THE RELATIONSHIP BETWEEN BOARD CHARACTERISTICS AND EARNINGS MANAGEMENT IN NIGERIAN LISTED COMPANIES

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THE RELATIONSHIP BETWEEN BOARD CHARACTERISTICS AND EARNINGS MANAGEMENT IN NIGERIAN LISTED COMPANIES

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DECLARATION

I hereby certify that the substance of this thesis has not been already submitted to any degree and is not currently being submitted for any other qualifications.

I certify that any assistance received in preparing this thesis and all sources used have been acknowledged and referenced in this thesis.

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DEDICATION

This thesis is dedicated to my beloved mother, Hajiya Ummu-Salma Adam Salihi, may the Almighty Allah Subhanahu Wata'ala continue to protect you and keep you in healthy condition. I wish you long life filled with prosperity.

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ABSTRACT

Board characteristics have been affecting companies' earnings due to managers' efforts to employ several strategies intentionally to manipulate firms' earnings in order to match their predetermined target, and such characteristic may influence the possibility of mispresentation of the reported earnings by managers. The objective of this study is to examine the relationship between board characteristics and earnings management in the Nigerian listed companies. A total of 79 listed companies in Nigerian Stock Exchange are selected and analyzed. Data are solely obtained from secondary sources, using annual reports and accounts of the sample companies for the financial year 2012. The results show that the board size positively and significantly affects earnings management. However, audit committee size is found negative and marginally significant with earnings management. The results suggest that larger board size is not efficient to minimize the tendency of managers to manage earnings and audit committee size should be increased in order to minimize the likelihood of earnings management.

Key words*:* Audit Committee, Board Characteristics, Board Size, Earnings Management

ABSTRAK

Ciri-cirilembagapengarahtelahmemberikesankepadaperolehanfirma keranausahapihakpengurusmenggunakanbeberapastrategiuntukmemanipulasiperolehan firmadenganhasratmencapaisasaranawalyang telahditetapkan, danciri-ciriinibolehmempengaruhikemungkinantersalahlaporanperolehanolehpihakpengurus. Objektifkajianiniadalahmengkajihubungan di antaraciri-cirilembagapengarahdanpengurusanperolehan di syarikattersenarai di Nigeria.Sejumlah79 syarikat yang disenaraikan di Bursa Saham Nigeria telahdipilihdandianalisia.Data diperolehdaripadasumbersekunder, denganmenggunakanlaporantahunandanakaunsyarikatkajianbagitahunkewangan2012.Keputusanmenunjukkanbahawasaizlembagapengarahmempengaruhisecarapositifdansignifikankeataspengurusanperolehan.Walaubagaimanapun,saizjawatankuasa audit didapatimempengaruhisecaranegatifdanhampirsignifikandenganpengurusanperolehan.Dapatankajianinimencadangkanbahawasyarikattersenaraidi Nigeria yang mempunyaisaizlembagapengarah yang lebihbesartidakberkesanmengurangkankecenderunganpihakpengurusdalammengurusperolehandanbahawasaizjawatankuasa audit perluditambahuntukmengurangkankemungkinanberlakunyapengurusanperolehan.

Kata kunci:*Jawatankuasa Audit, Ciri-CiriLembagaPengarah, SaizLembagaPengarah, PengurusanPerolehan*

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TABLE OF CONTENTS

LIST OF TABLES

TABLE NO DESCRIPTIONS **PAGE NO.**

LIST OF FIGURES

FIGURE NO DESCRIPTIONS PAGE NO.

LIST OF ABBREVIATIONS

ABBREVIATION	DESCRIPTIONS OF THE ABBREVIATION
ACE	Audit Committee Expertise
ACS	Audit Committee Size
BOD	Board of Directors
BS	Board Size
CAC	Corporate Affairs Commission
CBN	Central Bank of Nigeria
CCG	Code of Corporate Governance
CEO	Chief Executive Officer
CFO	Cash Flow from Operation
CG	Corporate Governance
COGS	Cost of Goods Sold
CSRS	China Securities Regulation Commission
DACC	Discretionary Accruals
DG	Director General
DI	Directors' Independence
FCMB	First City Monument Bank
GAAP	Generally Accepted Accounting Principles
IFRS	International Financial Reporting Standards
LEV	Leverage
LT	Long Term Debt
MD	Managing Director

NDA	Non Discretionary Accrual
NDIC	Nigerian Deposit Insurance Corporation
NSE	Nigerian Stock Exchange
PHB	Platinum Habib Bank
PLC	Public Limited Company
PPE	Property, Plant and Equipment
R & D	Research and Development
REM	Real Earnings Management
SEC	Securities and Exchange Commission
SGA	Selling and General Administration
TA	Total Accrual
VIF	Variance Inflation Factor

CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Corporate governance characteristics play a crucial and indispensable role in the way quoted companies are managed not only in the Nigerian economy but also globally. It becomes an issue of discussion in accounting literaturewhether management employs some mechanisms to manipulate their reported earnings because managers are presumed to be in a self-interested way. For example, executives may emphasize growth over profitability because their incentives rely on firm size, or alternatively, they may consume excess perks or develop strategies which bond them to the firm, making it difficult for directors to remove them(Gulzar, 2011;Healy& Wahlen,1999; Watts & Zimmerman, 1986).

Global corporate scandals that took its toll with the collapse of once prestigious companies such as Enron and Worldcom reiterated the need for an investigation into the quality of financial reports and increased the clamoring for a better governance mechanism globally. It has been observed that accountants and financial managershave systematic deficiencies in complyingwith accounting standards and governance systems to generate financial information (Bowen, Rajgopal & Venkatachanlam, 2003. In the process of preventingcompanies from failures, most of the countries across the globe introduced new codes of best governance practices to align managers' interest with that of shareholders for maximizing its wealth as theirmain objective.Therefore an effectiveand efficient governancemechanism should be 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 and lead to revising the code of governance in 2011 which come up with some amendments with regards to the board governance characteristics such as size of the board, size of audit committee, separation of the two positions of chairman and chief executive officer.

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

Earnings management is referred to as the efforts of firm managers or executives in manipulating the earnings figures in the financial reports. Though these activities have complied with regulation, these activities can arise from managerial opportunisms to take advantages of compensation plans (Bergstresser & Philippon, 2006; Healy, 1985; Kuang, 2008).For instance, managers can overstate the reported profit in order to demonstrate the firm's out performance and obtain incentive payments such as bonuses or understate the earnings to reduce the current share price in order to obtain more benefits from the employee stock option plan, even though some managers can use earnings management techniques to communicate or convey certain information (Dutta & Gigler, 2002).

Earnings management, according to Lev (1989) represents the end of product of a company and has been recognized as the distinct central item in financial statement which exclusively indicates the amount of value added activities of a company. Categorically, earnings management was viewed as the reasonable and legal management decisions and reporting which is intended to achieve stable and predictable financial result. Earnings management is not to be confused with illegal activities to manipulate financial statement and reports result that do not reflecting economic activities popularly known as "cooking the books" which involves mispresentation of financial result, as such many executives face a serious pressure to cross the line from earnings management.Beattie et al. (1994) opine earnings management as an active manipulation by managers to reduce the earnings variability over a number of periods or within a single period towards a predetermined target which is one form of income smoothing.

Earnings management was also viewed as strategy used by companies' managers to deliberately manipulate company's earnings to match a predetermined target and involves the planning and execution of certain activities that manipulate or smooth income, achieve high earnings level and sway the company's stock price. It was furthered argued that cash based earnings management involves the manipulation of fundamental economic operation and cash flow activities of an organization in order to beautify or smooth earnings and to sway the share price of an organization to reveal a departure from normal operational practices, motivated by managers' desire to at least mislead some stakeholders into believing that certain financial reporting goals have been met in the normal course of operation (Okolie et al., 2014) .

According to Subramanyam (2014) earnings management can be defined as the purposeful interventions by management in the earnings which are usually done to satisfy selfish objectives. It is often involves window-dressing financial statements, especially the bottom line earnings numbers. Earnings management can be cosmetics, where managers manipulate accruals without any cash flow consequences. It also can be real, where managers take actions with cash flow consequences for purposes of managing earnings, and cosmetics earnings management is a potential outcome of the latitude in applying accrual accounting. Accounting standards and monitoring mechanisms would reduce this latitude. Yet it is impossible to eliminate this latitude given the complexity and variation in business activities. Moreover, accrual accounting requires estimates and judgments. This yields some managerial discretion in determining accounting numbers. While this discretion provides an opportunity for managers to reveal a more informative picture of a company's business activities, it also allows them to window–dress financial statement and manages earnings.

Earnings management can take two forms: changing accounting methods, which is a visible form of earnings management; and changing accounting estimates and policies that determine accounting numbers, which is a hidden form of earnings management (Subramanyam, 2014).

Several studies explored the relationship between board characteristics and earnings management both in the developed and developing economies are quite impressive.Therefore, the relationship between governance mechanisms and financial reporting quality or opportunistic accounting have been considerably discussed. Quite a number of these studies conclude that good governance mechanisms can impact on the discretionary behavior of managers (Warfield, Wild &Wild, 1995: Klein, 2002). More so, previous studies documented evidences that different boards characteristics such as board size, independent outside directors, CEO duality, audit committee characteristics, among others, engage less frequently in earnings management through abnormal discretionary accruals (Klein, 2002;Xie, Davidson & DaDalt, 2003;Visvanathan, 2008; Alves, 2011; Hassan & Ahmed, 2012; Kang & Kim, 2012; Okolie, 2014; Mather & Ramsy, 2006; Hutchinson & Percy, 2008; Chang & Sun, 2010;Uadiale, 2010, 2012). But other studies also argued that such characteristics are associated with high opportunistic accounting manipulation (Iqbal & Strong, 2010; Lai & Tan, 2004; ZhanG, Mahelhiran & Huang, 2012; Gulzar & Nang, 2011, Hassan & Ahmed, 2011; Yan, Lai & Tan, 2004).

Based on the above prior studies reviewed, it is observed that there are different means of detecting earnings management and measuring its quality, which have several implications depending on the approaches used by corporations' managers. As such, the researcher wishes to do an examination of board characteristics and its effects on the earnings management on the Nigerian quoted companies.

1.2 PROBLEM STATEMENT

Nowadays, the quality of companies earnings reported happen tobe anissue of vast concern, organizationmay use "big bath" such as restructuring charges, premature revenue recognition, reserves and write-offs of purchase in process of research and development. These practices perhaps threaten the credibility of financial reporting" as well as the company's ability to audit the quality of their earnings in order to effectively restricts income manipulation or earnings management. Considering the recent corporate financial accounting scandals reported by Badawi (2008) that many companies have involved in accounting scandals as a result of poor audit quality and accounting manipulation in the United State of America.

However, in the Nigerian context accounting scandals and fraudulent issues are many such as the case of FCMB and their Chief Executive Officer, Keystone Bank(former

Bank of PHB) and their Managing Director, Fin Bank and their Managing Director, Nigeria Maritime Administration and Safety Agency (NIMASA) and their Director General, First Bank and their Chief Executive Officer, Bank of the North (Now merged in Unity Bank) and their Managing Director, Cadbury Nigeria Plc, AfriBank Plc, and Oceanic Bank Plc are well recognized publically accounted cases that resulted in misleading financial reports, as such there is need to ensure the quality of accounting income.

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

Okolie et al. (2014) revealed that investors' focus was on cash flows rather than income statement because sufficient cash flows are required to maintain company's profitability and viability because company's failures may lead to company's bankruptcy. Therefore, shareholders/investors make use of cash flow statement for decisions making, as such managers use their intelligence to get involved in cash based earnings management in order to provide opportunities for influencing the true pictures of organization's cash flow. This is one of the reasons why most of the executives have preferred to engage in cash earnings management than accrual earnings management because accrual earnings management have greater tendencies to draw the auditors' and regulators' attention than cash based earnings management, such as expenses incurred on R&D, promotions, pricing, etc.

Furthermore, Okolie et al. (2014) have investigated the association of audit quality and earnings management focusing on audit firm size, audit fees, auditors' tenure, and audit client importance. However, this study ignored variable like audit committee expertise and competence, which is considered by the literature as an important elements of effective audit(Abbott, Parker, Peters, & Raghunandan, 2003). Although earnings management can be of either advantageous or disadvantageous to the firm value depending on how managers make use of it, there is no specific direction to establish its effects. This study aimsat determining whether corporategovernance mechanisms (i.e. board characteristics: board size, directors' independence, CEO duality, audit committee size, and audit committee expertise) can significantly minimize the negative and/or disadvantageous effects of earnings management of listed companies in Nigeria.

1.3 RESEARCH QUESTIONS

The research questions of the study are as follows:

1. Does board size influence earnings management?
2. Does directors’ independence affect earnings management?
3. Does CEO duality influence earnings management?
4. Does audit committee size affect earnings management?
5. Does audit committee expertise influence earnings management?

1.4 OBJECTIVES OF THE STUDY

The objectives of this study are:

1. To examine the relationship between board size and earnings management.
2. To examine the relationship between directors’ independence and earnings management.
3. To examine the relationship between CEO duality and earnings management.
4. To examine the relationship between audit committee size and earnings management.
5. To examine the relationship between audit committee expertise and earnings management.

1.5 SCOPE AND LIMITATION OF THE STUDY

According to Peterside (2003) (cited in Ujunwa, Salami and Umar, 2013), Securities Commission launched a committee for the Code of Best Practices for Public Companies in Nigeriato be adopted in the year 2003 and then revised in the year 2011. As such the scope of this studycovers listed companies in the Nigerian Stock Exchange (NSE) (see appendix 1) for the period of 2012 as one year study to assess the effectiveness of revised version of Corporate Governance Code 2011. The study therefore is expected to cover five of the key governance variables (board size,directors' independence, CEO duality, audit committee size and audit committee expertise) and its relationship with earnings management.

However, like all other researches, this studyhas it own limitations which may hinder the scope and generalization of the result. The major short coming to this study is the sample of the study. In the beginning this research intent was toinclude all quoted companies of the NSE. However, it excludes companies without audit committee and consolidated financial statement. This is due to time constraints and availability of data, since this study absolutely relies on the data of companies quoted on the NSE. Therefore, companies that are not listed on the NSE was excluded, hence the result of the study was restricted to only listed companies.

1.6 SIGNIFICANCE OF THE STUDY

1.6.1 Social/Practical Implication of the Research

This study could be of immense values to company's investors/shareholders, auditors, and regulators such as Corporate Affairs commission, Nigerian Stock Exchange, Security and Exchange Commission, Central Bank of Nigeria, etc. Theresults of this study will also help in decision making process particularly to shareholders on whether to increase the number of independent directors and audit committee members. In addition auditors could use the findings of this study in identifying areas with high audit risk in conducting their duties, since information provided in the financial statements can be relied upon.

1.6.2 Scientific /Theoretical Implication of the Research

This study will also be beneficial to the academics and students in accounting discipline, by improving and/or building more on some of the board characteristics effects on the earnings management. The study will provide more insight on understanding the degree to which board characteristics influence the earnings management. Finally, this research will be used as afact/reference for future studies.

1.7 ORGANISATION OF THE STUDY

This research is organized in five chapters, chapter one is the introduction, chapter two is the review of the related literature, chapter three is the methodology employed in this study, while chapter four is the results and its discussions, and finally chapter fiveis conclusion as well as recommendations.

CHAPTER TWO

LITERATURE REVIEW

2.1 INTRODUCTION

This chapter reviews the work of past researchers and scholar's views. It is in this chapter that an intellectual excursion will be taken into the existing knowledge of the study. This is aimed at reviewing the extent of their contributions and findings and to identify the research gap. This chapter also reviews empirical studies on corporate governance and earnings management.

2.2CORPORATE GOVERNANCE

According to Capital Market Board (2003), investors take into consideration the impact of corporate governance on the investment decisions and they will be more equipped to give high premium to organizations with a good governance practices. Therefore, this suggests a clear relationship among governance implementation and firm's level financial performance. Performance of an organization is strongly connected to good governance practices. Firms with such characteristics have a greater working performance than those with otherwise. Moreover, good corporate structure can create a considerable importance not only to separate corporate performance but also to national economic performance, as such good governance system yields a positive reward for business enterprises in particular, as well as the nation in general.

The need for good corporate governance arises because owners of corporation (who are also providers of funds) are usually separated from managers of such corporation even when the owners of corporation form part of the management (especially in the board of directors when institutional investors own controlling shares in the company). Therefore, there is need to protect the interest of individual stakeholder. Corporate Governance involves the allocation of authority and responsibilities by a company's board and management including how they set the firm's objectives and strategy. It also establishes the firm's tolerance of risk, functioning of firm's business on a day-to-day basis, meets shareholders obligation and takes into account the interest of other recognized stakeholders and how they align corporate activities and behaviors with the expectation that firm's market operators and regulators will operate in a safe and sound manner with integrity and in compliance with applicable laws and regulation (Uwuigbe, 2011).

According to Hamid (2011), there is no general and accepted definition of corporate governance, which enjoys consensus of opinion in countries globally. Corporate governance is viewed in different ways depending on the relative power of owners, managers and providers of funds. Therefore, there are a numbers of studies and scholars who viewed the concept in different perspective

Corporate governance has been defined by various scholars and practitioners in different and variety of ways, for examples the Organization for Economic Corporation and Development (OECD) (1999) defined corporate governance as a system in place for which companies are managed and directed. Upon this system that specifications are given for the division of role and responsibilities between parties, including the supervisory board, the shareholders and management and board of directors, and formulation of rules and procedures governing the conduct of decision making as well as corporate matters.

Nicholas (2006) (cited in Geoffrey et al. 2005) described corporate governance as the association of an enterprise to shareholders or in a wider sense as the connection of the enterprise to the general society. Meyer (1999) viewed corporate governance as the summation of the procedures, formations and information adopted for directing and supervising the management of an organization. Accordingly, Arun and Tuner (2002) described corporate governance as the mechanisms through which shareholders are assured that managers will act in their interest.However, Shleifer and Vishny (1997), Vives (2000) and Oman (2001) observed corporate governance in a broader approach which suppliers of finance exercise control over managers in order to ensure that their capital would not be expropriated and they can earn a return from their investment.

According to Cadbury Report (2002), corporate governance is a uniquely complex and multi-faceted subject. Devoid of a systematic or unified theory, its paradigm, diagnosis and solutions lie in multidisciplinary fields, which cover accountancy, economics, finance, among others (Uwuigbe, 2011). Maher and Anderson (1999) and Craig (2005) consider corporate governance from two different perspectives: the shareholder model and the stakeholder model. From the shareholder model, corporate governance is used to explain the formal system of stewardship of the board to the shareholders, while under the stakeholder model, corporate governance is used to explain the network for the relationships among organization and its different stakeholders.

In line with various definition of corporate governance, this study therefore adopts a wider approach in defining the concept of corporate governance in the context of Nigerian business. Therefore, it sees corporate governance as an approach in which systems, procedures, processes and practices of managing Nigerian companies with the motive of permitting positive relationship and the exercise of power in managing resources so as to enhance shareholders' value and improve satisfactions with accountability of resource and its transparent administration. Therefore, this study considers corporate governance as a mechanism or a tool used to reduce managerial opportunism, since firms with poor corporate governance are more vulnerable to managerial opportunism.

Most of the corporations in Nigeria are usually quoted in the Nigerian Stock Exchange (NSE) which is the most visible symbol of capital market of any economy. It is generally accepted that NSE is the barometer of the economy gauging its general state of health, thus if corporations on account of their good governance practices are quoted on the Nigerian Stock Market it will reflect the corporation's value.

Studies have been done to establish the relationship of corporate governance and earnings management practices. Tangjitporn (2013) found that corporate governance reduces the negative effects of accounting manipulation. Firms with lower corporate governance score face negative effects of accounting manipulation, whereas firms with higher corporate governance score face a less-negative effect from accounting manipulation. Therefore, corporate governance plays a significant role in assessing accounting manipulation effects. Leventis (2012) also finds convincing evidence that banks with efficient corporate governance mechanisms report small positive income to a lesser extent than banks with weak governance efficiency. Well governed banks engage less in aggressive accounting manipulation behavior through the use of discretionary loan, loss provision and realized security gains and losses. Therefore, this implies that income smoothing depends on the governance mechanisms.

Bekiris and Doukakis (2011) in their study on corporate governance and accruals accounting manipulation in Spain suggested that firms which apply high levels of corporate governance standards are less likely to manage their earnings, this resulting higher earnings quality. Yang, Tan and Ding (2012) also suggest that income smoothing is more severe when the state is the controlling shareholders of the Chinese listed firm, and firms with more independent directors are more likely engage in earnings management.

Therefore, it is observed that board of directors also plays an important role. Thus, the (BCR 1996) (cited in Chtrourou and Berdard, 2001) states that independent audit committee should be established, and urges the board of directors to play an active role in the process of financial reporting. Based on their suggestion five (5) board characteristics are investigated in the current study: board size, directors' independent, CEO duality, size and expertise of audit committee.

2.3 UNDERPINING THEORIES

2.3.1 AGENCY THEORY

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

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

Therefore, agency theorists focus on resolving those problems arising from agency relationship, emanated as external in nature from the asymmetry of information (Pengola, 2005). In addition, these problems might have arisen among three (3) parties, thus: owners and top managers, and minority shareholders as well as the shareholders and creditors (Heinrich, 2002). Therefore, the researcher observes that one of the measures to consider in eliminating and/ or minimizing asymmetry between internal and external members of the boards is audit committee. As an essential aspect for the decision controlling system in order to monitor internal affairs of the board of directors, audit committee can reduce the agency problem (Eichenseher & Shields, 1985; Fama, 1980; Fama & Jensen, 1983).

Therefore, it is expected that good and effective audit committee will minimize the level of accounting/earnings management, as such this study examines whether audit committees characteristics (i.e. audit committee size and audit committees expertise) have effects on the earnings management for Nigerian listed companies.

2.3.2 DEBT COVENANT HYPOTHESIS

Debt covenant hypothesis explains how plan to limit managers from employing investment and financing decision reduces value of creditors' claim. These covenants were frequently based on accounting/financial information, and misuse of these covenants is expensive. Hence, managers of firms that are close to violating the debt covenant are expected to make accounting choices that reduces the possibility of default (Butt, Chamberlain, & Sarkar, 1990).

Dichev and Skinner (2000) perceived debt covenant as a hypothesis which usually associated with the Positive Accounting Theory (PAT), that have two major propositions, namely: that managers utilize their accounting/financial judgment to maximize their incentives (the bonus plan hypothesis) and decrease the cost of government and regulatory incursion and lapses (the political cost hypothesis). However, Generally Accepted Accounting Principles (GAAP) requires a fair judgment in the preparation of financial statement, such as decisions in relation to account receivables, appropriate allocation of cost of equipment. However, to the outsiders these decisions might have created information asymmetries, though the issues of consistency and comparability may arise, therefore accounting choice may intervene (Watts & Zimmerman, 1986) as such managers can select accounting method in their own interest. In addition, several studies find evidences on the reasons that permit accounting choices, such as GAAP, accounting theories, among others (Watts & Zimmerman, 1979). However, it should be noted that not all accounting choices involve earnings management, hence its concept goes beyond accounting choices although the implications of accounting choices are consistent with that of earnings management (Fields, Lys & Vincent, 2001).

2.4 BOARD CHARACTERISTICS AND EARNINGS MANAGEMENT

2.4.1 BOARD SIZE

According to the SEC, Code of Corporate Governance 2003, all listed companies in the NSE should have a sufficient board size relative to the scale and complexity of the company's operation and be composed in such a way to ensure diversity of experience without compromising independence, compatibility, integrity and availability of member to attend meeting. The size is stated should not be less than five (5) comprising ofexecutives and non-executives members.

The size of members included in the companies' board of directors is a vital aspect in assessing the efficiency of such board (TSE, 1994). Adversely, accounting and finance literature suggest disagreement concerning the trend of the correlation among size of the board and its efficiency. Smaller boards are not expected to perform efficiently (Jensen, 1993), while a larger board presents enhanced environmental links and more competence

(Johnson, Daily, & Ellstrand, 1996). Beasley (1996) discovered positive relationship between board size and the possibility of financial statement mispresentation, but Abbott, Park and Parker (2000) argued that there is no relationship between board size and financial statement fraud.

Gill and Mathur (2011) argue larger size is negatively related to firms' profitability. Abdul-Rahman and Mohamed (2006) considered the degree of board efficiency in supervising function of board of directors and reducingearnings management. The result showed earnings management is positively related to board size. They further suggest higher boards are inefficient in supervising duties than lesser boards. Anderson et al. (2003) posit inverse relationship between cost of debt and board independence as well as board size, and this result is consistent with the result of Conyon and Peck (2014) suggesting an inverse relationship. Cheng (2006) suggest firm with larger board size have lower variability of corporate value, as such board sizes are negatively related to corporate value. Contrarily, Lin (2007) argues that a company with high degree of diversification and debt leverage is positively related with board size. Thus, inconsistent findings have been documented in the relationship between board size and corporate earnings management measures.

Ali, Salleh and Hassan (2010) examine relationship between managerial ownership and managing earnings activities among listed firms in Malaysia within the periods of 2002 as well as 2003. The result shows a negative relationship between board size and managing earnings practices. Similarly, Dimitropoulos (2011) analyzes the effect of size of the board, directors' independence, among others on the earnings management among football clubs companies in some selected Europeans Union countries. The result from 268 firm year observations shows that size of the board is positively related to earnings management. Nahandi, Baghbami and Bolouri (2011) study the power of board of directors, such as size of the board, board independence and chairman duality on earnings management for the 480 observations from 2001 to 2008. The result shows that size of the board is positively and insignificantly associated to earnings management. Aygun, Ic and Arvas (2010) ascertain the relationship between board governance and managing earnings activities. The result shows a negative relationship between size of the board and earnings management.

Nor Haron, NikSaleh and Abdulrashid (2011) ascertain the relationship between the percentage of family members on board and managing earnings activities among the sample of 236 listed companies in Malaysia for the year 2009. The regression analysis result revealed that size of the board is positively related to earnings management. Emna, Trabelsi and Mataousi (2011) observe the interaction between directors' independence, size of the board and real window dressing among the sample of 4170 U.S Initial Public Offering (IPO) during 1998 to 2011. The result indicates size of the board is negatively related to earnings management.

2.4.2 DIRECTORS' INDEPENDENCE

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

Independent directors are usually regarded in a better position to supervise the corporations' activities than other executives because since they have the "ability to act with a view of the best interest of the organizations". In addition, independent executives have enticement to build up a reputation as professionals in monitoring and controlling (Fama & Jensen, 1983).

Several studies displayed relationship between the board independence from management and the board's supervision efficiency. Beasley (1996) discovered negative relationship between the percentages of independent members and the possibility of fraud. Dechow, Sloan & Sweeney (1996) posit that firms with large proportion of non-executive members are less expected to employ earnings enforcement behaviors by the SEC for alleged GAAP violation. Habbash, Xiao, Salama and Dixio (2014) examine whether independent, and/or accounting expertise as well as the higher percentage of non-executive directors is related with managing earnings activities. The result shows that board dominated by non-executive directors fails to mitigate earnings management, which implies negative relationship. Mulgre and Forker (2006) ascertain therelationshipbetween board governance and earnings management in U.K. With focus on the non-executive directors on board, finding shows that directors' independence is positively and significantlyrelated toearnings management. Wang, Chuang and Lee (2010) consider the effects of board of directors' characteristics on earnings management for the Taiwan listed securities market companies. The result found that independent directors' has negative relationship with earnings management. Baccouche and Omri (2014) assess the effect of multiple relationships between boards' independence and earnings management for the French listed firms. The study sampled 90 non financial companies for the year 2008. It appears that board dominated by outside directors may increase the level of earnings management, which implies positive relationship. Sun and Lin (2013) also investigate the association of the effects of audit with industry concentration and board characteristics on earnings management activities in United States. The results show that managing earnings activities is negatively related to directors' independence.

2.4.3 CEO DUALITY

The CEO duality was described as the situation whereby companies separated the two positions of Chairman and CEO, and such offices been held by different persons in order to evade concentration of power in individual, because holding the two position single person may rob the board of the required checks and balances in the discharge of duties (SEC- CCG, 2003).

The CEO duality is highly considered when assessing the quality of earnings reported, since the two posts of CEO and chairman played a significant role in minimizing the possibility of accounting enforcement by SEC for alleged violation of GAAP (Cadbury, 1992; Exchange, 1998). As such it is suggested that the roles of Chairman and CEO should be allocated to different persons (Fama & Jensen, 1983).

However, empirical evidence on CEO duality is mixed. An analysis of the association among chairman duality and performance of the firm suggests that CEO duality is positively associated with performance of the firm (Moscu; Yang, Lai, & Tan, 2008).

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

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

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

Mohamad, Rashid and Shawtari (2012) ascertain the effect of the tapering governance mechanisms such as board meetings, CEO duality on the earnings management activities for Malaysian Government Link Companies (GLCs) taking into account pre and post revolution period. The result shows that chairman is negatively affecting accounting manipulation activities. Johari, Saleh, Jaffar and Hassan (2008) study the functions of independent members on board, chairman's duality. The result shows CEO's duality is negatively related to earnings management.

2.4.4 AUDIT COMMITTEE SIZE

Audit committee (AC) is a committee to be established by all listed companies in the Nigerian stock exchange, which is charged with the responsibility of overseeing the integrity of financial statements produced by the companies, as well as its compliance with legal requirement (SEC-CCG, 2003).

Sun, Lan and Liu (2014) explore the efficiency of independent audit committee characteristics in mitigating the level of earnings management activities for United States firms. The study sampled 5037 firms' year observation for the period of 2007 to 2010. The result shows that size of the audit committees have positive relationship with earnings management. Nugroho and Eko (2012) re-assess effects of audit committee, CEO duality, board size, among others, on the earnings management of Indonesian securities market companies for the period of 2004 to 2008. The overall result shows that size of the audit committee is positively and insignificantly affecting earnings management practices. Similarly, Soliman and Regab (2013) discovered that size of audit committee has insignificant relationship with earnings management in negative direction.

Kim and Yoon (2005) analyze whether there is progress by board governance mechanisms in limiting managing earnings practices among Korean listed companies between the period of 2004 and 2005. Its result reveals that size of the audit committee is positively and insignificantly related to earnings management. Hamdam, Al-Hayale and Aboayela (2009) explore the effects of AC's and its financial expertise on earnings management among the sample of 50 Jordanian listed industrial firms for the period of 2004 to 2009. The study used pooled data analysis, and the result appears that size of the audit committee is negatively and insignificantly related toearnings management. Chandrasegaram, Rahimansa, Rahman, Abdullahi and Nik Mat (2013) ascertain the effect of audit committee size, independence and its meetings among 153 public listed Malaysiancompanies for the period of 2011. The result shows negative relationship between size of the audit committee and earnings management.

2.4.5 AUDIT COMMITTEE EXPERTISE

The role of audit committee members with financial literacy is to read and interpret the companies' financial statements, as well as given professional advices where necessary to the company (SEC-CCG, 2003). Cadbury Report 1992 posits that the financial proficiencies of the audit committee members is a vital issue for companies' governance in order to assess the efficiency of the board (Beasley, 1996; Gerety & Lehn, 1997).

Carcello, Hollingsworth and Klien (2006) study the association of financial expertise of audit committee and earnings managementwhich suggests that firms with weak alternate corporate governance mechanisms can reduce earnings management when using financial and non-financial expertise. Therefore, accounting or financial experts are effective way of monitoring of financial reporting process, so as to increase reporting quality and decrease earnings management. The findings concluded that there was any relationship between auditors expertise and earnings management. However, Badoloto et al. (2013) argued that audit committee with financial expertise and high relative status is more effective at deterring earnings management as measured by both accounting and accounting irregularities and abnormal accrual. Regulatory pressures to increase financial expertise may have decreased the ability of some audit committees to deter earnings management.

Meca-Garcia and Ballesta–Sunchez (2009) study the effects of board of directors on accounting manipulation. The result shows a positive relationship between audit committees expertise and earnings management. Liu and Sun (2010) investigate whether directors' tenure on the independent audit committee effect earnings and reporting quality in United State for the sample of 7700 observations within the period of 1998 to 2005. The result discovered audit committees expertise based on tenures have a negative relationship with earnings management. Kuang (2007) examines the relationship between independence of audit committee, its expertise, shareholding of directors on audit committee, as well as the multiple of directorship detained by directors on the audit committee and earnings management among a sample of 150 New Zealand listed securities market companies for the periods of 2004 and 2005. The result of the study found that an audit committee member with financial expertise is positively related to the earnings management. Velte and Stiglbauer (2013) explore whether the execution of audit committees and independent members with financial expertise among the sample of 160 German listed companies for the periods of 2002 to 2009. The result shows a significant negative relationship between the independent audit committee expertise and earnings management.

2.5 SUMMARY OF THE CHAPTER

This chapter mainly focuses on previous studies that had investigated board characteristics and empirical studies which provide evidence on factors influencing earnings management: board size, directors' independence, CEO duality, audit committee size and expertise. From these studies it can be inferred that limited studies examined audit committee size and financial expertise as the explanatory variables for earnings management.

CHAPTER THREE

RESEARCH FRAMEWORK AND RESEARCH METHODOLOGY

3.1INTRODUCTION

This chapter discusses methods employed in obtaining the data needed for carrying out this research work. It also discusses various methods used in analyzing the data obtained in order to answer the research questions.

3.2 THEORETICAL FRAME WORK

The framework shown in Figure 3.1 below explains association among the independent variables and dependent variable, based on what have been mentioned in chapter two. This study examinesthe effect of board characteristics (board size, directors' independence, CEO duality, audit committee size, and audit committee expertise) on earnings management. All variables and the development of hypothesis are discussed in the following sections.

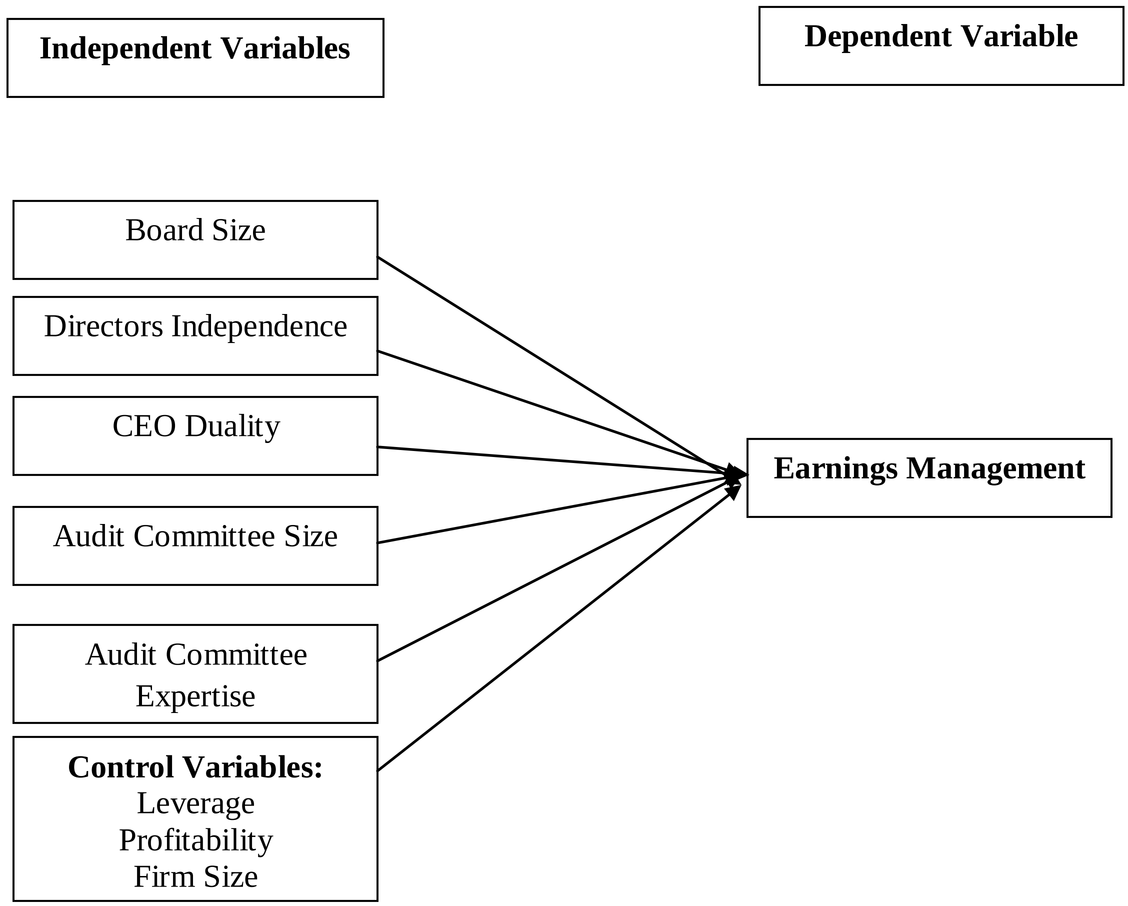

Figure 3.1*Research Framework*

3.3 HYPOTHESIS DEVELOPMENT

A hypothesis is a report of the relationship among two or more variables, which are always in form of sentence serves as a guide for the investigation in the entire process of research endeavor.Five hypotheses were developed to examine five independent variables that would give an impact on the dependent variable. Recent evidence suggests that an important element of board characteristics is unexplained (Okolie et al. 2014). Therefore, incorporating such variables in examining board characteristics to assess its impact on the earnings management deserved to be studied. For this reason, the subsequent hypotheses are developed to analyze the studied variables.

3.3.1 BOARD SIZE

According to agency theory, board size of a firm is organized depending on the scope and complexity of the firms' production process, that is to say larger complex processes lead to the larger firms (Fama & Jensen, 1983).Firms with larger board size are expected to have more experts and resources which would benefit the firms. Abdulrahman and Mohamed Ali (2006) observed that board characteristics have effect on earning management. However, some studies suggested that smaller board that ranges from four to six members may have more effective decision(Pearce & Zahra, 1992)

Ghosh, Marra and Moon (2010) investigate board size and earnings management. The result found that size of the board is positively related toearnings management. Chekili (2012) also found size of the board is positively relatedto earnings management in Tunisian firms. Kumari and Puttana (2014) examine board characteristics as control mechanisms for managing earnings. The result shows that size of the board is positively and significantly associated to earnings management practices.

Similarly, Zgarni, Halioui and Zehri (2014)assessed the interactions of BOD characteristics in mitigating the level of accounting manipulation in emerging market. Result of the study found a positive and significant relationship between size of the board and earnings management. Kyereboah and Biekpe (2007) re-examine the determinant of board size and its composition, the result shows that size of the board is positively relatedtoearnings management. Supawadee, Yarram and Farooque (2013) also found that size of the board is positively related toearnings management in Thailand quoted companies. Therefore the hypothesis is constructed as follow:

H1: There is a positive relationship between board size and earnings management.

3.3.2 DIRECTORS INDEPENDENCE

Directors' independence was defined as the number of non-executivesdivided by total number of executives on board of directors (Klein, 2002; Xie, Davidson & DaDalt, 2003).According to agency theory there is need to raise the board independence from management of the organization, as such board should be ruled by outside directors, suggesting that independent directors are needed to monitor and control the action of the executives whose behavior have been exposited by Jensen & Meckling (1976) as "opportunistic". Therefore,the existence of directors' independence is expected to improve the quality of the decision making process(Abdulrahman & Mohamed Ali 2006).Agency theory also described that valuable boards would be invented mainly by outside non-executive directors occupying managerial position on other companies (Fama & Jensen, 1983; McColgan, 2001). Thus, corporate board should generally include outside member that hold a majority of the seats (Fama & Jensen, 1983).

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

Supawadee et al. (2013) study board independence and earnings management and the result showed a positive relationship between directors' independence and earnings management. Amer and Abdelkarim (2010) studied the association among governance characteristics and managing earnings activities and found directors' independence had a positive significant relationship with managing earnings activities. Additionally, Zgarni et al. (2014) also found a positive significant relationship betweendirectors' independence and earnings management, suggesting that board with larger percentage of independent directors increased the level of earnings management.

Kim and Yoon (2008) analyzed the impact of board governance on earnings management. The result showed that directors' independence was positively and significantly affecting earnings management activities. In addition, Veronica and Bachtiar (2014) investigated the interaction of board governance and earnings management practices. The result found to have positive and significant relationship between directors’ independence and earnings management.

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

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

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

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

3.3.3 CEO DUALITY

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

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

Ugwuigbe, Peter and Onyeniyi (2014)studied the effect of governance mechanisms on earnings management. The result showedCEO's dualities had a positive and significant effect on earnings management. Solimon and Ragab (2013) examined the board of directors' attributes on managing earnings practices and reported positive and significant relationship between CEO duality and earnings management.

Some of the previous studies showed inconsistent results of positive and negative relationship such as Saleh, Iskandar and Rahmat (2005) examined the efficiency of board attributes on earnings management. The results revealed that CEO dualities had a positive significant relationship with earnings management practices. Chekili (2012) also found that CEO duality was positively related toearnings management. Similarly, Zgarni et al. (2014) found a positive relationshipbetween CEO duality and earnings management. Supawadee et al. (2013) discovered CEO duality had a positive relationship to earnings management.

Kumari and Puttana (2014) examined the role of board characteristics on managing earnings practices and found a negative association between chairman duality and accounting manipulation. Similarly, Mohamad et al. (2012) revealed that CEO duality had a negative relationship with managing earnings practices. Johari et al. (2008) also found that CEO duality was negatively relatedto earnings management. Based on agency theory hypothesis is constructed as follows:

H3: There is a negative relationship between CEO duality and earnings management.

3.3.4 AUDIT COMMITTEE SIZE

Companies listed in theNigerian Stock Exchangeare required under Section 359 (3) and (4)of the (CAMA, 1990) to establish an audit committee, comprising three (3) directors and three (3) shareholders' representatives making a total number of the committee members to be six (6).According to SEC Code of Corporate Governance 2003, audit committee should consists not less than three directors of which independent directors should have the majority, and the committee is chaired by independent non-executive director.Cadbury Committee (1992) and Al-Matari, Al-Swidi, Fadzil and Al-Matari (2012) described the size of audit committee as a characteristic that is regarded to be significant for the successful discharge of its duties. The size of at least of three (3) executives has been suggested by corporate governance reports (BRC, 1999; New York Stock Exchange, 2002; CMA, 2006).

Several empirical studies were conducted in different context, and the result showedcontradicting findings, such as Veronica and Batchtar (2005) that studied the relationship between board governance and earnings management. The findingsof the study reportedthat audit committees' size had a positive significant relationship with the level of earnings management. Piot and Janin (2007) also found positive significant relationship between audit committee size and earnings management.

Ghosh et al. (2010) also studied the association of corporate board characteristics and earnings management and found that size of the audit committee was positively related toearnings management. The finding also suggested that firms with smaller audit committee would have larger earnings management practices. Visvanathan (2008) studied the association of audit committee and accounting manipulation. The results finding showedthat audit committees' size had a negative significant relationship with the level of earnings management. Alves (2011) also studied the association between board characteristics and earnings management. The result showed that size of the audit committee was negatively related to earnings management. Similarly, Soliman and Regab (2012), Hamdan et al,(2009), Hutchinson and Percy (2008), and Chandrasegaram et al. (2013) found audit committee size had negative relationship with earnings management. Therefore, hypothesis is constructed as follows:

H4: There is a negative relationship between audit committee size and earnings management.

3.3.5 AUDIT COMMITTEE EXPERTISE

The Sarbanes-Oxley Act as cited by Anderson et al. (2003) mandated that at least one of the members serving audit committee should be "financial expert". According to the Act, financial expert was considered to consist ofdirectors with educational and/or occupational experience in applying Generally Accepted Accounting Principles (GAAP).

Subsequent to the establishment of audit committee as required by Nigerian Securities Exchange Commission, it has been also required that such committee should have at least one (1) member who is financially literate (CAMA, 1990). According to Deloitte audit committee brief (2012), audit committee members expertise can be measured when a member(s): has ability to understand financial statement and GAAP. Additionally, such membermust have ability to assess and examine the relevance of GAAP in relation to financial accounting, auditing, annual reports and accounts among others(SEC, 2012).

Chan, Faff, Khan and Mather (2013) ascertained the relationship between directors' independence reputation and financial expertise of audit committee on earnings management. The result found a positive and significant relationship between expertise and earnings management. Lisic, Neal and Zhang (2011) found a mixed or contradicted results between audit committee expertise and earnings management, observing significant relationship when there was strong and/or powerful CEO, while suggesting insignificant correlation between audit committee expertise and earnings management when there was weak/low powerful CEO. Kiryato (2014) found positive association among audit committee size and expertise toearnings management. Metawee (2013) also discovered audit committeewith financial expertise to be having positive relationship with earnings management.

Velte and Stiglbauer (2011) studied the association between audit committee independence and their expertise with earnings management. The results revealed that audit committee expertise was negatively related to managing earnings practices. Carcello et al. (2010) also discovered audit committee with financial expertise had negative relationship with earnings management. Similarly, Liu and Sun (2010) found audit committee expertise had negative relationship with earnings management.The hypothesis is as follows:

H5: There is a negative relationship between audit committee expertise and earnings management.

3.3.6 CONTROL VARIABLES

To control the relationship of other factors which possibly relatedto earnings management, this study employed three (3) control variables in the regression model: leverage, profitability and firm size. For the companies with high or strong firm size managers tend to manipulate earnings, perhaps for the political reasons. Therefore,companies with debt covenant have a greater incentive to engage in earnings management to avoid debt covenant violation. As such, the study predicts positive relationship between earnings management and leverage, and mixed of predictions among earnings management with profitability and firm size.

3.4MEASUREMENT OF THE VARIABLES

3.4.1 DEPENDENT VARIABLE

Discretionary accruals were used as a proxy to establish the extent of earnings management. Discretionary accruals are derived by deducting non-discretionary accruals from total accruals. Non-discretionary accruals are projectedusing a regression model that regress total accruals on several explanatory variables.

The most accepted accrual model is that of Jones (1991) model, which is able to decompose accruals into discretionary and non-discretionary, when changes in sales are adjusted for the changes in receivables. The Jones model is planned to minimize the measurement error of discretionary accruals when discretion is pertained over sales. The study of Dechow et al. (1996) suggests that Jones (1991) model offersthe most powerful test of earnings management in contrast to Healy, DeAngelo and Standard Jones (1991) and Industry Model. Therefore, the current research employs Jones (1991) model to measure the earnings management.

3.4.2 INDEPENDENT VARIABLES

3.4.2.1 BOARD SIZE

This study measured size of the board by the number of member/directors on the board of directors of the companyas used in several studies (For e.g. Xie, Davidson & DaDalt, 2003; Peasnell, Rope & Young, 2001; Fama & Jensen, 1983).

3.4.2.2 DIRECTORS’ INDEPENDENCE

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

3.4.2.3 CEO DUALITY

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

3.4.2.4 AUDIT COMMITTEE SIZE

The size of the audit committee was measured by the number of members/directors on the audit committee as adopted from Anderson et al. (2003) and Al-Matari et al. (2012).

3.4.2.5 AUDIT COMMITTEE EXPERTISE

The expertise of audit committee members was measured by the percentage of members with accounting expertise(SEC, 2012; Metawee, 2013).

3.4.3 CONTROL VARIABLES

This study employed some control variables (leverage, profitability and firm size) which have been recognized as a distorting influences the relationship of accounting manipulation and board characteristics, as such the following factors/variables were added to minimize the measurement errors, while increasing validity of the interpretation.

3.4.3.1 LEVERAGE

According to Hashim and Devi (2008) leverage of the companies is measured as the proportion of total liabilities to total assets to detain the encouragement to manage earnings when firms are experiencing financial troubles (Abdul-Rahman & Mohamed Ali, 2006; and Davidson, et al., 2005). Therefore to steer clear of potential defeat by releasing financial problem, firms that are financially suffered may have an encouragement to adjust earnings upward. However, as highly obliged firms are under close scrutiny by the lenders. Distressed firms are less expected to practice accounting manipulation and the existence of a negative association between discretionary accrual and financial leverageis expected (Park & Shin, 2004). Highly leveraged companies have low capability to practice international diversification since they face restriction on extra borrowing to finance acquisition. Therefore, leverage in this study is measured as a proportion of long-term debt to capital i.e. debt and equity, which is adopted from Anderson et al. (2003).

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

3.4.3.2 PROFITABILITY

Singhviand Desai (1971)observed that non-profitable corporations may disclose less information to cover up losses and declining profit whereas profitable ones will want to demonstrate their capability to stakeholders in financial institutions by disclosing more information so as to enable them gain access to capital on competitive terms (Meek et al. 1995). Company managers do not want to disclose non-profitable information onnegative investment or product, hence they may decide not to disclose or where it exists, disclose lump profit attributable to the entire company. Previousresearches have analyzed the profitability's impact on the level of disclosure by companies in the annual reports, the findings of these researches were blended in nature, such as that of Wallace, Naser and Mora (1994); Wallace and Naser (1996) suggesting asignificant relationship, however Meek et al. (1995) and Dumontier and Raffournier (1998) do not show anyrelationship in their respective studies. Furthermore, studies on rules regulating financial reporting quality and compliance as well as its profitability such as that of Glaum and Street (2003), Street andBryant (2000), Street andGray (2001) discovered no relationship between a company's profitability and IFRS compliance.However, Afify (2009) included profitability as a control variable and showed that profitability was significant.

The current study defines and measures profitability as the proportion of income before tax to shareholders' equity that is:

$$\text{PROFITABILTY} = \frac{\text{INCOME BEFORE TAX}}{\text{SHAREHOLDERS' EQUITY}}$$

3.4.3.3 FIRM SIZE

Firm size is the book value of total assets using its natural log (Akpuru 2007). Park and Shin (2004) showed significant negative relationship betweenfirms size and earnings management, suggesting that bigger companies were more narrowly securitized thansmaller companies. Moreover, Kim & Rhee (2003) assessed the effects of firms' size on the earnings, suggesting that big and undersized firms managed earnings to avoid reporting little negative earnings.

The current study measures size of the firm aslogof total assets (Anderson et al., 2003).

3.4.4 MODEL SPECIFICATION

The variables used in this study are derived through a review of the related literature from several studies (Jones, 1991;Saleh et al., 2006;Dechow, et al., 1996;Islam, Ali & Ahmad, 2011; Healy,1985; DeAngelo, 1986; Rangan 1998;Teoh, Welch, & Wong,1998a; 1998b).Therefore, to establish the occurrence of earnings management, this study employJones (1991) model which designed its modification in order to eradicate the conjectured tendency of the model to measure discretionary accrual with error, when discretion is exercised over revenues. In this model, non-discretionary accruals (NDA) are estimated during occurrence period and subsequently subtracted from total accruals (TA) to arrive at discretionary accruals (DA). However, total accrual is considered as the difference between earnings(E) and cash flow from operation (CFO), thus:

TA=E-CFO

Where:

TA = Total accruals

E = Earnings

CFO = Cash flow from operation

In other words, in line with previous studies total accruals were decomposed into discretionary accruals (DACC) and non-discretionary accruals (NDAC), thus:

$$\mathbf{TACC_i = NDAC_i + DACC_i} \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \quad \mathbf{(1)}$$

Where TACC Firm $_{i}$ is calculated as the difference between income before tax and extraordinary item (EARN) and operating cash flows (OCF), therefore:

$TACC_i$=EARN-OCF_i……………………………………………………………(2)

Furthermore, to determine DAC the study consider Jones (1991) model which is the most popular model adopted by prior studies in detecting accrual management (Saleh et al. 2007). The model was:

$$DAC = \frac{TACC_i}{A_{i-1}} - \left\{ a\left(\frac{1}{A_{i-1}}\right) + b\left(\frac{\Delta REV}{A_{i-1}}\right) + c\left(\frac{PPE}{A_{i-1}}\right) \right\} \ldots\ldots\ldots\ldots\ldots (3)$$

Where:

TACC = Total accrual.

ΔREV=Changes in receivable.

PPE = Gross property, plant and equipment.

A=Total asset.

However, the following multiple regression analysis was used to examine the relationship between board characteristics (board size, directors' independence, CEO duality, audit committee size, audit committee expertise) and earnings management with control variables. Hence, earnings management was detected through DAC, which is found to be associated with leverage, profitability, firm size (Saleh et al., 2007).

$$\mathbf{DAC=\beta_0+ \beta_1BS+ \beta_2DI + \beta_3CEO + \beta_4ACS + \beta_5ACE + \beta_6LEV + \beta_7PR + \beta_8FS+ \varepsilon \ldots\ldots.. (4)}$$

Where:

DAC= Discretionary accruals

BS= Board size

DI=Directors independence

CEO=CEO duality

ACS= Audit committee size

ACE= Audit committee expertise

LEV=Leverage

PR= Profitability

FS=Firms size

The measures of the above mentioned variable(s)are described and reviewed in Table 3.1 below.

Table 3.1

Variables Measurement

S/N	Variable	Definition	Type	Measurements	Expectation
1	DAC	Discretionary Accruals	DV	TA-NDA	Positive
2	BS	Board Size	IV	Number of Directors included in the board	Negative
3	DI	Directors independence	IV	Number of independent directors	Negative
4	CEO	CEO Duality	IV	Dummy variable “1” separated, “0” for otherwise	Negative
5	ACS	Audit committee size	IV	Number of directors serving the audit committee	Negative
6	ACE	Audit Committee expertise	IV	Proportion of the audit committee members with accounting and/or finance expertise	Negative
7	LEV	Leverage	CV	$\frac{\text{Lt Debt}}{\text{Debt + Equity}}$	Positive
8	PR	Profitability	CV	$\frac{\text{Net Income Before Tax}}{\text{Shareholders' Equity}}$	Positive/Negative
9	FS	Firm size	CV	Log total assets	Positive/Negative

3.5 DATA COLLECTION

3.5.1SAMPLE SELECTION

The population of interest for this study is the entire quoted companies under the Nigerian Stock Exchange: this includes 195 companies that make up 11 industries/sectors with 95 sub-sectors in the Nigerian Capital Market with full intention of generalizing the findings of this work, with exception of the companies listed in financial services sub-sector of the Nigerian Stock Exchange, given a total of 170 companies.

In carrying out this research, 79 listed companies were selected in the Nigerian Stock Exchange based on the availability of annual reports and special identification numbers were given to each andevery element in the population. It represents 47% percent of the population**.** Stratified random sampling technique was used in selecting the sample size, because it gives each element in the population from every sector an equal chance of being chosen as a subject.

3.5.2 DATA COLLECTION PROCEDURE

Data is collected from printed annual reports and accounts downloaded from the internet, the linkage for the published statements are accessible at Nigerian Stock Exchange web site and invest in Africa. The study focuses on the year 2012 since it is the first year for the execution of Corporate Governance Code revised version in Nigeria. Data on dependent variable was extracted from the statements of financial position, cash flow and comprehensive income, while data for independent and control variables were gathered from corporate governance report, statement of financial position as well as comprehensive income statement.

3.6 DATAANALYSIS

The study used different statistical tests to examine the hypothesized relationship: descriptive analysis (mean, minimum, maximum, and standard deviation) was used to highlight the characteristics of samples; correlation was conducted to show the extent of the relationship between the research variables; model analysis was also conducted to show the models' ability in explaining the dependent variable. Further analysis was used to check the multicollinearity and normality among the variables. Finally, regression analysis was employed to analyze the effect of the said variables.

3.7 SUMMARY OF THE CHAPTER

In this chapter, theoretical framework was developed on the argument that board characteristics contribute in minimizing earnings management. It provides hypotheses that attempt to address the questions raised in the study. These hypotheses predicted positive association between board size and earnings management, while directors' independence, CEO duality, audit committee size and audit committee expertise, were expected to have negative relationship with earnings management. Considering previous studies, this study adopted the same measuring of the hypothesis variables. This chapter also discussed the method and procedures used to collect data, where annual report and accounts for the companies listed in NSE as at 31st December, 2012 were used as main source of data analyzed. However, considering the number of variables involved in this study, the final sample for the analysis was 79 Companies after excluding 25 companies of the financial sector due to their peculiarity.

CHAPTER FOUR

RESULT AND DISCUSSION

4.1 INTRODUCTION

This chapter presents results of the statistical analysis and discussions over the results. First section provides descriptive analysis for the study. The second section discusses correlation analysis which includes discussion about variable that have high relationship with independent variables. This provides an insight into the presence of multicollinearity between independent variables and control variables that may affect regression analysis. The third section provides the model analysis. The fourth section presents assumption test or post estimation test, which includes normality and multicollinearity. Finally, regression analysis is discussed to give evidence on the ability of the model to explain variances in earnings management, and explain which variables have significant effect on the earnings management.

4.2 DESCRIPTIVE STATISTICS

Table 4.1 below provides descriptive analysis for the study variables. From this table, on the side of independent variables, the board size of the total 79 companies involved in this study has a minimum of 3 directors with a maximum of 10 directors, this implies that none of the companies has less than 3 board members, additionally, none of the companies' directors goes beyond ten (10). Therefore, Nigerian listed companies have different sizes of the board of directors, perhaps due the differences in the companies' size (Zahra & Pearce, 1989). However, the board sizes across the saidcompanies have8.2785 as mean value with a standard deviation of 1.5765. With regards to directors' independence in the Nigerian listed companies, it can be seen that it has a minimum of 0.80, with maximum of 0.90. It means that none of these companies has less than 80% percentof non-executive directors, but not beyond or above 90% percent. This implies that Nigerian listed companies' board is dominated by outsiders or non-executive directors and suchpractices may help to mitigate the agency problem by monitoring and controlling the opportunities behavior of management (Jensen & Meckling, 1976). The mean value is 0.8886 with a standard deviation of 0.3197. The chief executive officers' duality is measured as a dummy variables, result appears a minimum of 0.00 and the maximum of 1.00. This implies that Nigerian securitiesmarket companies must do either separate the position of Chief executive officer or hold two positions, though it is observed that about 75 percent of Nigerian securities market companies have separated the two positions, and the remaining 25% do not. However, the CEO duality across the 79 Securities Market companies is 0.7215 with a standard deviation of 0.4511. The mean value and standard deviation of audit committee size of Nigerian Securities Market Companies are 5.3671 and 0.9894 respectively, with a minimum of 2 directors and maximum of 6 directors. This indicates that none of these companies have less than 2 members serving the audit committee, at the same time none of these companies have more than six (6) director/members included in the audit committee. The Code of Corporate Governance requires all listed companies in NSE to have at least three (3) members serving the audit committee (CAMA, 1990; SEC-CCG, 2003). This suggests that all Nigerian listed companies studiedhave complied with such governance requirement, with exception of one company who failed to do so.

Finally,the audit committee expertise result shows a minimum of 0.50 and the maximum of 0.60, by implication Nigerian listed companies within the range of the study haveestablished audit committee with a minimum of two(2) directorsthat have accounting and /or financial knowledge.This indicates that the studied Securities listed companies adhere to the Code of Corporate Governance that requires companies to establish the committee with at least one member having accounting expertise (Sarbanes-Oxley Act, 2003; CAMA, 1990; SEC, 2012).

Overall, this study concludes that the studied Nigerian listed companies comply with the requirement of the Code of Corporate governance issued by Capital Market authorities with exception of one company that fails to establish audit committee with a minimum requirement and some few companies fail to separate the roles of chairman and Chief Executive Officer.

For control variables, it appears that mean value of leverage as measured by the proportion of long term debt to the debt and equity for Nigerian listed companies is 0.3152 with a standard deviation of 0.2957, but it has a minimum and maximum of 0.00 and 0.9 respectively. These figures reveals the tendency of the Nigerian listed companies to manage earnings, going by the positive accounting theory and debt covenant hypothesis which states that more leverage more accrual. Therefore, there is high tendency for the management to manipulate its accounting figures. The more companies are geared the more possibilities for managing earnings are open, and the revise as the case. Regarding the companies' profitability, it appears that the mean value of the profitability for the studied Nigerian Securities Market Companies is 0.2104 ranging from 0.00 to 0.90 profits. This suggests that Nigerian listed companies are highly profitable. Furthermore, for the firm size, as measured by natural log of total assets for Nigerian listed companiesare 21.9216 with a standard deviation of 2.9844. The result shows a minimum and maximum size of 11.12 and 27.24 respectively. These figures indicate that the size of the studied Nigerian listed companies is relatively small.

For the dependent variable, the mean tendency for managers of Nigerian listed companies to manage or manipulate earnings is less with the minimum of -10 and maximum of 7.00.

Table 4.1
Descriptive Analysis

	N	Minimum	Maximum	Mean	Std. Deviation	Skewness		Kurtosis	
BS	79	3.00	10.00	8.2785	1.57656	-.758	.271	0.217	.535
DI	79	0.80	0.90	.8886	.03197	-2.478	.271	4.245	.535
CEO	79	0.00	1.00	.7215	.45112	-1.008	.271	-1.011	.535
ACS	79	2.00	6.00	5.3671	.98940	-1.127	.271	0.027	.535
ACE	79	0.50	0.60	.5013	.01125	8.888	.271	79.000	.535
LEV	79	0.00	0.90	.3152	.29574	.716	.271	-0.975	.535
PR	79	0.00	0.90	.2104	.24425	1.506	.271	1.447	.535
FS	79	11.12	27.24	21.9216	2.98448	-1.282	.271	2.225	.535
DACC	79	-10.00	7.00	-.6835	3.31099	-.597	.271	1.432	.535

4.3 CORRELATION ANALYSIS

Correlation analysis shows the correlation between two variables. It is used to check the existence of multicollinearity problem among independent variables, whereby it has been revealed that "0" value signed no relationship between the variable, "1" value signaling perfect relationship but 0.11 to 0.29 sign a very weak relationship in the same direction, 0.30 to 0.49 indicating a weak relationship, however, 0.50 to 0.69 and 0.70 to 1.00 signal a strong and very strong relationship respectively. Based on this it appears from Table 4.2 that only one variable has significant correlation with earnings management. Profitability is negativelyand significantly correlated to earnings management at 1%, this means that less profitable companies increases their earnings. Other variables which include board size, directors' independence, CEO duality, size and expertise of audit committee, leverage, as well as firm size have weak correlation. It can be seen in Table 4.2, the highest correlation between independent variables is between size of the audit committee and board size at 0.262and significant at 5%. This implies that multicollinearity problem does not exist since correlation between the variables is less that 0.70. The correlation betweenindependent,dependent and control variable occurs between board size and leverage at 0.271 significant at 5%.

Table 4.2
Correlation analysis

	DACC	BS	DI	CEO	ACS	ACE	LEV	PR	FS
DACC	1	0.084	-0.038	0	-0.134	0.058	-0.062	-.298**	-0.174
BS		1	0.089	0.056	.262*	-0.092	.271*	0.092	0.176
DI			1	-0.045	.255*	0.041	-0.188	0.168	-0.122
CEO				1	0.002	0.07	-0.067	0.063	0.064
ACS					1	0.073	0.133	-0.004	0.054
ACE						1	0.033	-0.042	0.045
LEV							1	0.216	0.141
PR								1	-0.072
FS									1

*. Correlation is significant at the 0.05 level (2-tailed)

** Correlation is significant at the 0.01 level(2-tailed)

4.4 MODEL ANALYSIS

From Table 4.3 model summary reports R^2forthe model is 0.187 and adjusted R^2 is 0.094. This implies the model is capable to explain about 19% changes in earnings management in the sample of the study. It also indicates that about 10% of the total variance in earnings management is explained by independent variables and control variables, while 90% is explained by other factors. Furthermore, the model is significant (F. statistics =2.009, P<0.058) to explain the variations in earnings management at 10%.

Table 4.3
Model Analysis

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.432[a]	.187	.094	3.15199

a. Predictors: (Constant), FS, ACE, PR, ACS, CEO, LEV, BS, DI

b. Dependent variable DACC

However, to ascertain the validity of the said result, the study runs post estimation test as presented below.

4.5 MULTICOLLINEARITY

This study also conducts other analysis to check multicollinearity problem among independent variables by using Variance Inflation Factors (VIF) in Table 4.4. The result indicates that VIF values is less than two (2) for each variable, this means no multicollinearity problem exists between the independent variables.

Table 4.4
Multicollinearity analysis

Model	Colinearity Statistics Tolerance	VIF
BS	0.826	1.211
DI	0.811	1.233
CEO	0.964	1.038
ACS	0.847	1.180
ACE	0.963	1.038
LEV	0.787	1.271
PR	0.879	1.137
FS	0.931	1.074

4.6 REGRESSION ANALYSIS

By using a multiple regression, this section presents an analysis of the relationship between board characteristics (measured by board size, directors' independence, CEO duality, audit committee size, and audit committee expertise) and earnings management. It also discusses its relationship with control variables that is leverage, profitability and firm size.The result of linear regression using earnings management as dependent variable and board characteristics as the test variables is presented in Table 4.5. The size of the boardappears to be significantly positive at 10% level of confidence which is consistent with the study hypothesis. This suggests that Nigerian listed companies with greater board size are highlyrelated with thelevel of earnings management. This finding is in line with other studies (Zharni, et al., 2014; Kumari & Puttana, 2014; Chekili, 2012; Ghosh, et al., 2009; Beasley, 1996) that found positive relationship among the two variables. This implies thatsmaller board may focus their attention in resolving issue that may arise, whereby larger boards may be difficult to control, hence conflict of interest may arise among the directors, which might have hampered the monitoring and evaluation process of managers' actions (Fama & Jensen, 1983). Therefore, the result appears that any increase of directors by standardized coefficient beta of 0.205 will increase the earnings management.

Other independent variables are found not significantly related to earnings management. For example, the directors' independence (DI) is found positively insignificant, meaning that the higher the proportion of independent directors, the lower the level of earnings management. Although this result does not support the hypothesis of the variablebut it is consistent with finding in Epps and Isma'il (2008). The Chief executive officers' dualities were found to be positively insignificant. This implies that the more Nigerian companies separated the positions of CEO and Chairman, the lower the level of earnings management. This finding is on contrary to the study hypothesis, but is in line with other studies (Kurawa & Saheed, 2014; Amer & AbdelKarim, 2010; Jouber & Falehfakh, 2013; Roodposhti & Chashmi, 2011; Supawadee, et al., 2013). The audit committee sizeis found to be negatively and marginally significant, which iscontrary to the study hypothesis. Finally, the audit committee expertise appears to be positively insignificant. This implies that the higher the proportion of audit committee members with accounting experience, the lower the level of earnings management. This finding is on contrary with the research variable, but it is line with Lisic et al. (2011) which observes insignificant and positiveassociation between audit committee expertise and earnings management.

However, for the control variables, the study report two variables (profitability and firm size) have significant impact on earnings management at 1% and 5% percent respectively. Profitability is negativelyand significantly associated with earnings management at 1% level of confidence. This implies thatthe lower the companies' profit the higher the level of earnings management. Furthermore, the result shows a negative significant association of firm size and earnings management at 5% level of confidence. This indicatesthat small companies are highly associated with earnings management practices and this finding is in with Kim and Rhee (2003) which documents that small companies engage more in earning management than large and medium companies, by implication the higher the firm size, the lower the level of managing earnings practices, and the lower the firm size the higher the level of earnings management.

Table 4.5
Regression analysis

	Expected sign	B	t-value
(Constant)		-8.817	-0.464
BS	+	0.431	1.731*
DI	-	2.237	0.181
CEO	-	0.151	0.188
ACS	-	-0.638	-1.627
ACE	-	24.689	0.764
LEV	+	0.178	0.131
PR	+/-	-4.594	-2.949***
FS	+/-	-0.254	-2.052**

Note: *. Correlation is significant at the 10%, **. Correlation is significant at the 5%
*** Correlation is significant at the 1%

4.7 SUMMARY

In this chapter, descriptive analysis, correlation analysis, model analysis, multicollinearity and regression analysis were presented and discussed. The resultsshowed that none of the Nigerian listed companies have less than three (3) members in their board of directors, it has been revealed that none of the Nigerian listed companies has more than 80 percentoutside non-executive directors in their board of directors composition, and it appears that about 75% of the studied Nigerian listed companies separated the positions of Chairman and Chief Executive Officers. In addition, most of Nigerian listed companies have established full audit committee memberranges from four to six director/shareholders. Finally the studied Nigerian listed companies found to be with at least 2 directors/members having accounting and/or financial expertise. Also post estimation test was conducted to check the normality multicollinearity of the data. Standardized residual correlation and VIF report assumptionor post estimation are met, however correlation analysis was also conducted to provide in insight into the correlation between the variables.

Finally, regression analysis was carried out to determine which variablesaffect earnings management. The analysis shows that the variablesare able to explain about 19% of the variable in earnings management for the Nigerian listed companies.It appears that only one (1) variable has significant positive relationship, with earnings management, one variable has marginally significant negative relationship with managing earnings practices, and two (2) variables have significant negative association with earnings management. Other variables are found to be insignificant.This implies that out of the five (5) independent variables only H1 is supported, while H2, H3, H4 andH5 are not supported. For the three (3) control variables studied only two (profitability and firm size) have met the study expectation.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATIONS

5.1 INTRODUCTION

The chapter presentsconclusionof the study which is based on the findings, followed by the suggestions for future studies related to board characteristics and earnings management.

5.2 CONCLUSION

The main aim of this study is to investigate the relationship between board characteristics and earnings management in Nigeria. This study uses board size, director independence, CEO duality, as well as size and expertiseof audit committee as determinant of board characteristics.The analysis of sample study shows that Nigerian listed companies take an average of -0.6825 to manipulate accounting earnings with a minimum of -10 to the maximum of 7. With regards to regression analysis the result shows that only one independent variable (board size) is positively and significantly related toearnings management. The finding supports the argument that board size is an important determinant of earnings management. It also reveals that directors' independence, CEO duality, audit committee size and audit committee expertise do not perform a crucial role in the earnings management. More so, the findings show that two (2) of the control variables (profitability and firm size) are negatively and significantly related toearnings management, which are in linewith previous studies, however leverage is found to be positively and insignificantlyrelated toearnings management, which is also consistent with prior studies. Overall the resultssupport H1, while H2, H3,H4 and H5 are not supported.

5.3 LIMITATIONS AND RECOMMENDATIONS FOR FUTURE RESEARCH

Based on the study limitation and findings, this study suggests future research to overcome the limitations of this study and provide more insight into the determinant of earnings management. The current study uses board size, directors' independence, CEO duality, audit committee size and audit committee expertise as determinant of earnings management, as such future study is suggested to incorporate other important variables of corporate governance or board characteristics, such as audit committee meetings, board of directors meetings, gender of board members, and board members attendance in the meeting (BRC, 1999) to provide more insight into understanding how board characteristics is influencing earnings management.

The study analyzed the determinant of earnings management based on 79 companies quoted on the floor of Nigerian Stock Exchange. Therefore, further studies are suggested to rationally generalize the findings of the study by using all quoted and unquoted Nigerian stock exchange companies. Furthermore, this study excluded financial sector of the Nigerian Stock Exchange in drawing the sample because of their peculiarity for governance, therefore, future studies are suggested to conduct a research and analyze the effect on financial sector as well. Additionally, the data of this study is based on annual report for the year 2012 which is the immediate year after issuance of the revised version of the Code of Corporate Governance 2011, thus future studies may investigate the impact of board characteristics of pre and post revised version of the Code of Corporate Governance.

5.4 SUMMARY

This thesis has examined five hypotheses concerning the relationship between board characteristics and earnings management, using multiple regressions, and found only one (1) hypothesis H1 (board size) is supported while other four (4) hypotheses H2, H3, H4, and H5 are not supported. The findings of this thesis have made little but important contribution in accounting and finance literature, by providing empirical evidence on how board characteristics contribute to minimize conflict between shareholders/owners and management by reducing the earnings management.

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