Corporate Governance and Earnings Management on Performance of Listed Companies in Nigeria

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ABSTRACT

The prime aim of this study is to examine the relationship between corporate governance and earnings management on the performance of some listed firms in Nigeria. To achieve the objectives of this study, a total of 60 listed firms in the Nigerian stock exchange market were selected and analyzed for this study using the judgmental sampling technique. The choice of the selected firms arises based on the nature and extent of corporate financial failures and scandals that have been witnessed in the industry overtime. Also, the corporate annual reports for the period 2010-2019 were used for the study. The Panel Least Square method was employed as a statistical technique for analyzing the data collected from the annual report of the selected firms. Findings from the study revealed that while board size and CEO Duality have a significance negative impact on earnings management (proxies by discretionary accruals). The study recommends that Board of Directors should ensure complete compliance with ethical standard of accounting profession by guiding against accounting manipulations. Specifically, the office of Chairman and Chief Executive Officer should be occupied by different person in order to enhance check and balance.

Keywords: *Corporate Governance, Earnings Management, CEO duality, Board Size, Discretionary Accruals.*

Introduction

1.1 Background to the Study

The shareholders willingly entrust their resources with managers on the assurance that the self-serving managers will exercise their discretionary rights appropriately to increase shareholders' wealth and not misappropriate their assets (Kee, 2010, cited by Junaidu & Abdulrahman, 2014). However, managerial discretion can also be used to engage in earnings management to conceal poor performance or to exaggerate good performance, either for career concerns or compensation reasons. The integrity of financial reporting has been a consistent concern among regulators and practitioners, especially after high-profile accounting scandals involving once well-respected companies such as Enron and WorldCom.

Ehijeagbon and Ekatah (2014) submitted that the spate of world-wide corporate scandals involving Enron, WorldCom, Global Crossing, Tyco International, Xerox (USA); Parmalat (Italy) and corporate fraud perpetuated in Nigeria by management of Lever Brothers, Union Dicon Salt, Cadbury (Nigeria), and the 14 distressed banks reiterated the need for an investigation into the quality of financial reports and increased the clamoring for a better governance mechanism worldwide. It has been observed by accountants and financial economists that central to these corporate failures is that "there are systematic deficiencies in accounting standards and governance systems that generate financial information" (Bowen, Rajgopal and Venkatachalam, 2003). In a bid to prevent such future failure of companies, most nations across the globe introduced new codes of best governance practices to align managers interest with the wealth maximization objective of the shareholders. Also, an effective governance mechanism should be employed in other being capable of converging managers' decisions (both operating and investment) with that of the shareholders. But, despite the introduction of the codes of best governance practices in Nigeria in 2003 and its continuous modifications, the results that it has achieved can be said to be minimal as there are fresh cases of governance malpractices that threaten the survival of quite a number of firms in different sectors of the economy.

Corporate governance has been a major 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.

In response to calls for strengthening corporate governance mechanisms, to enhance the oversight function of the board of directors and to restore public confidence in the integrity of financial reporting, the Nigeria Stock Exchange (NSE) and Security and Exchange Commission (SEC) promulgated the Code of Corporate Governance. Better governance is supposed to lead to better corporate performance by preventing the expropriation of controlling shareholders and ensuring better decision-making. This expropriation may be due to the result of smoothening of earning which is known as earnings management.

Statement of Problems

The rate at which companies are liquidating as a result of accounting sharp practices in Nigeria over the last decade cannot be overemphasized, and also the instability of the price of oil in an international market which may encourage earnings manipulation is another source of concern. This posed the question 'whether effective corporate governance can guarantee the integrity of financial reporting in the eyes of its users' and this needs to be addressed. The researcher takes it as a challenge to address the relationship between good corporate governance and earnings management on the performance of some selected quoted companies in Nigeria.

The management of firms' earnings has also been an issue of continuous concern for several years for regulatory bodies and accounting practitioners (Levitt 1998). They are seen as an important summary statistic of a firm's financial performance and are often used in firm valuation. The nature of accounting accruals give managers a great deal of discretion in determining the earnings a firm reports in any given period because of the information asymmetry relationship that exist between managers and owners. Therefore, the managers can manipulate or influence earnings in order to maximize their own interests (Chung, 2002; Gul, 2003).

Nevertheless, in an environment characterized by imperfect information, a variance in the interest between management and shareholders can lead to sub-optimal management decisions. The interest of the managers and their shareholders are not necessarily aligned, thereby managers are posited to manage earnings to maximize their utility at the expense of other stakeholders. These problems are envisaged to be much more significant in an emerging market where many market imperfections continue to persist. Despite the publication of a new corporate governance code in 2003 and 2011; there are still cases of misappropriation of fund and falsification of reports to suit management interest. However, this problem is not only adduced to poor corporate governance practice, but also, the low quality of financial information disclosure has led to series of corporate failures and scandals. Hence, this study adds to the body of existing knowledge by investigating

the effects of corporate governance and the earning management on the performance of some listed firms in Nigeria.

The study focuses on the importance of corporate governance variables of board composition, institutional ownership, audit committee and executive compensation because there are documented evidences that these variables impact both corporate performance and earnings management. The choice of quoted firms are informed by the role that these firms play towards the economic development of Nigeria and the diversity of firm in the sector allows the latitude to study the different firms that are into different lines of businesses within the sample.

1.3 Research Objectives

The main objective of this study is to examine the impact of corporate governance and earnings management on the performance of some selected quoted companies, while the specific objectives are:

i. To examine the relationship between the corporate governance and company earnings management

ii. To ascertain whether the board independence has significant effect on earnings management of firms.

iii. To examine whether CEO duality has significant effect on earnings management of firms

1.4 Research Questions

The study is expected to answer the following questions:

i. To what extent does the relationship between the corporate governance and company earnings management?

ii. To what extent could Board independence has significant effect on earnings management of firms?

iii. To what extent has CEO duality significant effect on earnings management of firms?

1.5 Research Hypotheses

In other to guide this work the following hypotheses were formulated and tested:

Ho_1: There is no significant relationship between corporate governance and earnings Management.

Ho_2: Board independence has no significant effect on the earnings Management of firms.

Ho_3: CEO duality has no significant effect on the earnings management of firms.

Literature Review

2.1. Concept of corporate governance

The concept of corporate governance had attracted a lot of attention from management scholars in the last three decades arising from corporate failures affecting major and hitherto strong and successful companies. These corporate failures were largely discovered to have resulted from corporate governance failures. Scholars like Dignam and Galanis (2009) view corporate governance as the process of an institutional balancing whereby conflicting interests of a corporations stakeholders (shareholders, employees, creditors, government, local community and more recently the environment) are accounted for and/or prioritized in order to produce benefit for society. The need for corporate governance best practice arises because of the separation of management and ownership in the modern corporation. In practice, the interest of those who have effective control over a firm can differ from the interests of those who supply the firm with external finance. There is not a universally accepted definition of corporate governance, Sanda (2005). According to Oso and Semiu (2012), the essential ingredients of corporate governance such as honesty, trust and integrity, complete transparency, accountability and responsibility, protection of stakeholders interests and satisfaction, participation, business ethics and values, performance orientation, openness, mutual respect and commitment to organization are quite convincing that sincere compliance or adherence to them would pave way for the sustenance of business corporation, realization of corporate goals, good and appreciable turn-out and a veritable global market place.

Corporate governance according to Fatimoh, (2012) is based on the level of corporate responsibility a company exhibits with regard to accountability, transparency and ethical values. Baums and Scott, (2005) are of the opinion that ‘Corporate governance’ can be defined so broadly as to encompass every force that bears on corporate decision-making. That would include not only the control rights of shareholders, but also the contractual agreement and insolvency powers of debt holders, the commitments entered into with employees and customers and suppliers, the regulations issued by governmental agencies, and the statutes enacted by parliamentary bodies. And in a still more comprehensive sense, a company’s decisions are affected by competitive conditions in the various markets in which it transacts, and indeed by the social and cultural norms of the society in which it operates. Good governance means little expropriation of corporate resources by managers or controlling shareholders, which contributes to better allocation of resources and better performance (Syed, Safdar, &Arshad, 2009 cited by Okougbo & Okike, 2015). This good governance translates to corporate governance where those at the hems of affairs of the organisation exude their managerial skills in the interest of the owners and other stakeholders (Okougbo & Okike 2015).

Larcker, (2005) consider corporate governance to generally refer to the set of mechanisms that influence the decisions made by managers when there is a separation of ownership and control. Some of these monitoring mechanisms are the board of directors, institutional shareholders, and operation of the market for corporate control.

2.1.2 Board Composition

The composition of the board of directors is expected to play an important role in synchronizing the interest of the managers and that of the shareholders. Corporate governance structure in Nigeria requires that number outside directors on the board should be more than that of the executive directors. Also, the non-executive directors must comprise of independent directors appointed on the basis of experience and competence since the outside directors do not possess any interest regarding the shareholding of the firm, in order to maintain their reputations, they are expected to act in such a manner that maximizes the value of the firm. The basic argument is that if board composition, as represented by independent outside directors, affects firm performance positively, then it should be inversely related with earning management. Similarly if it negatively influences corporate performance, then it should be positively with opportunistic behaviour of managers. Kajola (2012) believed that limited board size to a particular level will improve the performance of a firm because the benefits by larger boards of increased monitoring are outweighed by the poorer communication and decision making of larger groups. The impact of board size on board and firm performance has been a matter of continuing debate. Dey and Chauhan (2009) revealed that, as board size increases, group dynamics, communication gaps, and coordination cost increase. Sandaet (2003) also reported that firm performance is positively correlated with small as opposed to large boards. Mark and Kusnadi (2005) agreed that a small size board has positive relationship with high firm performance. However, Andres and Vallelado (2008) and Chen (2006) revealed larger boards are more efficient in monitoring and advising functions and create more value for a firm.

2.1.3 Independent Director on the Board

From the agency theory perspective, independent directors contribute to effective governance by exercising control over top managers' decision-making, because they are seen as the check and balance mechanism to enhance board's effectiveness. Board independence is considered crucial because outside directors are considered as true monitors' and can discipline the management and improve firm performance (Duchin, 2010). Outside directors being financially independent of management, free from potentially conflicting situations are able to alleviate agency

problems and curb managerial self-interest (Rhodes,2000). Naveen and Singh (2012) opined that the independent directors protect the shareholder interest, perform monitoring and control function in a better way to align firm resources for better performance. It was argued that independent directors were not selected based on their expertise and experience, but more often for political reasons to legitimate business activities and for contacts and contracts. Due to lack of expertise, lack of required skills and knowledge of company affairs, such directors would not be able to perform their roles effectively (Rahman & Ali, 2006).

2.1.4 Audit Committee

Audit committee plays an important role in monitoring management to protect shareholders' interest. The code of best governance practice in Nigeria requires that the committee should be largely independent, highly competent and possess high level of integrity. It is responsible for the review of the integrity of financial reporting and oversee the independence and objectivity of the external auditors. Audit committee is expected to raise standard of corporate governance and having relates to earnings management using various constructs of audit committee effectiveness such as size of the board (Yermack,1996 and Xie, 2001), composition and independence (Klein, 2002), audit committee meetings (Beasley, 2000), financial expertise of committee members (Kalbers and Fogarty,1993), and financial motivation of independent directors (Chtourou, Bedard and Corteau., 2001).Abata and Migiro (2016) further explained that the Board of a company should determine to what extent to which its duties and responsibilities should be undertaken by committees. It should determine the number and composition of committees and ensures that each committee comprises of the relevant skills and competences and that its members commit sufficient time to the committee's work.

2.1.5 Institutional Shareholding

Institutional shareholders have both the incentive and power to compel managers to act in consonant with value maximization objective of the firm. Shehu (2011) noted that institutional ownership has emerged as an important tool for protecting minority interest. This is because large institutions have the opportunity, resources and ability to constrain managers' behaviour (Roodposhti and Chashmi 2011), and they also represent ownership concentration in some cases because of their ability to make bulk purchases of the firm's equity shares. If this argument can be relied on then institutional shareholding should be positively related with firm performance while it should be inversely related with earnings management. However, at least in principle, it is possible that managers might feel more compelled to

meet earnings goals of these investors and, thus engage in more earnings manipulations (Cornett, Marcus, Saunders and Tehranian, 2005).

2.2 Concept of Earnings Management

The earnings management can be defined as attempts by management to influence or manipulate reported earnings by using specific accounting methods (or changing methods), recognizing one-time non-recurring items, deferring or accelerating expense or revenue transactions, or using other methods designed to influence short-term earnings (Akers, Giacomino & Bellovary, 2007).

Earnings management is the deliberate altering of financial information to either mislead investors on the underlying economic status of a firm or to gain some contractual benefits that depend largely on accounting numbers (Watts and Zimmerman, 1986: Healy & Wahlen, 1999). Accruals are the most important earnings management instruments that are used by managers to either increase or decrease reported income. This is because they are components of earnings that are not reflected in current cash flows, and a great deal of managerial discretion goes into their construction (Bergstresser and Phillippon 2003). The incentives for earnings manipulation have been documented in the literature in a wide variety of contexts. Bhat (1996), linked it to the attempt to enhance shareholders' value and to maximize executive compensation through income smoothing and earnings management respectively. Healy &Wahlen (1999) further explained that the incentives to window dress financial statements encompass the motivation to increase managers compensation and job security, to avoid the violation of debt covenants, and to decrease regulatory costs or increase regulatory benefit. Income smoothing, occasional big bath, living for today and maximization of variability are identified by Koch & Wall (2000). Most recently, Chang, Shen& Fang (2008) note three incentives to manage earnings.

Firstly, capital market motivation, which includes initial public offerings, seasoned equity offerings, management buoyant plans and plans for mergers in meeting earnings forecast, smooth earnings, etc. Secondly, contracts motivation such as management compensation, debt agreement or job security also constitute the incentive for earnings management. Thirdly, laws and regulations such as import regulation, industrial regulation, antitrust laws, etc., also can serve as an incentive. Cornet, (2008) notes that managers use discretionary accruals as a motivation for options (the incentive for bonus income by attaining some level of performance) and affecting stock prices to enhance managers' wealth through restricted stock compensation. Other incentives for managers' opportunistic behaviour that are established in the literature include bonus plans, meeting analyst's expectations or raising funds on more favourable terms (Shah, Zafar & Durrani, 2009). Schipper (1989) sees managing earnings as the process of taking deliberate

steps within the constraints of generally accepted accounting principles to bring about a desired level of reported earnings. Managing earnings is “a purposeful intervention in the external financial reporting process, with the intent of obtaining some private gain (as opposed to say, merely facilitating the neutral operation of the process)”. Earnings management occurs when managers use judgment in financial reporting and in structuring transactions to alter financial reports to either mislead some stakeholders about the underlying economic performance of the company or to influence contractual outcomes that depend on reported accounting numbers (Healy &Wahlen1999). This is also called fraud. Duffield and Grabosky (2001) defined fraud as an act involving deceit (such as intentional distortion of the truth or misrepresentation or concealment of a material fact) to gain an unfair advantage over another in order to secure something of value or deprive another of a right. It occurs when a perpetrator communicates false statements with the intent of defrauding a victim out of property or something of value (Vasiu and Vasiu, 2004). The importance of corporate governance is to ensure effective management of corporate earnings for better performance.

2.3 Earnings Management Internal Control Sarbanes-Oxley, Section 404

Sarbanes-Oxley Act of 2002 (SOX) under Section 404 of SOX management is required to issue a report assessing the effectiveness of a firm internal controls. McDonald &Francis (2005), Hagenty (2005).There are several recent high profile cases of corporate accounting problems that may have been portly the result of weak internal controls. Kinney and McDaniel (1989) suggested that weak internal controls can increase the probability of material errors in accounting disclosures.

Ashbangh-Skaife (2005) and Doyle (2005) also suggest that weak internal controls can lead to low quality accounting accruals from intentional earnings management and unintentional earnings management and unintentional accounting errors. American Institute of Certified Public Accountants ACCPA (1995), this is consistent with the discussions in Statement of Auditing Standards No. 78 that the effectiveness of internal controls can be adversely affected by human failures such as simple errors or mistakes and or inappropriate management override internal controls. Kimey (2000) given the lack of public data internal controls, there is only limited empirical evidence on the characteristics of firms with internal control problems and the effects of weak internal control firms. Klein (2002) and Bedand (2004) find a negative relationship between the qualities of audit committees and the amount of discretionary accruals in their samples.

Bryan (2004) opines a positive relationship between audit committee independence and the earnings response coefficients. Krishan (2005) examines the relationship between audit committees quality and internal

control problems using a sample of firms reporting such problems intheir 8-k reports when the firm switched auditors. He further finds that the proportion of independent members on the audit committee and the number of financial expert members on the audit committee are associated with a lower probability of reporting internal control problems at the time of audit charges.

Gc and McVay (2005) find that firms reporting material internal control weakness under SOX Section 302 which has been effective since August 2002. He also opined that firms reporting material control weakness have more operating segments are more likely to report foreign currency translation are smaller in firm size, have shorter firm history, and are less profitable compared to other firms. Ashbaugh-Skaife (2005) examine a sample of firms reporting internal control weaknesses under Section 302 and find similar results, also finds that these firms are more likely to be involved in acquisition and restructuring. Doyle (2005) argues that weak internal control can create more opportunities for intentional earnings management and unintentional accounting estimation errors.

2.4 Empirical Framework

Adebayo, Ayeni and Oyewole (2013) examine the relationship between three corporate governance mechanisms (Board independence, board size, and chief executive duality) and two organization performance measures (earnings per share and return to equity) of Nigerian listed organizations for the period of 2005 – 2010. Panel data methodology was adopted because it combined time series and cross sectional data. The method of analysis is that of multiple regressions and the method of estimation is Ordinary Least Squares (OLS). The result showed that there is positive significant relationship between board independence and organizational performance.

Alshetwi (2017), in his study of the "Association between board size, independent and firm performance: evidence from Saudi Arabia" examined the association between board size, board independence and firm performance as measured by ROA. The results of the study suggested that board independence was not associated with firm performance.

Omoye and Erik (2014) investigate how corporate governance mechanisms relate to the categories of earnings management levels. A sample of 130 companies were drawn from quoted companies on the Nigerian stock exchange over the period of 2005 to 2010 and to identify the unique firm's corporate governance characteristics and control variables that influence firms' decision to engage in earnings management. Descriptive statistics, correlation matrix, diagnostic test and binary regressions analyses of the data were conducted. The study revealed that, quoted companies in Nigeria prefer to use high earnings management practices, also, Board independence had a positive and significant influence on the probability of Nigerian companies adopting absolute high earnings management.

Uwalomwa, Daramola and Anjolaoluwa (2014) basically examined the effects of corporate governance mechanism on earnings management in Nigeria. A total of 40 listed firms in the Nigerian stock exchange market were selected and analyzed for this study using the judgmental sampling technique. The corporate annual reports for the period 2007-2011 were used. The regression analysis method was employed as a statistical technique for analyzing the data collected from the annual report of the selected firms. The study revealed that while board size and board independence have a significant negative impact on earnings management (proxies by discretionary accruals); On the other hand, CEO duality had a significant positive impact on earnings management for the sampled firms in Nigeria.

Ugbede, Lizam and Kaseri (2013) studied Corporate Governance and Earnings Management: Empirical evidence from Malaysian and Nigerian Banks. Using all the listed Nigerian banks and Malaysian commercial banks for year 2007- 2011 as their case study. Their results indicate that the Nigerian banks' earnings management has a negative mean, which means that the total accrual was negative in the majority of the sample. Key aspects of corporate governance have positive or negative association with earnings management. While these are mostly lacking in Nigerian banks' corporate governance structure, resulting in the poor accrual and earnings quality, high accruals and earnings quality of Malaysian banks is traceable to good corporate governance.

Okougbo & Okike (2015) studied the relationship between corporate governance and earnings management, based on evidence produced from the accounts of listed companies in one of Africa's largest economies, Nigeria. Using the Modified Jones model to estimate the discretionary accruals, the study examines whether CEO duality, board size and audit committee independence are able to restrain earnings management practices in the private sector in Nigeria. The results reveal there is a positive significant relationship between the size of the board, return on assets and earnings management. The study proposes that policy makers ensure that firms practice maintaining increasing levels of profits and desist from making losses so as to preclude downward management of earnings. This is essential in the current drive to attract foreign investments into the Nigerian economy.

Kang, Leung, Morri, & Gray (2013) examine the extent to which the first-time adoption of the Australian Stock Exchange (ASX) Corporate Governance Council's corporate governance principles and recommendations was associated with lower levels of earnings management. Cross-sectional results indicate that the existence of an audit committee was associated with lower levels of earnings management in pre-, but not post-, recommendations. Lower director ownership was associated with higher levels of earnings management pre-, but not post-, recommendations.

Folajimi, F. A. et al. (2019) investigated effect of corporate governance on

earnings quality of quoted financial and non-financial firms in Nigeria. The paper adopted ex-post facto research design from the population of 161 listed companies on the Nigerian Stock Exchange as at 31st December, 2017, 30 quoted financial and non-financial firms was purposively selected from 2003-2017.Using multiple regression analyses the findings revealed that corporate governance (CG) had joint significant effects on earnings quality (EQ) of quoted financial firms in Nigeria. The board size had significant positive effect on earnings quality while board meetings had significant negative effect on earnings quality. It recommended that board size should be maintained by the organisation while board meetings should be critically looked into by the management to ensure maximum utilization of resources.

3.0 Methodology

To achieve the objectives of this study, the annual report for the period 2010-2019 were analyzed. The choice of these period arises based on the fact that it recorded a large number of corporate frauds arising from firms in Nigeria due to poor corporate governance practice. However, using the judgmental sampling technique; a total of 60 listed firms were analyzed. This represents 20.5% of the total population. This is consistent with the propositions of Krejcie and Morgan (1970) where a minimum of 5% of a defined population is considered as an appropriate sample size in making generalization. The choice of the selected firms' arises based on the nature and extent of corporate failures and scandals that has bedeviled industry overtime. Nevertheless, in testing the research hypothesis, the ordinary least square (OLS) was used in the estimation of the regression equation under consideration.

3.1 The Dependent Variable and Its Measurement

Earnings Management (Accruals) is an attempt to present the financial information in the most positive light, usually by downplaying any negative elements to the point that they are extremely difficult to detect. This questionable practice is sometimes used to attract investors, keep current investors happy, and in general project an image of the business that is not the complete truth. It can also be seen as misrepresentation of financial information by the management in order to deceive other users of the financial statements. Higher magnitude of accruals reflects more aggressive of earnings management. Following Bhattacharya E. (2003), accruals are used to measure earnings aggressiveness. Earnings aggressiveness of a firm at a point in time as the median for firm i, year t, of accruals divided by lagged total assets.

$$\text{Earnings Management}_{it} = \text{Accruals}_{it}/TA_{it-1} \quad (1)$$

The accrual component of earnings is extracted from Statement of Financial

Position and Statement of Comprehensive Income information as suggested by Supana 2014, Atashband et al. (2014), and Mojtahedzadeh, AlaviTabari and Shafiee (2011) as follows:

Accruals it = (ΔCAit - ΔCLit - ΔCASHit + ΔSTDEBTit– ΔDEPit + ΔTPit) / TAit-1 (2)

Where:
Accruals it is scaled accruals for firm i, year t;
ΔCAit is the changes in the company's current assets for firm i, year t;
ΔCLit is the changes in the company's current liabilities in for firm i, year t;
ΔCASHit is the changes in the company's cash in for firm i, year t;
ΔSTDEBTitis the changes in the current portion of financing for firm i, year t;
ΔDEPit is the changes in the depreciation and amortization for firm i, year t;
ΔTPit is the changes in income taxes payable for firm i, year t;
TAit-1 is the Total Assets for firm i, year t-1.

3.2 The Independent Variables and Their Measurements

Board Size (TOT DIR): This is taken as the total number of the Board of Directors. It is believed to have a very great influence on the profitability of the company, that is, the going concern variable, in the sense that, there are arguments in favour of smaller board size, Sanda, Mikailu Garba (2005).

Board composition (COMP DIR): This is seen as the proportion of outside directors sitting on board with the total directors. A positive relationship is expected between the proportions of outside directors in a company as outside directors are better able to challenge the CEOs. It is basically in recognition of the outside directors' role that in the UK a minimum of three outside directors is required on the board; in the US, at least two-thirds of the board of directors must be outside directors (Sanda, Mikailu&Garba (2005).

Leadership Structure (CEO DUAL): This is determined by the existence of CEO duality. CEO duality exists when the same individual plays the roles of CEO and chairman of the company. In accordance with the previous studies, CEO duality is coded on a nominal scale of 1 and non-CEO duality is coded 0 (Iskandar et al, 2011).

Management equity ownership (MGT EO): The management equity ownership is measured by the proportion or percentage of equity ownership of executive directors. This includes direct and indirect equity

holding of the directors in the company. The higher the proportion of the management equity ownership, the better in terms of the going concern of the company as the management would do any legally, possible things to protect not only their economic interests but also the general economic interests of the entire shareholders (Iskandar et al, 2011).

Ownership concentration (OWNERS CONC.): This refers to the proportion or percentage of the shares of a firm that is 5% and above that is been held by shareholders. Shehu, (2011).

3.3 The Control Variables

The researcher include the following control variables: First, I control for firm size using the natural logarithm of the firm's total assets. Such control is necessary because of the argument that larger firms have smaller abnormal accruals. Second, I control for default risk through leverage, and use the ratio of long-term liability to total asset; this is also based on the fact that firms with higher bankruptcy risk experience greater abnormal accruals. Ben-Nasr, Boubakri, &Cosset (2011).

3.4 Model Specification

In line with the previous research conducted by Lenz (2003), and Mojtahedzadeh, AlaviTabari and Shafiee (2011*), E.MGT =α + β1TOT DIR + β2COMP DIR + β3CEO DUAL +β4MGT.EH + β5OWNERS + β6SIZE + β7LEV + ε*

Where:

E.MGT is the companies' earnings management;
TOT DIR is Board size;
COMPDIR is Board composition;
CEODUAL is Leadership structure;
MGT EO is equity ownership of management;
OWNER is the ownership concentration;
SIZE is the companies' total asset;
LEV is the companies' leverage;
ε is error term.

4. Results and Discussion

In this section, the results are presented and major findings are discussed. The section commenced with descriptive statistics of dependent, independents and control variable covering the period of ten years from 2010 to 2019, correlation matrix and finally the regression result.

Table 1: *Descriptive Statistics computed for parameters of the Study*

	EMGT	BS	BC	CED	MEO	OWNERS
Mean	9.302200	3.470000	6.960000	34.63930	5.870000	7.390000
Median	8.990000	4.000000	7.000000	36.00000	6.000000	8.000000
Maximum	27.91000	4.000000	8.000000	40.00000	7.000000	11.00000
Minimum	1.010000	2.000000	5.000000	25.11000	5.000000	5.000000
Std. Dev.	5.077873	0.809726	0.680463	4.347687	0.597216	1.081479
Skewness	0.692143	-1.049899	-0.531407	-0.600595	0.047212	0.237517
Kurtosis	4.011211	2.357073	3.755800	2.189939	2.719460	4.302501
Jarque-Bera	12.24498	20.09379	7.086700	8.746068	0.365078	8.009025
Probability	0.002193	0.000043	0.028916	0.012613	0.833152	0.018233
Sum	930.2200	347.0000	696.0000	3463.930	587.0000	739.0000
Sum Sq. Dev.	2552.695	64.91000	45.84000	1871.336	35.31000	115.7900
Observations	600	600	600	600	600	600

Discussion

Table 1 presented the results of the descriptive statistics obtained for the parameters of the study. Looking at the results from the table, it might be inferred that all the variables used for the study showed evidence of some level of relationship with the selected companies earning management. This assertion was premised on the fact that the p-value of the Jarque – Bera probability computed for the variables board size, board composition, leadership structure represented by Chief Executives duality, management equality owners and owners' concentration were less than the critical value of 5% except management equity ownership that indicated some levels of variability with earnings management. In fact, the standard deviation computed for the test items indicated some degree of variability that might not have significance effect on the behaviours of the individual independent with the dependent variable.

Diagnostic Tests Results

Testing for panel data involved the determination of unique characteristics in the variables of the model. This implied that panel data involved the determination of the existence of common unit root in the data set. The presence of a unit root usually indicated the fact that the variables of the model did not possess a distinct behaviour on the dependent variable, hence the independent variables of the model might not be a good predictor variables for explained variable of the model. If this occurred then, there was need to test for stationarity of model variables and until the variables were stationary they might not produce appropriate effect on the dependent variable.

Panel Unit Root Test

In order to estimate panel regression analysis, the variables must be free from unit root problems, meaning that they have to be stationary at the same order of integration. Therefore, the result of the Augmented Dickey- Fuller Unit Root Test is presented in Table 2 below.

Table 2: *Result of Unit Root Computed for the variables of the study*

Panel Data	**Levin, lin and Chut t***						**Order of Integration**
	Level Stat P-value		**1st Difference P-value**	**Stat**	**2nd Difference P-value**	**Stat**	
EMGT	-6.57971**	0.0000	-5.51773	0.0000	-8.21923**	0.0000	I(2)
BS	-6.38561**	0.0000	-9.57717	0.0000	-7.08298**	0.0000	I(2)
BC	-1.13687	0.1278	-0.51674	0.3027	-4.01100**	0.0000	I(2)
CEODUAL	4.01031	1.0000	4.0103	1.0000	-1.75881**	0.0393	I(2)
MGT	-1.08475	0.1390	0.01581	0.5063	-6.52254**	0.0000	I(2)
OWNERS	-0.13076	0.4400	-1.44443	0.0743	-8.72334**	0.0000	I(2)

Source: Researcher's computation, 2019

**(**) denotes rejection of the null hypothesis at the 5% (1%) level*

Interpretation and Discussion

Table 2 above presented the result of the Levin, Lin and Chut t* computed for the study variables. From the table, it might be inferred that all the variables were not stationary at level except EMGT and Board size. This assertion was based on the fact that the p-value of the Levin, Lin and Chut t* statistics obtained for all the variables at level for BC, CEODUAL, MGT and OWNERS were far less than the critical value of 5%. Hence, the null hypothesis which stated that the variables of the study had common unit root at level was accepted. Therefore, , BC, CEODUAL, MGT and OWNERS were not stationary at level due to the present of unit root at level except EMGT and BS which indicated the non-existence of a common unit root at level since the p-values of the Levin, Lin and Chut t* obtained for these variables at level were less than the critical values of 5%.

Moreover, the p-values of the Levin, Lin and chut t* statistics computed for BC, CEODUAL, MGT and OWNERS at 1st differences statistics calculated were also greater than the critical value of 5%, hence, it was concluded that the null hypothesis which stated that these variables of the study had common unit root at 1st difference was accepted.

Also, at 2nd difference the p-values of the Levin, Lin and Chut t* statistics computed for EMGT, BS, BC, CEODUAL, MGT and OWNERS of 0.0000, 0.0000, 0.0000, 0.0393 , 0.0000 and 0.0000 respectively were all less than the critical value of 5% and 1% respectively. It might be inferred that all the

variables of the study were stationary (free from common unit root problem) after their 2nd difference. This assumption was due to the facts that after the 2ndt difference the calculated value of Levin, Lin and Chut t* statistics for the variables were all greater than the tabulated values at critical value of; 1% and 5% respectively. This condition satisfied the first step in achieving the panel regression analysis for both fixed and random effect. On the basis of this, null hypothesis of non-stationary was rejected and it was safe to conclude the variables were stationary (this revealed that the behaviour of each of the independent variables on the dependent variable (EMGT) was unique and distinct. On this basis, there was need to test whether the variables of the study were co-integrated or not.

Panel Co-integration Test

Panel data that showed the existence of distinct behaviour of independent variables with the dependent variables might be found to be stationary. Stationary in the sense that each independent variables of the model exhibit unique behaviour with the dependent variable of the model for the purpose of making a reasonable inferences concerning the model. In such a case, the variables are said to be co-integrated, meaning that there is a long-run interdependence among the non-stationary variables. If the tests for Stationary reveal that most of the variables were not stationary, there was need to perform co integration test.

Table 3: *Kao (Engle-Granger Based) Test of Co integration*

Kao Residual Cointegration Test				
Series: EMGT,BS,BC, CEODUAL,MGT, OWNERSCON				
Date: 10/04/21 Time: 22:27				
Sample: 2010- 2019				
Included observations: 600				
Null Hypothesis: No cointegration				
Trend assumption: No deterministic trend				
User-specified lag length: 1				
Newey-West fixed bandwidth and Bartlett kernel				
			t-Statistic	Prob.
ADF			-4.749147	0.0000
Residual variance			21.99436	
HAC variance			13.62406	

Source: Researcher's Computation, 2021

The table above presented the result of co-integration test computed for the variables of the study based on the Kao Residual (Engle-Granger Based) Co integration test. The system set out to determine the number of co integration equations by stating a null hypothesis that there was no co integration among

the model. The result in the table revealed that the p-value of ADF t-statistics computed of 0.0000 was less than the critical value of 5%. Hence, it was safe to conclude that the null hypothesis which stated there was no co-integration equation among the variables of the model was rejected. It might be inferred that Based on the result, that reveals rejection of the null hypothesis, the Kao test concludes that there was a joint stationarity among the variables of the model (co integration). The consistency in the test results confirmed the existence of long-run relationship among the exogenous and endogenous variables in the model.

Pooled Panel Result

Table 4: *Result of pooled panel regression Analysis*

Dependent Variable: EMGT				
Method: Panel Least Squares				
Date: 04/05/20 Time: 22:12				
Sample: 2010- 2019				
Periods included: 10				
Cross-sections included: 60				
Total panel (balanced) observations: 600				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-5.408606	12.68285	-0.426450	0.6710
BS	-2.031120	0.546449	-3.716943	0.0030
BC	1.458258	1.969470	0.740432	0.4613
CEODUAL	-0.889776	0.073876	-12.044182	0.0000
MGT	1.386118	1.775928	0.780504	0.4375
OWNERS	0.889918	0.018871	47.157967	0.0000
R-squared	0.829751	Mean dependent var		9.302200
Adjusted R-squared	0.807439	S.D. dependent var		5.077873
S.E. of regression	3.974263	Akaike info criterion		5.803119
Sum squared resid	1200.402	Schwarz criterion		6.428360
Log likelihood	-266.1559	Hannan-Quinn criter.		6.056165
F-statistic	13.722457	Durbin-Watson stat		1.737452
Prob(F-statistic)	0.000008			

Source: Research's computation, 2021

The table above presented the result of the pooled panel least Square. From the table, the p-value of the t-statistics calculated for Board Size (BS) of 0.0030 was less than the critical value of 5%. This implied that the null hypothesis which stated that BS was not significance on EMGT was rejected. In fact, the p-value of the t-statistics computed for Board Composition (BC) of 0.4613 was greater than the critical value of 5%. The implication of this was that the null

hypothesis which stated that BC was not significant on EMGT was accepted. Also, it could be asserted that there was a significant relationship between Chief Executives Duality and EMGT. This inferred was based on the fact that the p-value of the t-statistics calculated for CEO Duality of 0.0000 was less than the critical value of 5%. Moreover, the p-value of the t-statistics calculated for equity owners of management 0.4375 was greater than the critical value of 5%. This revealed that there was no significant relationship of equity owners of management of the selected firms. Invariably, there was a significant relationship between owners concentration, otherwise called leadership concentration and earnings management of the selected firms financial. This inferred was premised on the fact that the p-value of the t-statistics calculated for non-Executive Directors of 0.0000 was less than the critical value of 5%. It could be asserted that owner's concentration exert a considerable influence on earnings management in the selected firms.

Furthermore, the regression coefficient computed for board size of-2.031120 revealed the fact that there was a negative relationship between board size and earnings management of the selected firms. The implication of this was that a unit increase in board size of the selected firms might lead to a more than a unit reduction in earnings management. This assertion was in line with Ayinla (2012) that revealed that the smaller the structure of board size of an organization the lesser would be earnings management. Consequently, a firm with higher board size might not see the need for it to management its earnings effectively since the bulk of its earnings might be used to maintain over bloated board size. This sign of the coefficient was in line with the expected sign for the variable.

Also, the regression coefficients obtained for board composition, chief executive officers duality, equity owners of management and owners concentration were 1.458258, 1.306118 and 0.889918 respectively. These indicated existence of positive relationship between these parameters and earnings management of the selected firms. This implication was that a unit increase in board composition might lead to a more than a unit increase in the earnings management of the selected firms. This inferred was in line with Asaju (2012) that concluded that effective composition of board of directors by Nigerian firms would go a long way to re-invigorate the right ideas and innovation into the firm for the betterment of their performance. Consequently, the relationship between earnings management and CEO DUALITY of the selected firms was negative. This assertion was based on the fact that the value - -0.889776 obtained for the variable was negative, hence, a unit increase in chief executive officers duality equity might lead to a more than a unit reduction in earnings of the selected firms. This was so because excessive concentration of leadership structure in the hand of one man might lead to mismanagement particularly when the fellow was of unscrupulous character. Therefore, there is need for the management of firms in Nigeria to ensure that their proper

corporate governance was followed in the management of their firms.

The p-value of the F-statistics computed for testing the significance of the joint hypotheses of 0.000000 was less than the critical value of 5%. The implication of this was that the null hypothesis which stated that there was no significant relationship between corporate governance and earnings management was rejected. It might be inferred that there was a significance relationship between corporate governance and earnings management in the selected firms. Moreover, the coefficient of determination (R^2) obtained for the test of 0.829751 indicated the fact that 82.98% of earnings management in the selected quoted firms were as a result of effective corporate governance enshrined in these firms. The Durbin-Watson statistics computed for the test of 1.737452b revealed that there was no autocorrelation among the variables of the study and hence, there was need to carry out the redundant analysis.

Table 5: *Redundant Fixed Effects Test*

Redundant Fixed Effects Tests			
Equation: Untitled			
Test cross-section fixed effects			
Effects Test	Statistic	d.f.	Prob.
Cross-section F	3.823971	(9,85)	0.0004

Source: Researcher's computation, 2019

Therefore, since the panel least square fixed effect test estimation served as the perfect fit for the regression model of Earnings Management on corporate governance it might not be necessary to check the random effect estimation as rightly revealed by Smith (2012). In fact, according to him, the random effect estimation could produce result that might not be the best fit for the model parameters.

Conclusions

The study examines the relationships between corporate governance and the ability of the company to continue as a going concern. The objective is to identify weaknesses or strengths in corporate governance that are associated with the performance of company in terms of continuing the business in the foreseeable future. The researcher examines the components of corporate governance such as board size, board composition, CEO duality, management equity holding, and ownership concentration; going concern problem, that is earnings manipulations. Employing a multiple regression model, the researcher concluded that, there is a great relationship between the corporate governance and the ability of the companies under study to have perpetual existence, as board composition, and management equity holding supports the going concern while the board size, CEO duality, and ownership

concentration show a going concern problem to the tune of about 2% which is very insignificant, Iskandar (2011), Mojtahedzadeh, Seyed Hossein Alavi Tabari, Samane Shafiee (2011), and Sanda (2005).

Recommendations

In line with the above conclusion, the following recommendations were therefore made:

1. The board of directors should ensure complete compliance with ethical standard of accounting profession by guiding against accounting manipulations. Specifically, the office of Chairman and Chief executive officer should be occupied by different person in order to enhance check and balance;
2. A competent small size board of 8 to 15 members should be encouraged, as small size boards are positively related to high firm performance and also to ensure complete compliance to the Code of Corporate Governance 2006.
3. The board independence should be put in place because outside director is considered as a true monitor and can discipline the management and improve earnings per share.

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