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**


**Kata kunci:** Jawatankuasa Audit, Ciri-CiriLembagaPengarah, SaizLembagaPengarah, PengurusanPerolehan
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<td>LT</td>
<td>Long Term Debt</td>
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<td>MD</td>
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<td>NDA</td>
<td>Non Discretionary Accrual</td>
</tr>
<tr>
<td>NDIC</td>
<td>Nigerian Deposit Insurance Corporation</td>
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<tr>
<td>NSE</td>
<td>Nigerian Stock Exchange</td>
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<tr>
<td>PHB</td>
<td>Platinum Habib Bank</td>
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<tr>
<td>PLC</td>
<td>Public Limited Company</td>
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<tr>
<td>PPE</td>
<td>Property, Plant and Equipment</td>
</tr>
<tr>
<td>R &amp; D</td>
<td>Research and Development</td>
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<tr>
<td>REM</td>
<td>Real Earnings Management</td>
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<td>Securities and Exchange Commission</td>
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<td>SGA</td>
<td>Selling and General Administration</td>
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<tr>
<td>TA</td>
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<td>Variance Inflation Factor</td>
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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 literature whether 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 managers have systematic deficiencies in complying with accounting standards and governance systems to generate financial information (Bowen, Rajgopal & Venkatachanlam, 2003. In the process of preventing companies 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 their main objective. Therefore an
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