ earnings enforcement behaviors by the SEC for alleged GAAP violation.

Habbash, Xiao, Salama and Dixio (2014) examine whether independent, and/or accounting expertise as well as the higher percentage of non-executive directors is related with managing earnings activities. The result shows that board dominated by non-executive directors fails to mitigate earnings management, which implies negative relationship. Mulgre and Forker (2006) ascertain the relationship between board governance and earnings management in U.K. With focus on the non-executive directors on board, finding shows that directors’ independence is positively and significantly related to earnings management. Wang, Chuang and Lee (2010) consider the effects of board of directors’ characteristics on earnings management for the Taiwan listed securities market companies. The result found that independent directors’ has negative relationship with earnings management.

Baccouche and Omri (2014) assess the effect of multiple relationships between boards’ independence and earnings management for the French listed firms. The study sampled 90 non-financial companies for the year 2008. It appears that board dominated by outside directors may increase the level of earnings management, which implies positive relationship. Sun and Lin (2013) also investigate the association of the effects of audit with industry concentration and board characteristics on earnings management activities in United States. The results show that managing earnings activities is negatively related to directors’ independence.

Several empirical studies were conducted in different context, and the result shows mixing findings, such as Epps and Ismail (2008) that study the relationship between board characteristics and earnings management. Result found that 75 percent of the directors’ was dominated by independent directors and the relationship was positively related to earnings management. Kurawa and Saheed (2014) ascertain the relationship of board governance and earnings management. Result appeared that independent directors have positive significant relationship with earnings management. Chekili (2012) discovered that percentage of independent directors on board is positively related to earnings management.

Supawadee et al. (2013) study board independence and earnings management and the result showed a positive relationship between directors’ independence and earnings management. Amer and Abdelkarim (2010) studied the association among governance characteristics and managing earnings activities and found directors’ independence had a positive significant relationship with managing earnings activities. Additionally, Zgarni et al. (2014) also found a positive significant relationship between directors’ independence and earnings management, suggesting that board with larger percentage of independent directors increased the level of earnings management.
Kim and Yoon (2008) analyzed the impact of board governance on earnings management. The result showed that directors’ independence was positively and significantly affecting earnings management activities. In addition, Veronica and Bachtiar (2014) investigated the interaction of board governance and earnings management practices. The result found to have positive and significant relationship between directors’ independence and earnings management.

Yang, Lai and Tan (2008) observed that several studies documented evidence suggesting that organizations with higher percentage of independent directors would reduce the possibility of earnings management engagement than those with otherwise. Sun and Liu (2013) found that directors’ independence was negatively correlated with earnings management. Al-qallab (2014) ascertained the relationship between independent directors and earnings management. Result appeared that directors’ independence had negative relationship with earnings management practices.

Habbash et al. (2014) found directors’ independence with a negative relationship to managing earnings practices. Beaseley (1996) studied the relationship between governance characteristics and managing earnings activities. The result indicated that directors’ independence had a negative relationship with managing earnings activities. Wang et al. (2010) also found a negative relationship between directors’ independence and earnings management, suggesting that board with larger percentage of the of independence directors reduced the level of earnings management.

Niu (2006) analyzed the relationship between board governance and earnings management. The result showed that directors’ independence was negatively related to managing earnings activities. In addition, Liwen (2005) investigated the relationship between board independence and managing earning practices and found a negative relationship. Thus, based on agency theory, the hypothesis is constructed as follows:

**H2: There is a negative relationship between directors’ independence and earnings management.**

**Control variables**

To control the relationship of other factors which possibly associated with discretionary accruals, this study employed three (3) control variables in the regression model: Leverage, Profitability and Firm The size. For the companies with high or strong, firm the size managers tend to manipulate earnings, perhaps for the political reasons. Therefore, this study predicts a positive relationship between discretionary accruals and leverage, and mixed of predictions among discretionary accruals with profitability and firms the size.

**Measurement of the Variables**

**Earnings Management**

Discretionary accruals were attained by deducting Nondiscretionary accruals from total accruals. Non discretionary accruals are projected using a regression model that regresses total accruals on numerous explanatory variables.
Jones (1991) model was adopted which is the most powerful and accepted accrual models that is able to decompose accrual into discretionary and nondiscretionary, when changes in sales are adjusted for the changes in receivables.

**CEO Duality**

The Chief Executive Officers’ (CEO) duality was measured as a dummy variable by taking value ‘1’ when the positions of chairman and CEO are separated, and zero value ‘0’ for otherwise. This measure was employed by Davison, Goodwin–Stewart & Kent (2005) and Hashim and Devi (2008).

**Directors’ Independence**

This study measured directors’ independence by the percentage of independent directors included in board of directors as adopted from several studies (Klien 2002; Xie, Davidson & DaDalt, 2003; Peasnell, Pope & Young, 2001; Nugroho & Eko 2012).

**Leverage**

Leverage is the proportion of book value of equity averaged above past four years. Extremely leveraged companies have low capability to practice international diversification since they face restriction on extra borrowing to finance acquisition. Therefore, leverage in this study is measured as a proportion of long-term debt to Capital i.e. Debt and Equity (Anderson, Mansi & Reeb, 2003).

\[
\text{LEVERAGE} = \frac{\text{LONG TERM DEBT}}{\text{DEBT + EQUITY}}
\]

**Profitability**

Singhvi and Desai (1971) observed that non-profitable corporations may disclose less information to cover up losses and declining profit, whereas profitable ones will want to demonstrate their capability to stakeholders in financial institutions by disclosing more information so as to enable them gain access to capital on competitive terms (Meek et al. 1995). Company managers do not want to disclose non-profitable information on negative investment or product, hence they may decide not to disclose or where it exists, disclose lump profit attributable to the entire company. Therefore, this study defines and measure profitability as the:

The proportion of income before tax to shareholders’ equity that is

\[
\text{PROFITABILITY} = \frac{\text{INCOME BEFORE TAX}}{\text{SHAREHOLDERS’ EQUITY}}
\]

**Firm Size**

Firm size is the book value of total assets using its natural log (Akpuru 2007). Therefore this study measured size of the firm as:
Natural Log of total assets (Anderson et al., 2003)

Model Specification

The variables used in this study are derived through a review of the related literature, for example, (Jones 1991; Saleh et al. 2006; Dechow, et al., 1996; Islam, Ali & Ahmad, 2011; Healy 1985; Deangelo 1986; Rangan 1998; Teoh, Welch, & Wong, 1998a; 1998b).

Therefore, to establish the occurrence of discretionary accruals, this study make use of Jones (1991) model which designed its modification in order to eradicate the speculated tendency of the model to measure discretionary accrual with error, when discretion is exercise over revenues, in this model, non discretionary accrual (NDA) where estimated during occurrence period and subsequently subtracted from total accrual to arrived at discretionary accrual (DA), however total accrual is considered as the discrepancy between earnings and cash flow from operation, thus:

\[ TA = E - CFO \]

Where:

- \( TA \) = Total accrual
- \( E \) = Earnings
- \( CFO \) = Cash flow from operation

In other words, in line with previous studies total accrual were decomposed or partitioned into Discretionary accrual (DACC) and non discretionary accrual (NDAC), thus:

\[ TACC_i = NDAC_i + DAC_i \] …………………………………………………………………………… (1)

Where \( TACC \) Firm is calculated as the disparity between income before tax and extraordinary item (EARN) and operating cash flows (OCF), therefore:

\[ TACC_i = EARN - OCF_i \] …………………………………………………………………………… (2)

Furthermore, to determine DAC the study consider Jones (1991) model which is the most popular model adopted by prior studies in detecting accrual management (Saleh et al. 2005). The model was:

\[ DAC = TACC - \{ a (1) + b (\Delta REV) + c (PPE) \} \] …………………………………………………………………………… (3)

Where:

- \( TACC \) = Total accrual.
- \( \Delta REV \) = Changes in receivable.
However, the following multiple regression analysis were used to examine the relationship between (board the size, audit committee the size) and earnings management but control variables were included hence earnings management were detected through DAC, which is found to be associated with leverage, profitability, firms the size (Young 1998) (as cited by Saleh et al. 2005).

\[ DAC = \beta_0 + \beta_1 \text{CEO-DUAL} + \beta_2 \text{DI-IND} + \beta_3 \text{LEV} + \beta_4 \text{PR} + \beta_5 \text{FS} + \varepsilon \]  

\[ \text{DAC} = \text{Discretionary accrual} \]
\[ \text{CEO-DUAL} = \text{CEO duality} \]
\[ \text{DI-IND} = \text{Directors’ Independence} \]
\[ \text{LEV} = \text{Leverage} \]
\[ \text{PR} = \text{Profitability} \]
\[ \text{FS} = \text{Firms the size} \]

RESEARCH METHODOLOGY

Data is collected from printed annual reports and account downloaded from the internet, the linkage for the published statements is accessible at Nigerian stock exchange web site and invest in Africa. The study was focus on the 24 industrial goods sector companies listed in the Nigerian stock exchange, for the years 2011 to 2014, given 96 observations. Data on Dependent Variable was extracted from the statements of financial position, cash flow and comprehensive income, while data for Independent and control variables were gathered from corporate governance report, statement of financial position as well as a comprehensive income statement.

RESULTS AND DISCUSSION

Descriptive Statistics

Table 1 below provides a descriptive analysis for the study variables. From this table, on the side of independent variables, the chief executive officers’ duality of the total 96 firms year observation involved in this study is measured as a dummy variables, result appears a minimum of 0.00 and the maximum of 1.00. This implies that Nigerian industrial goods companies must do either separate the position of Chief executive officer or hold two positions by one person, though it is observed that about 61 percent of Nigerian industrial goods companies have separated the two positions as the CGC, 2003 requested, and the remaining 39 percent do not. However, the CEO
duality across the 24 Nigerian industrial goods companies has a mean value of 0.6146 with a standard deviation of 0.48925. This signifies that any increase in the mean value will to an increase in the number of companies within sector that are separating the positions CEO and chairman.

With regards to directors’ independence in the Nigerian industrial goods companies, it can be seen that it has a minimum of 0.80, with maximum of 0.90. It means that none of these companies has less than 80% percent of non-executive directors, but not beyond or above 90% percent. This implies that Nigerian listed companies’ board is dominated by outsiders or non-executive directors and such practices may help to mitigate the agency problem by monitoring and controlling the opportunities behavior of management (Jensen & Meckling, 1976). However, the result of the study reveals directors independence with a mean value of 0.8750, this signifies about 75 percent industrial goods companies’ board is dominated with outside directors, therefore, any increase in the mean value will lead to an increase in the number of companies with more outside directors in their boards within the sector.

Overall, this study concludes that majority of studied Nigerian industrial goods companies comply with the requirement of the Code of Corporate governance issued by Capital Market authorities.

For control variables, it appears that the mean value of leverage, as measured by the proportion of long term debt to the debt and equity for Nigerian industrial goods companies is 0.3218 with a standard deviation of 0.27004, but it has a minimum and maximum of 0.00 and 0.88 respectively. These figures reveal that, there is a tendency for Nigerian industrial goods Companies to manage accrual earnings, going by the positive accounting theory and debt covenant hypothesis which states that more leverage more accrual. Therefore, there is high tendency for the management to manipulate its accounting figures. The more companies are geared the more possibilities for managing earnings are open, and then revise as the case. Regarding the companies’ profitability, it appears that the mean value of the profitability for the Nigerian industrial goods Companies is 0.2393 ranging from 0.00 to 0.86 profits. This suggests that Nigerian industrial goods companies are highly profitable. Furthermore, for the firm the size, as measured by the natural log of total assets, it has a mean value of 22.2745 with a standard deviation of 2.89718. The result shows a minimum and maximum the size of 14.75 and 26.27 respectively.

For the dependent variable, the mean tendency for managers of industrial goods companies to manage or manipulate accrual earnings is less with the minimum of -10 and maximum of 5.00.

Table 1: Descriptive Statistics

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>CEO</td>
<td>96</td>
<td>0.00</td>
<td>1.00</td>
<td>0.6146</td>
<td>0.48925</td>
</tr>
<tr>
<td>DI</td>
<td>96</td>
<td>0.80</td>
<td>0.90</td>
<td>0.8750</td>
<td>0.04353</td>
</tr>
<tr>
<td>LEV</td>
<td>96</td>
<td>0.00</td>
<td>0.88</td>
<td>0.3218</td>
<td>0.27004</td>
</tr>
<tr>
<td>PR</td>
<td>96</td>
<td>0.00</td>
<td>0.86</td>
<td>0.2293</td>
<td>0.21634</td>
</tr>
<tr>
<td>FS</td>
<td>96</td>
<td>14.75</td>
<td>26.27</td>
<td>22.2745</td>
<td>2.89718</td>
</tr>
<tr>
<td>DAC</td>
<td>96</td>
<td>-10.00</td>
<td>5.00</td>
<td>-2.917</td>
<td>2.96618</td>
</tr>
<tr>
<td>Valid N (listwise)</td>
<td>96</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Model Summary

Table 3 shows that the independent variables (CEO-DUAL and DI-IND) can influence the dependent variable (DAC) by the value of $R^2$ in which they explain about 36.1 percent of the variance in the discretionary accruals and the remaining 63.9 percent would be explained by the other variables not captured in this study.

However, the adjusted $R^2$ of 32.5 percent explains the variability between dependent variable and independent variables under the study.

In addition the F statistics measure the strength of regression model with a value of 10.150 and the overall model is significant at the 1 percent level (prob = 0.000). Therefore, the board characteristics variables under the study (CEO-DUAL and DI-IND) are vital in determining the discretionary accruals and they jointly explain 32.5% change in the firm discretionary accruals.

Table 2: Model Summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>0.600a</td>
<td>0.361</td>
<td>0.325</td>
<td>2.43690</td>
<td>10.150</td>
<td>0.000b</td>
</tr>
</tbody>
</table>

Source: Generated by the researchers from the Annual Reports and Accounts of the sampled companies, using SPSS (Version 22)

Regression Analysis

Multiple regression analysis was used to discuss the relationship between CEO duality and directors’ independence on discretionary accruals and its relationship with control variables that is leverage, profitability and firms the size. The result of linear regression using discretionary accrual as dependent variable and (CEO-duality and directors’ independence) as the test variables is presented in Table 3. The CEO-duality of industrial goods companies in the Nigerian stock exchange is found to be significantly related to discretionary accruals, which is consistent with study hypothesis, this implies that separation power between chief executive officer and chairman reduces the tendency of managing accruals. This finding is lined with other studies of (Saleh, et al., 2005; Chekili, 2012; Supawadee, et al., 2013; Zgarni, et al., 2014).

However, the directors’ independence appears to be insignificantly related to discretionary accruals, which is contrary to the study hypothesis. This suggests that Nigerian industrial goods companies with less NEDs are more related with the discretionary accruals practices. This implies that the smaller board focuses their attention in resolving issues that may arise, whereby larger boards may be difficult to control, hence conflict of interest may arise among the directors, which might have hampered the monitoring and evaluation process of managers’ actions (Fama & Jensen, 1983). This finding is in line with other studies of Wang, et al., 2010; Sun & Liu 2013; Al-qallab, 2014; and Salama & Dixio, 2014.

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However, for the control variables, the study report only two variables (profitability and firm size) have significant relationship with discretionary accruals at 1% percent, which is negatively and significantly associated with earnings management. This implies that, companies’ with lower profit have the higher level of discretionary accruals. Also small firms report more discretionary accruals. Meanwhile leverage is found with insignificant relationship with discretionary accruals.

Table 3: Regression analysis

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
</tr>
<tr>
<td>1</td>
<td>(Constant)</td>
<td>8.288</td>
</tr>
<tr>
<td>CEO</td>
<td>1.049</td>
<td>0.546</td>
</tr>
<tr>
<td>DI</td>
<td>-3.299</td>
<td>6.376</td>
</tr>
<tr>
<td>LEV</td>
<td>-1.107</td>
<td>1.040</td>
</tr>
<tr>
<td>PROF</td>
<td>-6.612</td>
<td>1.348</td>
</tr>
<tr>
<td>FS</td>
<td>-0.200</td>
<td>0.095</td>
</tr>
</tbody>
</table>

Source: Generated by the researchers from the Annual Reports and Accounts of the sampled companies, using SPSS (Version 22)

Implication of the Study

This study could be of immense values to company’s investors/shareholders, auditors, and regulators such as Corporate Affairs commission, Nigerian Stock Exchange, Security and Exchange Commission, Central Bank of Nigeria, etc. The findings of this study will assist shareholders of Nigerian industrial goods companies in aligning their capital structure and assist in deciding a better way of financing, therefore, both current and potential shareholders will benefit from this study as it would assist them in deciding whether to invest or divest in those companies.

This study will also be beneficial to the academics and students in accounting and finance discipline, by building more on some of the board characteristics effects on the discretionary accruals. The study will provide more insight on understanding the degree to which board characteristics (CEO dualities and directors independence) influence the discretionary accruals. Finally, this research will be used as a fact/reference for future studies.

CONCLUSION

The main aim of this study is to investigate the relationship between CEO-duality, directors’ independence and discretionary accruals in Nigerian industrial goods companies. The analysis of sample study shows that Nigerian industrial goods companies take an average of -0.2917 to manipulate earnings with a minimum of -10 to the maximum of 5. With regards to regression analysis the result shows that only one independent variable (CEO-duality) is significantly related to discretionary accruals. The finding supports the argument that CEO-duality is an important determinant of discretionary accruals. More so, the findings show that two of the control variables
(profitability and firm size) are significantly related to discretionary accruals, which is in line with previous studies, however directors’ independence found to be insignificantly related to discretionary accruals, but firm size is found be insignificantly related to discretionary accruals which are all consistent with prior studies. Overall the results support H1, while H2 is not supported.

RECOMMENDATIONS FOR FUTURE RESEARCH

As the study is limited to industrial goods sector of the NSE, the study suggests future research on the remaining sectors as well as entire NSE to overcome the limitations of this study and provide more insight into the determinant of discretionary accruals. The current study uses CEO-duality and directors’ independence as determinants of discretionary accruals, as such future study is suggested to incorporate other important variables of corporate governance or board characteristics, such as gender of board members, gender of audit committee members, board of directors meetings, audit committee meetings, etc. (BRC, 1999) to provide more insight into understanding how board characteristics are influencing discretionary accruals.

It is recommended that, chief executive officers’ and inclusion of outside directors of sampled companies should be increased to eliminate the tendency of managing earnings.

REFERENCES


