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Effect of Corporate Governance on the Earnings Management of Listed Manufacturing Firms in Nigeria

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ABSTRACT: *The study examined the effect of corporate governance on the earnings management of listed manufacturing companies in Nigeria. The specific objectives of the study were to investigatethe effect of board size, board gender diversity, board independence, audit committee size, and ownership structure onEarnings Management of Listed Manufacturing Companies in Nigeria. Ex-post facto research design was adopted while panel data was collected a sample of 19 consumer goods companies listed on Nigerian Stock Exchange.The Generalised Least Square Regression Model aided by STATA 14.2 statistical package as used to estimate the effect of corporate governance on the earnings management of listed manufacturing companies in Nigeria.The study found that board size had negative and no significant effect on earnings managementof listed manufacturing companies in Nigeria;board gender diversity hadnegative and no significant effect on earnings management of listed manufacturing companies in Nigeria; board independence had positive and no significant effect on earnings managementof listed manufacturing companies in Nigeria, audit committee size had positive and no significant effect on earning managementof listed manufacturing companies in Nigeria and ownership structure hadnegative and significant effect on earnings managementof listed manufacturing companies in Nigeria.The implications of the findings are that, the size of the firm's corporate board does not influence the volatility in discretionary accruals within the period studied and moreso, the presence of female board members does not determine the earnings manipulation in the firms significantly.The study concluded that increase in the number of independent directors reduces the occurrence of earnings manipulation and the number of directors that make up the audit committee does not affect earnings policy of manufacturing firms.This affirms that directors' holding many shares can influence the occurrence of earnings manipulation. The study recommended that board composition should include a greater proportion of independent outside directors with corporate experience. Independent directors' ratio to the total board size should be more to allow unbiased decisions on the financial statements.*

KEYWORDS: corporate governance, earnings management, manufacturing, firms, accruals

INTRODUCTION

The prevalence of problems associated with earnings management poses a significant risk to investors, shareholders, and, more importantly, the long-term viability of enterprises. Earnings management remained a severe problem in the corporate world and topped the list of the five most prevalent frauds committed globally (Ashraf et al., 2022). Due to management opportunistic earnings management (EM) practice, firms do not reflect a true financial performance which creates less reliable financial information. As a result, there is a need to investigate this issue in a developing country like Nigeria, particularly because the capital market in Nigeria is underdeveloped when compared to that of established countries (Lawal et al., 2018).

The core principle of corporate governance in Nigeria is how to make those in the management of the companies more accountable, responsible and sensitive to the interest of shareholders, creditors and members of the public (Ozili, 2020). The Nigerian Code of Corporate Governance (2018) seeks to institutionalize corporate governance best practices in Nigerian companies

The Nigerian corporate governance code captures twenty-eight (28) broad principles, which relate to the Board of Directors and Officers of the Board addressing diverse board-related issues including composition, key functions, meeting, induction, a delegation of duties, and evaluation. Concerning risk management, whistle-blowing and audit processes together titled Assurance. On relationship with shareholders reiterating the importance of general meetings, communication with and equitable treatment of shareholders on the ethical conduct of business which extol establishment of policies and mechanisms for monitoring insider trading, related party transactions, conflict of interest and other corrupt activities, on sustainability, pushing for the adoption of environmental and socially sustainable business practices, and on transparency, addressing stakeholders communication and disclosure of material information. (Ozili, 2020).

Noteworthy is that the idea of corporate governance is not a new concept in Nigeria and cannot be separated from company law in general. The emergence of corporate governance principles in Nigeria can be traced to the Companies and Allied Matters Act (CAMA) 1990, which replaced the Companies Act of 1968. Over centuries, the corporate governance system has evolved. The CAMA repealed and replaced the Companies Act of 1968 as the primary law regulating companies in Nigeria and at that time, corporate governance was yet to emerge as a distinct concept (Junaidu, 2020). However, it makes provisions which are fundamental to corporate governance practice in Nigeria which includes; required accounting and auditing standards, equity ownership disclosure, minority shareholders' rights and equality of members, and oversight management where the Corporate Affairs Commission (CAC) and other regulators are expected to regulate the activities of the companies.

The research was motivated by the fact that corporations in Nigeria had been observed to tend to manage their earnings, which suggested that managing earnings was quickly emerging as a major difficulty for stakeholders in the Nigerian corporate environment. We were led to believe that the threat of earnings management already existed by the banking sector's challenges, which included the Economic and Financial Crime Commission (EFCC) summoning bank top management as a result of fraudulent financial reporting that jeopardized the stabiblity of the financial system. The implication is that doubts about the veracity of Nigerian companies' financial reporting would gradually start to surface in the minds of investors, shareholders, and other stakeholders. Management may intervene in the preparation of financial statements for external audiences to gain advantages for itself.

LITERATURE REVIEW AND HYPOTHESIS FORMULATION

Board Size

The board must comprise several executives and non-executive directors (EDs and NEDs). Gambo *et al.*, (2018) considered that a company's performance may be enhanced by smaller boards since the advantages of greater monitoring boards overweighs the ineffective communication and decision-making of larger-sized boards and proposed the ideal board size of 7 to 9 directors. Boards of modest sizes are favourable for a high company value, as (Badu and Appiah, 2017). In a study conducted in Nigeria, Sanda, *et al*., (2010) observed a correlation between a firm's value and smaller boards. They highlighted that larger boards are less efficient and independent. The cost-benefit of larger-sized boards is also a major consideration. Prior studies have found some mixed results regarding the effect of board size on performance (Sobhan, 2021).

Agency theory suggests that better organizational performance might be correlated with smaller board sizes because they are not likely to have as many problems in organizing and communication, and are likely to be more successful in controlling the activities of management (Isik and Ince, 2016). While the resource dependency approach favours larger boards, it states that they could help limit reliance on external resources and may give better opportunities for greater connections than smaller boards. According to Pathan and Faff (2013), whether small or large, the size of the board can negatively affect bank performance.

The Board sizes shall vary from a minimum of five (5) members to a maximum of 20 members for banks and financial service institutions, and a maximum of 15 members for other public companies, as advised by governance regulations in Nigeria (CBN 2014). Although the results are conflicting, empirical data suggests either the existence or absence of a link between corporate boards' sizes and earnings management (Abed, et al., 2012, Alwan, 2021). Studies have shown that the relationship between income management and board size is negative, for example (Abed, *et al*., 2012). However, other literature shows the presence of a positive relationship between earnings management and board size; (Rahman and Ali, 2006). Despite these inconsistencies, another viewpoint is that there is no relationship between earnings management and the board size (Ideh *et al*., 2021; Abata &Migiro, 2016; Gulzar & Wang, 2011). The empirical test between board size and earnings management is insignificant according to Hosam *et al*., (2019) and a larger board size is complex to monitor. In addition, the size of the board would not have any influence on providing financial reporting quality as a result of complexity. However, the size of the board has a favourable link with earnings management according to Kankanamage (2015), and he discovered that all the distinguishing features of the board have a major impact on earnings management. In addition, in a small-sized board, independent nonexecutive directors with strong financial service industry experience might limit earnings management practices and promote quality financial reporting.

HO_1: Board size has no significant effect on earnings management of listed manufacturing companies in Nigeria?

Board Gender Diversity

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

Eulerich *et al*., (2014) claimed that diversity on the Board is an important tool for corporate governance. This claim is in line with the Nigerian code of corporate governance which mandates that the board of directors should consist of professionals who are diverse in age, education, gender, race, ethnicity, and background.

It is an approach to improve the quality of decisions made and overall corporate governance within a business organization. Board gender diversity is an area where many companies have struggled both locally and internationally (Krayyem, 2019). It is observed that women are underrepresented on boards in many sectors of the economy and their impact is underestimated (Olufemi, 2021). The literature on corporate governance is becoming more and more interested in how the distinctive qualities of women in senior executive roles influence organizational outcomes and decision-making. Morrison et al. (2004) assert that the presence of women on the board enhances the managerial skills of their male counterparts and increases the efficacy of the board.

Sergio and Poli (2017) and Umer, *et al*., (2020) both concluded that gender diversity plays a crucial role in the reduction of income management practices by the boards, audit committees and senior management and concluded that diverse boards continue to effectiveness and eliminate extreme income management practices. Arun *et al*., (2015) claimed that some companies tend to have lower discretionary accrual figures due to the involvement of more independent female directors. Adams and Ferreira's (2009) findings indicated that these female directors are far more mindful of key details and are more present and involved.

The reported earnings quality may be ascribed to other unobservable factors, such as knowledge gaps, which is why gender studies are frequently questioned (Francis et al. 2014). But if gender per se contributes to the fact that female directors are effective monitors and, hence, mitigate profits management, remains an open research subject.

HO_2: Gender diversity has no significant effect on earnings management of listed manufacturing companies in Nigeria?

Audit Committee Size

An audit committee is an operating committee of the Board of Directors charged with oversight of financial reporting and disclosure. Committee members are drawn from members of the company's board of directors, with a chairperson selected from among the committee members. The Companies and Allied Matters Act (CAMA), 1990 states that a public limited liability company should have an audit committee (maximum of six members of equal representation of three members each representing the management/ directors and shareholders) in place. The members are expected to be conversant with basic financial statements.

There are different views in the literature as to the relationship between audit committee size and earnings management. Nelson and Jamil (2012) examined audit committees and financial reporting quality following the government transformation program in Malaysia. They took a sample of 20 out of 33 Firms from 2003 to 2009. They also adopted Dechow and Dichev (2002) model to measure earnings quality. The study revealed a positive relationship between audit committee size and earnings management. This finding was supported by Sharma and Kuang (2013) who studied voluntary audit committee characteristics incentives and earnings management in New Zealand. The study used a sample of 194 Firms out of 393 Firms listed in New Zealand Stock Exchange Market for the period 2004. They adopted performance adjusted modified Jones model in measuring discretionary accruals. Their finding showed a significant positive relationship between audit committee size and earnings management. In Contrast, Yang and Krishman (2005) analyzed the relationship between audit committees and earnings management in the US using a sample of 896 firm-year observations for the period 1996-2000 and found that audit committee size has a negative significant relationship with earnings management. This aligns with the work of Lin *et al*., (2006). The above findings make some researchers posit that larger audit committees are better at maintaining the financial reporting process. For instance, Beasley (1999) found that as audit committee size increases, Firms are more likely to include outside directors on the committee beyond the mandated minimum requirements, which enhances audit effectiveness. As such, it can be said that audit committee size constrains earnings management. It could be argued that the above-mentioned findings might not be generalized. This is because some of them lack strong evidence to be accept.

The audit committee size is considered to possess different skills, experiences, and expertise, thus enhancing the quality of the financial statements. There are mixed findings regarding the influence of audit committee size on real earnings management.

HO_3: Audit committee size has no significant effect on earnings management of listed manufacturing companies in Nigeria?

Board Independence

Board independence is a corporate governance principle that advocates for separation between management and governance of the firm, such that the board should be free from undue influence by the company's management team and any other influence that may impair its ability to transparently and objectively discharge its corporate governance duties (Nedon Board, 2019). The Nigerian Code of Corporate Governance (2018) recommends an appropriate mix of executive directors, non-executive directors and independent non-executive directors (independent directors) “relative to the scale and complexity of the company’s operations”. Executive directors are both employees of the company and at the same time, board directors. They have a dual role as members of the company’s management team and board of directors.

The presence of independent directors on a board can help to segregate the management and control tasks of a company and this is expected to offset inside members’ opportunistic behaviours (Jensen and Meckling, 1976). In addition, independent directors generally have stronger and extended engagement with wider groups of stakeholders (Wang and Dewhirst, 1992), and they tend to have a broader perspective that is likely to result in greater exposure to performance requirements (Rupley *et al*., 2012).

HO_4: Board independence has no significant effect on earnings management of listed manufacturing companies in Nigeria?

Ownership Structure

The ownership structure is manifested either in terms of ownership concentration which is the percentage of shares that are held by the first five largest shareholders or ownership mix which is the percentage of shares that are held by different classes of shareholders (such as managerial ownership of shares owned by managers or institutional ownership of shares owned by institutions such as pension companies, etc.) in a firm (Jong, 2001).

Extant literature continues to reveal conflicting and inconsistent findings on the impact of ownership structure with some studies reporting a positive relationship between ownership concentration and firm performance (Mirza and Javed, 2013), while some studies established the existence of a negative relationship (Khamis *et al*., 2015; Zouari & Taktak, 2014) while other studies established that ownership concentration does not affect firm financial performance (Moussa & Aymen, 2014; Demsetz and Villalonga, 2001). However, the problem in ownership structure and its effect on corporate profitability borders on the role of the owners in influencing management decisions.

Kobeissi and Sun, (2010) noted that it is rarely difficult to separate ownership and control within any firm, thus the controllers always have some degree of ownership of the equity of the firms they control, also in some cases owners by the size of their equity position have some effective control over the firms they own (Denis & McConnel, 2003; Orumo 2018).

Ownership structure, as a corporate governance instrument in facilitating improved efficiency of a company, has been generally believed to have affected a company’s performance. For instance, Shohreh *et al*., (2015) indicate that joint-stock firms are less efficient than private companies because the directors of public companies may not critically observe other people’s funds“ with the same concerned attention” as their fund. Transaction cost theory views a company as an offer of contracts in which the activities are cheaper internal than external. Conversely, within the firm, there are conflicts between different parties. The principal-agent theory mentions the conflict between the management and the shareholders. The conflict results from the different needs of managers and shareholders, in particular, the variance between the right of control and cash flow right (Alhassan & Mamuda, 2020).

HO_5: Ownership structure has no significant effect on the earnings management of listed manufacturing companies in Nigeria?

Empirical Review

Musa, Latif & Majid (2022) studied the effect of Audit Committee Characteristics on Real Earnings Management through Abnormal Cash Flow. Specifically, the study used audit committee size, financial expertise, independent directors and audit committee frequency of meeting and how it affects real earning management. The study was conducted on non-financial listed companies in Nigeria for a period of five years (2016-2020). The data were extracted from the sample of the firm's annual reports and the Thompson Reuters database. Ordinary Least Square (OLS) regression was employed to test the study model. The analysis is based on a sample of 76 listed non-financial companies for five years with 380 firm-year observations. The finding showed that audit committee size and financial expertise reduces management opportunistic earnings manipulations. Also, the finding demonstrated that the presence of independent directors in the audit committee is significantly associated with lower earnings management practices. However, the finding further established that audit committee meeting frequency and real earnings management are positively related.

Githaiga, Kabete and Bonareri (2022) examined how board characteristics affect earnings management and if firm size matter. The study further looks at board size, board independence, board gender diversity and financial expertise affecting earnings management. This study employs data drawn from 88 listed firms in the East African Community (EAC) for the period between 2011 and 2020. The study used the system generalized method of moments (SGMM) estimation model to take care of potential endogeneity and reverse causality. The study found a positive and significant relationship between board size and earnings management. The findings further indicated that board independence, board gender diversity, and board financial expertise had a negative and significant effect on earnings management. In addition, the findings confirmed that firm size moderated the relationship between board size, board independence, board gender diversity, and earnings management.

Wati and Giltom (2022) studied the impact of ownership structure on earnings management: evidence from the Indonesian stock exchange. Earnings management uses the control variables of leverage, company size, profitability, and company growth. The purposive sampling method is used for the selection of the research samples. This research uses non-financial companies listed on the Indonesia Stock Exchange from 2016 to 2019 as research objects. Earnings management is measured using discretionary accruals which is a Modified Jones Model. The ownership structure is calculated from the percentage of each share ownership in the company. The finding indicates that there is no significant effect of ownership structure on earnings management in Indonesia. Only leverage, company size, and company growth have a significant positive effect on earnings management.

Abubakar *et al*., (2021) studied the impacts of audit committee attributes in Nigeria. The specific objective was to look at how audit committee size, financial expertise, audit committee independence and audit committee control managers affect earnings manipulation. Quantitative analyses were implemented involving a sample of 72 non-financial firms with 360 firm-year observations for five years (2014-2018). Data were obtained from the annual reports of these companies as well as from Thompson Reuters and Bloomberg databases. The Panel Corrected Standard Error was used to test the model studied. The finding showed that audit committee size prevents managers' activities in earnings manipulations. Also, the finding established that the audit committee's independent presence on the audit committee controls managers' opportunistic behaviour while the audit committee's financial expertise was monitored in curtailing earnings manipulation practice.

Ngo and Le (2021) studied the relationship between the audit committee and earning management in listed companies in Vietnam. Research data was collected from all 745 listed companies on Vietnam's stock market over four years, from 2015 to 2018. After excluding companies that did not qualify, there were 216 companies with 864 observations. With the help of dedicated software Stata 15,the impact of audit committee characteristics (through independent variables and control variables such as Audit Committee, Independence, Auditing Committee size, Auditing Committee Expertise, Auditing Committee Meeting Frequency, Company Size, Financial Leverage, and Operating Cash Flow) to earning management through a multivariate regression model was determined. Research findings from Vietnameselisted companies during this period show that the size and expertise of the audit committee are inversely related to the discretionary accruals representing earning management. At the same time, the research results also identify a positive relationship between firm size and earning management, and the inverse relationship between financial leverage, net cash flow from operating operations and earning management. However, the multivariate regression results do not find clear evidence of a relationship between audit committee independence and the audit committee meeting frequency to earning management.

Tran and Dang (2021) examined the impact of ownership structure on earnings management in emerging countries and Vietnam as the case study explored how three components of ownership structure, including ownership concentration of managers, foreign ownership ratio, and state ownership ratio, influence earnings management. In addition, the study considered whether ownership structure influences profit management during financial constraints. REM, FEM, GLS, and GMM regression methods are employed for processing data. The findings showed that an ownership structure with foreign ownership as a positive effect on earnings management, whereas one with a proportion of state ownership has a contradicting effect. While the degree of ownership concentration does not affect profit management, in the context of financial restrictions, the ownership ratio has an impact on the management of earnings. Control variables in the model such as firm size, financial leverage, growth rate, profitability, and audit quality, all have an impact on earnings management.

Akpomedaye and Williamson (2021) investigated the relationship between board independence and earnings management of listed healthcare firms in Nigeria. Using convenience sampling, panel data from eleven (11) healthcare companies that are listed on the Nigerian Stock Exchange were collected from2012 to 2019. Inferential analyses were done using ordinary least square and log it regression techniques based on a 5% level of significance. Earnings management was operationalized with earnings restatement and discretionary accruals. The study found that board independence was negatively and significantly related to both earnings restatement and discretionary accruals. Therefore, based on the results obtained, the study came to the conclusion that is consistent with independent directors having strong incentives to curb earnings management tendencies.

Zubaidah et al. (2021) studied Gender Diversity, Institutional Ownership and Earning Management: Case on Distribution Industry in Indonesia. This research is case study research, where the population in this study are all distribution sub-sector companies listed on the IDX in 2017-2018. The sample selection technique used was purposive sampling and obtained 74 companies during the 2017-2018 research period. Multiple linear regression analysis was used in this study, using Stata 17. The findings showed that Gender diversity has a negative effect on earnings management and Institutional ownership has a negative effect on earnings management.
Olaoye and Adewumi (2020) examined corporate governance and the earnings quality of Nigerian firms. The specific objective was to examine the influence of board size, board independence and board gender diversity on earnings quality. This study was carried out with secondary data retrieved from corporate annual reports of the sampled companies and the data was analyzed using panel regression on a sample of 37 quoted manufacturing companies for the period 2011-2017. The overall, the findings of the study revealed that Board size, board independence and board gender diversity used for measuring corporate governance show a significant impact on earnings quality. In addition, corporate governance variables appear to be quite sensitive to the measure of earnings quality used. Based on the findings, the study recommends the need for a comprehensive evaluation of the corporate governance systems of companies.

Lippolis and Grimaldi (2020) studied board independence and earnings management: evidence from Italy. 2014-2016. Earnings management is defined by the proxy of abnormal working capital accrual (AWCA) estimed model according to DeFond and Park (2001). Proxies for corporate governance mechanisms are the board size, the level of board independence, the CEO non-duality and the interaction between the last two variables. The findings showed that independent directors are not, as in other contexts, a factor that contributes to earnings quality, in the same way, that the separation of the offices of Chairman of the Board of Directors and Chief Executive Officer (CEO) does not appear to be relevant to this end.

Nwaobia, Kwarbai and Fregene (2019) examined Earnings management and corporate survival of listed manufacturing companies in Nigeria. Specifically, the study examined board composition, institutional shareholding, and audit size. The population of the study was the 66 manufacturing companies listed on the Nigerian Stock Exchange as of 31 December 2016. A sample size of thirty companies with complete data for our study was purposively selected from the 66 listed manufacturing companies. The study was for a period of 12 years (2005 to 2016) and secondary data drawn from published financial statements of sample companies were used. Data were analyzed using descriptive and inferential (OLS regression) statistics. Appropriate diagnostic tests were conducted on the data set. For the main hypothesis (HO1), Earnings management (EM) is proxied by discretionary accruals jointly with corporate governance (CG) proxies. The study findings exerted that significant effect on corporate survival. Individual effects of EM and CG proxies on corporate survival were mixed.

Stakeholders Theory

The stakeholder theory of organizational management and corporate ethics, which tackles morals and values in managing an organization, was first detailed by Edward Freeman (1984). According to the theory, a company's stakeholders are the people and organizations who would help it survive if it didn't exist. Customers, employees, suppliers, political action groups, environmental groups, local communities, the media, financial institutions, governmental groups, and others are examples of these groups. This viewpoint depicts the corporate environment as an ecosystem of interconnected groups that must all be evaluated and satisfied for the organization to remain healthy and successful in the long run.

The stakeholders' theory adopts a different approach from the agency theory. According to this theory, organizations serve a broader social purpose than just maximizing the wealth of shareholders. Stakeholders are groups and individuals who can affect or be affected by an organization (Freeman, 1984). According to the stakeholders' theory, companies should design their corporate strategies considering the interests of their stakeholders. It implies a shift in the traditional role of the board of directors as defenders of shareholders' interests. This theory states that a company owes a responsibility to a wider group of stakeholders, other than just shareholders. This theory recognizes the fact that most firms have a large and integrated set of stakeholders to which they have an obligation and responsibility to meet their needs. It challenges the view that shareholders have a privilege over another stakeholder. Thus, stakeholder theory embodies the need to balance the claims of shareholders with these of other stakeholders. This theory suggests that the managers of an organization should on one hand manage the corporation for the benefit of its stakeholders to ensure their rights and participation in decision making and on the other hand, the management must act as the shareholder's agent to ensure the survival of the firm to safeguard the long-term stakes of each group.

METHODOLOGY

The study adopted the *Ex-post facto* research design as the most appropriate research design because the data are sourced from already existing annual reports. The study used panel data which consisted of time series and cross-sections. The data for all the variables in the study were extracted from published annual reports and financial statements of the listed consumer goods companies in Nigeria covering the years 2007 to 2021. This implies that the study covered a fifteen (15) years period. The sample size of the study included (19) thirteen companies out of the population of 21 listed consumer goods companies on the Nigerian Stock Exchange as at 31st December 2021.

Model Specification

Panel data can also control for individual heterogeneity due to hidden factors, which, if neglected in time-series or cross-section estimations lead to biased results (Baltagi, 2005). The panel regression equation differs from a regular time-series or cross-section regression by the double subscript attached to each variable. The general form of the model can be specified as:

$Y_{it}= \alpha + \beta X_{it}+ e_{it}$ ... (1)

With the subscript *i*denoting the cross-sectional dimension and *t* representing the time-series dimension. The left-hand variable, *Yit*, represents the dependent variable in the model, which is the firm value. *Xit*contains the set of explanatory variables in the estimation model, α is the constant and β represents the coefficients.The regression model employed for this study is also in line with what was used in previous studies, with some modifications for the analysis. The model for the empirical investigation was therefore given as follows:

$TACCit = \beta o+\beta_1 BZit+ \beta_2 GDit + \beta_3 BIit + \beta_4 ACZit + OWNS_5 it + FZ_6 it + eit$ … (2)

Where:
TACCit = Total accruals of firm i in year t
BZit = Board size of firm i in year t
GDit = Gender diversity of firm i in year t
BIit = Board independent of firm i in year t
ACZit = Audit committee size of firm i in year t
OWNS= Ownership structure firm i in year t
FZit = Firm size of firm i in year t
βo = Constant
e = the error term

Table 1: Research Variables Measurement

S/N	Variables	Definitions	Type	Measurement	Source
1	TACC	Total accrual	Dependent	difference between net income, which is the earnings before taxation and extraordinary item and cash flow from operating activities	Hassan and Ahmed (2012)
2	BZ	Board size	Independent	Number of board members	Orshi, Dandago and Isa (2019)
3	GD	Gender diversity	”	Proportion of female board member to board size.	Urhoghide and Omolaye (2017)
4	BI	Board Independence	“	Proportion of independent directors to board size.	Orshi, Dandago and Isa (2019)
5	ACZ	Audit committee size	“	Number of audit committee members	Siromi and Chandrapala (2017)
6	OWNS	Ownership structure		Proportion of directors' shareholding to total shares in the paid-up share capital (%).	Bassey, Eleng and Abel (2019)
7	FZ	Company Size	Control	Natural log of company total assets.	Richard, Monday and Bassey (2019)

Source: Authors' Compilation, 2022

Method of Data Analysis

To analyze the data generated, the study employed descriptive statistics, Pearson correlation matrix, classical linear assumption and regression analysis on the data elicited from the financial statement of sample consumer goods companies in Nigeria. The package that was used for the analysis was STATA. The decision on the hypotheses will be based on the p-value. If p<0.05, reject null hypothesis. If p>0.05, accept null hypothesis. The methods chosen to carry out this study was quantitative, the *ex-post facto*, use of already existing data appropriate for the study. Because quantitative research employs experimental methods and quantitative measures to test critically hypothetical generalizations. According to McCullough (1997), the advantage of using quantitative research is that the results are statically reliable and able to be projected to the population.

Due to the key assumptions of homoskedasticity and no serial correlation in Pooled OLS, the Generalized Least Square (GLS) Random Effects models regression will be selected (Wooldridge, 2002). For the estimator to be consistent and unbiased, the errors in each period must be uncorrelated with the explanatory variables in the same period. In pooled time-series data, a GLS regression is better suitable since it corrects for omitted variable bias, autocorrelation, and heteroskedasticity. This strategy allows researchers to look at differences between cross-sectional units as well as differences within individual units over time (Gaur & Gaur, 2006). It presupposes that regression parameters do not vary over time or differ between cross-sectional units, which improves the coefficient estimates' dependability. The unobserved heterogeneity should not be correlated with the independent variables, which is a key requirement for choosing random-effect estimation. The Hausman test was used to check for this assumption and the suitability of the random-effects estimate. The non-significant Hausman test value indicated that the random effects estimation assumptions had not been broken.

Data Analysis

Descriptive Statistics test
Table 2: Descriptive Result

Variable	Mean	Std.Dev.	Min	Max
TACC	14.65725	1.829032	9.037058	18.145
BZ	10.30263	2.789311	3	18
GD	11.74408	10.25655	0	40
BI	69.7192	14.43757	38.46	93.33
ACZ	5.745614	.9368746	2	9
OWNS	6.313202	13.21938	0	74.74
FZ	7.41557	.7913231	5.25	8.68

Source: Stata

Table 2 revealed that the mean value of earnings management among manufacturing companies listed on the Nigerian Stock Exchange from 2007-2021 was 14.65 with a minimum of 9.03 and a maximum of 18.14. The values indicate that on average, management of earnings related to total accrual is about 14 per cent of the total earnings. The standard deviation of 1.82 indicates that total accrual and discretionary accrual, do not have a wide dispersion from the mean. Thus, managers of manufacturing firms within the period of study have been engaged in managing earnings emanating from components in total accruals.

Furthermore, the result of board size shows a mean of 10 and a standard deviation of .78. This implies that the average listed manufacturing firm for the period 2007 to 2021 was composed of at least 10 board members annually. The minimum is 3 board members and the maximum was 18 board members. This indicates a continual increase in board size as a transition from the defunct 2003 corporate governance code to the recent 2018 code of corporate governance in Nigeria. The standard deviation shows that the variation from the mean is not wide.

The composition of the board as it relates to gender diversity shows a mean value of 11.74 with a minimum of 0 and a maximum of 40.00. This showed that on average the number of females on the board of listed manufacturing firms for the period 2007 to 2021 amounted to about 11 percent of the total board membership. The max and min values show that some firms still operate board membership without the presence of female board members while others give about 40 cents sits to females as a movement for women's inclusion. The standard deviation of 10.25 proves a no-wide dispersion from the mean. Thus, gender diversity within the period has been receiving board recognition.

Also, the result of board independence shows a mean value of 69.71 with a minimum value of 38.46 and a maximum value of 93.33. This indicates that on average the proportion of independent directors on the board for the period 2007 to 2021 has about 69 per cent of the composition of the board membership. The standard deviation of 14.43 indicates that the dispersion from the mean is not wide. Thus, board independence in manufacturing firms is of interest to managers.

The result of the audit committee size revealed a mean value of 5.74 with a minimum of 2 and a maximum of 9. This shows that on average, the audit committee size for the period 2007 to 2021 has been 5 members. The standard deviation of .9368 indicates that the mean dispersion is not wide. Thus, audit committee composition in light of the number of members that make up the committee, good size has been observed by managers.

The ownership structure revealed a mean value of 6.31 with a minimum value of 0 and a maximum value of 74.74. This indicates that on average, the proportion of directors' shareholdings forms about 6 percent of the total paid-up shares of manufacturing firms for the period 2007 to 2021. The standard deviation of 13.21 shows a wide dispersion in the mean. Thus, the director's shareholding differs significantly among manufacturing firms for the period.

More also, the control variable firm size showed a mean value of 7.41 with a minimum of 5.25 and a maximum of 8.68. This indicates that on average the asset size of the firms is 7 as a log value. The standard deviation of .7913 revealed that the dispersion in the mean is not wide. Thus, the firm's size does not differ significantly.

Correlation Analysis

Table 3: Correlation Matrix

Variable	BZ	GD	BI	ACZ	OWNS	FZ
BZ	1.0000					
GD	-0.0751	1.0000				
BI	0.1425	-0.1442	1.0000			
ACZ	0.3583	0.0832	-0.0502	1.0000		
OWNS	0.0521	-0.0123	0.0112	-0.0664	1.0000	
FZ	0.6131	0.2359	0.0183	0.5421	-0.1761	1.0000

Source: Stata

Table3 depicts the result of the Pearson correlation of the variables for this study. The correlation analysis indicates the strength and nature of the relationship between the explanatory variable. Board size has a negative and weak relationship with gender diversity (-0.075), positive and weak relationship with board independence (0.142), positive and weak relationship with audit committee size (0.358), and positive and weak relationship with ownership structure (0.052), positive and strong relationship with firm size (0.613). Gender diversity has a negative and weak relationship with board independence (-0.144) and ownership structure (-0.012) and a positive and weak relationship with audit committee size (0.083) and firm size (0.235). Board independence showed a negative and weak relationship with audit committee size (-0.050) and a positive and weak relationship with ownership structure (0.011) and firm size (0.018). Audit committee size showed a negative and weak relationship with ownership structure (-0.066) and a positive and strong relationship with firm size (0.542). Ownership structure showed a negative and weak relationship with firm size (-0.176). This explains that the level of correlation between and among all the independent variables is of harmless effect.

Hausman Specification Test

Hausman (1978) developed a test based on the differences between the Fixed Effect and Random Effect estimates. Thus, the Hausman specification test is usually utilized when comparing the FE and RE models, to ascertain whether or not, the explanatory variables and the error terms are correlated (Baltagi, 2008).

Table 4: Hausman Specification Test

	(b) V_B)) fe	(B) re	(b-B) Difference	sqrt(diag(V_b S.E.
BZ	366939.9	-252956.1	619896	298165.8
GD	-66236.85	-35605.42	-30631.43	58422.34
BI	127343.6	99129.79	28213.77	24047.66
ACZ	1465216	1745006	-279789.5	761458.8
OWNS	-197956	-135971.9	-61984.06	37871.41
FSZ	-1.13e+07	-7365895	-3967036	2423429
Prob>chi2= 0.0037				

Source: Stata

The result of the fixed and random specification test revealed a significant p-value of 0.0037 for the model (see appendix A). Therefore, this study preferred the fixed effect models over the random effect models for inferences.

Regression Result

The main regression result utilized for the models in this study is the Fixed Effect (RE) regression model since the results of the Hausman specification test favoured the FE model. Worthy of note, the Random Effect model assumes that individual effect is characterized as random and inference relating to the population from which a sample was drawn randomly (Baltagi, 2008). Moreover, Baltagi added that the random effect model is the most fitting specification where *N* individuals are drawn randomly from a large population. However, the Fixed Effect model assumes the existence of individual heterogeneity, and it is normally related to one or more repressors. Thus, if one is concentrating on a specific *N* firm, and the behaviour is limited to the behaviour of the said firm, then, the FE model is preferable. Hence, the results of the Fixed Effect for the model in this study are presented in Table 4.

Table 5: Regression result

TACC	Coef.	Std. Err.	z	P>z	[95%	Conf. Interval]
BZ	-252956.1	423264	-0.60	0.550	-1082538	576626.2
GD	-35605.42	78743.54	-0.45	0.651	-189939.9	118729.1
BI	99129.79	57201.18	1.73	0.083	-12982.46	211242
ACZ	1745006	1037511	1.68	0.093	-288479	3778490
OWNS	-135971.9	63877.45	-2.13	0.033	-261169.4	-10774.42
FSZ	-7365895	1723426	-4.27	0.000	-1.07e+07	-3988041
_cons	3.57e+07	1.02e+07	3.51	0.000	1.58e+07	5.57e+07
R-Squared	0.1067					
Prob > F	0.0000					

*p<.1, ** p<.05, ***p< 0.01, ****p<.001

Source: Stata

DISCUSSION

First, Board size has negative and no significant effect on earnings management of listed manufacturing companies in Nigeria. The p-value (p-0.550>.050) in the hierarchical regression that examined the effect of board size on earnings management in (Table 9). In the regression that regressed all the five dimensions of corporate governance on earnings management, the p-value of the effect of board size was found to be less than 0.050 significance level. This value being insignificant mean that board size does not significantly influence the earnings management coefficient of manufacturing companies. Board composition in terms of the number of board members, either a large or small board membership does not lead to the predictive ability of earnings manipulation. This agrees with the findings of Evbuomwan (2021) who found that board size has no significant effect on earnings management of listed companies in Nigeria. Abata and Migiro (2016) found board size is no significantly negatively correlated with earnings management. Uwuigbe, Peterand Oyeniyi (2014) found a negative impact of board size on earnings management (proxied by discretionary accruals).

Second, gender diversity has a negative and no significant effect on earnings management of listed manufacturing companies in Nigeria. The p-value (p-0.651>.050) in the hierarchical regression that examined the effect of gender diversity on earnings management in (Table 9). In the regression that regressed all the five dimensions of corporate governance on earnings management, the p-value of the effect of gender was found to be 0.651 (H_{o2}). This value being non significant p>0.05 level of significance mean that gender diversity does not significantly influence the earnings management coefficient of manufacturing companies. How diverse the board membership operates including the level of female presence on the board does not significantly influence the predictive ability of earnings manipulation. This agrees with the findings of Evbuomwan (2021) who found board gender diversity has no significant effect on earnings management.

Third, board independence has an insignificant effect on earnings management of listed manufacturing companies in Nigeria. The p-value of the effect of board independence was found to be (p-0.083>.050) in the hierarchical Regression that examined the effect of board independence on earnings management in (Table 9). In the regression that regressed all the five dimensions of corporate governance on earnings management, this value being insignificant p>0.05 level of significance mean that board independence does not significantly influences the earnings management coefficient of manufacturing companies. Directors' independent association with the board advances unbiased views and contributions to the governance of the firms, implicating more independent directors on the board might not necessarily lead to reduced earnings manipulation. This disagrees with the findings of Olaoye and Adewumi (2019) who found that board independence has a significant impact on earnings quality.

Fourth, audit committee size has a non significant effect on earnings management of listed manufacturing companies in Nigeria. The p-value of (p-0.093>.050) in the hierarchical Regression that examined the effect of audit committee size on earnings management (Table 9). In the regression that regressed all the five dimensions of corporate governance on earnings management (H_{o4}). This value being non significant p>.05 level of significance mean that audit committee size does not significantly influence the earnings management coefficient of manufacturing companies. Audit Committee membership being large gives room for diverse opinions but does not lead to a lower possibility of earnings manipulation. This agrees with the findings of Akinola, Sanni and Ogunsola (2021) who found a non significant impact on earning management.

Fifth, ownership structure has a negative and significant effect on earnings management of listed manufacturing companies in Nigeria. The coefficient of the effect of ownership structure was found to be -1359 while the p-value of (p-0.033<.050) in the hierarchical Regression that examined the effect of ownership structure alone on earnings management (Table 9). In the regression that regressed all the five dimensions of corporate governance on earnings management, the coefficient of the effect of ownership structure was found to be -1359 (H_{o5}). These values being significant p<.05 level of significance mean that ownership structure significantly influences the earnings management coefficient of manufacturing companies. The Director's interest and ownership of high shares lead to enhancing earnings to project a more desirable picture of the firm. This agrees with the findings of Lawal et al. (2018) who found a positive relationship observed to exist between earnings management and Insider ownership. Also, Ogbonnaya, Ekwe and Ihendinihu (2016) found that Managerial ownership has a positive significant effect on earnings management.

CONCLUSION

The result of the study supports the view and conjecture that corporate governance through the components has a significant effect on the earnings management of the firms. By examining corporate governance via board size, the result indicates that the use of these discretionary accruals as earning management tools is not significantly influenced by the number of board members. Based on the test of formulated hypothesis, the study concludes that board size has no significant effect on earnings management of listed manufacturing companies in Nigeria.

Furthermore, the study provides evidence to conclude that gender diversity has no significant effect on the earnings management of manufacturing firms. Similarly, board independence showed and significant effect on earnings management using discretionary accruals which leads to the conclusion that independent directors on the board does not contribute to the reduction in earnings manipulation in manufacturing firms. In another view, audit committee size showed a no significant effect on discretionary accruals as a measure of earnings management of the firms.

This concludes that the size of the audit committee does not significantly influence the volatility in discretionary accruals of the firms. Contrarily, ownership structure revealed a positive and significant effect on earnings management as measured by discretionary accruals. This concludes that the volume of shares held by the directors of the firm significantly influences earnings manipulation in the firms.

Recommendations

i. Larger board size is not efficient to minimize the tendency of managers to manage earnings; hence moderate board size should be maintained by companies.
ii. There should be an increase in female membership and participation in the board to enhance more robust and diverse decision-making on earnings management.
iii. The study recommends that board composition should include a greater proportion of independent outside directors with corporate experience. Independent directors' ratio to the total board size should be more to allow unbiased decisions on the financial statements. It is in the best interest of all companies, both in Nigeria and globally, to adhere to corporate governance guidelines. The implication of this is that an increased perception of adherence to the framework has the potential to increase firm value and most importantly, avoid possible litigation
iv. Audit committee members should be encouraged to possess a certain level of financial competencies to decrease the likelihood of earnings management.
v. To provide effective monitoring of earnings management in the firms, shareholders need to encourage institutions and individual block-holders to implement corporate governance standards. These manufacturing companies operate in a market where insider ownership dominates and controls, giving managers more incentives and opportunities to manage profits to their advantage. To increase economic efficiency, this will further improve management's ability to oversee earnings reporting as well as the accuracy and transparency of those results.

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