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# CORPORATE GOVERNANCE AND EARNINGS MANAGEMENT OF QUOTED CONSUMER GOODS COMPANIES IN NIGERIA

**ALAO M. Esther and OLATIFEDE Sinmiloluwa O.**
Babcock University, Department of Accounting, Nigeria

## Abstract

The study sought to examine the effect of corporate governance on earnings management of quoted consumer good companies in Nigeria. This study relied on data obtained from the annual report and statement of accounts of the selected companies for the period 2010-2019. The study employed ex post facto research design using secondary data. The findings revealed that there was no significant relationship between institutional ownership and earnings management of quoted consumer good companies in Nigeria ($p<0.05$); board meetings significantly influence earnings management of quoted consumer good companies in Nigeria ($p<0.05$); there was no significant relationship between board independence and earnings management of quoted consumer good companies in Nigeria ($p>0.05$); board financial expertise did not significantly influence earnings management of quoted consumer good companies in Nigeria ($p>0.05$) and there was a significant relationship between audit committee independence and earnings management of quoted consumer good companies in Nigeria ($p<0.05$). The findings of this study will assist management to understand the functions of corporate governance towards earning management in yielding improvements in performance and profitability of the sampled companies.

**Keywords:** Audit committee independence, Board Financial Expertise, Board Independence, Board Meetings, Corporate Governance, Earnings Management and Institutional Ownership.

## 1.INTRODUCTION

High-quality reporting information is critical because it had a beneficial effect on the procuring, financing and related distribution decisions that enhance overall market success of resource producers and other stakeholders. The business's success, which was seen by company profits, produces a firm valuation in the short and long term. Corporate income is very directly connected to corporate valuation (Edi & Vera, 2020). Adegbie, Salawu and Shiyanbola (2019) have stated that the firm earning was the cornerstone, as they are essential areas of concern for growth and sustainability enabling management to make profits more significant and has increased earnings.

Earnings are critical for organizations as they affect investor decisions and this was why companies frequently do financial practices that are unhealthy in their financial results (Norwani, Mohamad & Chek, 2011). The publishing of data for the parallel profit study shows an increasing consumer response to earnings results (Beaver, McNichols, & Wang, 2019). Administrators knowingly exploit

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financial law and accounting loopholes in order to obtain unsuitable rewards (Bhasin, 2016). The income control system exists when managers used discretionary decisions in financial statements and structuring transactions opportunistically to modify financial records to mislead other creditors about the underlying economic success of a business or to distort the contractual outcome that was based on reported accounting numbers, according to Abbadi, Hijazi and Al-Rakhleh, (2016).

Adegbie, Salawu and Shiyanbola (2019) have reported that corporate organizational controversies in Nigeria were caused by company financial deficiencies, which was apparent in Cadbury Nigeria Plc, AP Nigeria Plc., Lever Brothers (now Unilever) and Nigeria's afflicted banks scandals. For example, in the case of Cadbury Nigeria Plc the SEC (2008) findings show that since 2002 one of the former managing board members of Cadbury Nigeria Plc had cohabited with the board to misuse the financial accounts of the firm submitted to the general public and presented them with the Commission, by means of expenditure deferrals, commercial loadings and other fictitious transactions. This was because the corporate governance code was not complied with (Ibadin & Dabor, 2015). Moreover, Lever Brothers had overvalued billions of naira of inventory (Jimoh, Idogho & Iyoha, 2012).

The profits of organizations differ when their governance was influenced. Effective management leads to a good financial performance (Nkanbia-Davies, Gberegbe, Ofurum & Egbe, 2016). Effective business management leads to a good financial performance (Nkanbia-Davies, Gberegbe, Ofurum & Egbe, 2016). Effective corporate governance was a general notion that boosts the economic health of listed companies and increases customer trust and confidence (Rahman & Mohammed, 2016; Basha, 2018). This thought affected regulators and attracted much attention from both scholars and practitioners. The results of Yusoff, Ahman and Darus (2019) indicate that reinforced corporate governance system, which also affected the performance of businesses and organizations, were also improved. This was similarly applicable with both corporate and public companies. Although the Board still had a responsibility to monitor the leadership closely because of the ever-present danger of opportunistic activity. This was one of the key roles of corporate governance (Elyasiani, Wen, & Zhang 2017).

Shafi, Adamu, Ooi and Kwong (2020) indicated that corporate governance was the structure, mechanism and operation by which companies are governed. The pace of recent accounting irregularities in the international financial community had criticized the accuracy of financial statements in several ways. Hyejeong and Su-In (2019) observed that the promotion of a number of sustainability aspects, including financing, was strong corporate governance that was a key factor in a company's continued activity. We focus on the revenue productivity of an enterprise as a corporate governance success to fully reflect corporate governance features because the reported income provides knowledge about a business' future income, high-quality income was considered more sustainable. Moreover, provided that stock market investors make investment decisions on the basis of reported profits, the consistency of the profits is closely linked to the company's capital costs. This shows that continuity in profitability was one of the key factors of business profitability.

The main objective of the study was determining the effect of corporate governance on earnings management of quoted Nigerian consumer good companies. The rest of the paper was sorted out as follows; section 2 gives a review of relevant writing; section 3 portrays the methodology of the study; in section 4 data are investigated and results examined; and section 5 finishes up the research with certain proposals

## 2. RELATED LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

### 2.1 CONCEPTUAL REVIEW

### 2.1.1 CORPORATE GOVERNANCE

The traditional philosophy of government had been derived from business ownership to the fundamentals of the corporation. No matter what company you're in, all companies operated under the principles of profitability and governance, because all were under a corporate umbrella. Several scholars had provided multiple definitions of corporate governance. Bilkisu and Tukur (2014) report that management were interested in using legal and financial resources in order to support a business with positive goals. The bureaucracy sets the rules and the procedures of business coordination in a way that made everyone's life easier in the long term and achievable in its environment.

An organizational governance linkage was built by the company, the board of directors, with the shareholders, as well as stakeholders, according to the OECD principles (OECD 1999). The purpose of the group was set up to achieve how the mechanisms were created, how they were obtained, and how they were carried out. A proper corporate governance structure enabled a firm to carry out its goals effectively. This arrangement established the authority and duties of the different members of the Business, such as managers, staff, shareholders, and other stakeholders such as customers.

Managing, coordinating, and governing corporations was required to become manager in the truest sense of the word. It revealed who had the interests of stakeholders were and who they were accountable to (Aguilera & Jackson, 2003). According to the shareholders' vote at the meeting, the board of directors carried out their powers under the agreement, as defined, and as the case may be required, but not in excess of that of the prescribed structure, and may use their power to speak directly to the company (Dogan & Yildiz, 2013). It tracked company performance for the benefit of owners, looks out for ways to improve the organization, and monitors it (Akinyomi, 2013). In an effort to bolster the corporate sector, the governors would strived to boost supply and demand and had an important effect on people (Uwuigbe & Fakile, 2012). It was imperative that corporate governance be used in every organization to help them function efficiently and to enhance the confidence in their customers, in a transparent manner. However, businesses were mostly impacted by delays and obstructions in the decision-making process. (Yensu, Osei, and Atuilik, 2017).

### 2.1.2 EARNINGS MANAGEMENT

Earnings is called net revenue and is the most significant factor of the accounts. Increased profits reflected a boost in the valuation of a business, while decreased profits reduced the value of the company. Given the value of income, it was of the benefit of management to report these products to prospective buyers, creditors, shareholders and other interested consumers in a way that seems to be attractive and favorable. This contributed to the managing of income.

The control of incomes was "a deliberate intrusion in external financial statements with the intention of obtaining one private profit," according to Schipper (1989). As a matter of factors, control of earnings had now become a critical issue on the capital markets, since it worked with certain accounting technologies for showing profits declared in a natural manner and in the target profit. The objective of income management was to show a good income quality which either satisfies the obligation of the shareholders or the requirement that the regulators receive relevant permission (Francis & Wang, 2008). This lead to a lot in common with earnings control and income coherence. For example, managing high income may generate poor quality income (Lo, 2008), manipulating knowledge could lead to incorrect decisions. However, lack of management was not enough to guarantee high income quality, since other factors such as stock price and management incentives play a part in the quality of earnings (Lo, 2008). Those involved in the discussion of the relation between corporate governance effectiveness and knowledge of increased earnings management benefit determined earnings performance and defined the contributing factors (Ebaid, 2013).

Mihjoub and Miloudi (2015) reported on the idea of profit control from two viewpoints. The opportunistic viewpoints and the intelligence perspective were included. Management sees income management as a method to avoid such activities in the business that misinformation prospective and current owners in the company as an opportunistic tool. The optimistic accounting hypothesis was supported by this opportunistic view. Managers would disguise the actual results of the business by manipulating wages. Managers saw this as a safety weapon by providing better revenues to increase personal benefit and retain jobs or promotions. The details viewpoint for income control could be used as a signaling instrument to depict private information on the potential financial success of the firm on the stock market. An example is a planned fusion or acquisition. In this respect, therefore, earnings management could be defined as a judgment that provided the benefit to investors, in an adequated and legal way. This view was supported by the signal principle.

Management of earnings was defined as efforts by management to monitor or exploit reported earnings, using special accounting practices, accelerating transaction costs or incomes, and using other strategies to affect short-term earnings. Income management, the term applies, as narrowly defined, to the intentional misrepresentation of real profits and property of a company or another organization. Earnings management happened as administrators utilizing their financial reporting analysis and transaction structuring skills to alter financial reports in order to deceive certain stakeholders about the company's underlying market results, or to deceive some stakeholders about the company's underlying economic success, or to manipulate the contractual outcome of recorded accounts.

## 2.2 THEORETICAL UNDERPINNING

The underpinning theory of this research study is the agency theory. This is premised on the fact that the theory illustrates precisely what motivates managers and directors of an organization to manage their income. The agency theory opined that manager would try to manage earnings at the detriment of other players, particularly investors, to optimize their advantages and objectives. Furthermore, captains of industry would like to increase their personal profits and therefore do whatever they could to ensure that they control earnings and manipulate. Jensen and Meckling (1976) clearly backed this argument by the fact that the higher the resources owned by the manager, the lower the divergence from the conventional goal of increasing the value and thus the company was performing well. Hence, we postulate that good corporate governance should reduce earnings management.

## 2.3 EMPIRICAL REVIEW

Edi and Vera (2020) investigated the effect on income control efficiency of company and good governance characteristics. To characterize income control behavior, three budgetary accrual models are used. Three budgetary accrual models were used to describe income management actions. This study presumed strong features such as financial efficiency, size of the business, debt and issuance and good management properties, such as the size of the Board and the size of the auditor. The results suggest that company features had an important role to play in the actions of profit management. On the other hand, only the four major auditors were relevant for good corporate governance. In Indonesia, Jones, Dechow, and Kothari also had a discretionary accrual model.

The corporate governance and financial reporting standard of Nigeria was investigated by Akeju and Babatunde (2017). The thesis included a survey of 40 companies listed on the Nigeria Stock exchange (NSE) between 2006 and 2015. The findings were analyzed using correlation and regression. The relationship was found to exist between the processes of corporate management (boarding features, audit committees, board independence, size and growth) and the quality of financial reporting. The statistically valid results of multiple regression analyze were at 0.05. The findings shown in the model are shown in F statistics of 3641. Corporate management raises the financial reporting

standard in Nigeria based on the findings of the analysis.

The influence of corporate governance in income management in Malaysia was investigated by Shafi, Adamu, Ooi and Kwong (2020). Increased earnings management activities reported during the time after transition were reported, according to the results of this analysis. The research also found that corporate governance policies had little to no effects on income control practices since the transformation; however, both the management structure and duration of board meetings tend to have a major influence. The formal meeting and functional split between the CEO and the chairman of the organisation, in the post-transformation era respectively, seemed to negatively affect and support the Board although the association did not seem to have a presence in the pre-transformation period.

Shin and Kim (2019) examined whether corporate governance processes were linked to the quality of income, particularly accurate earnings reporting, and whether investors respond differently according to governance intensity to inaccurate earnings. This research used the independence and international control of the Board of Directors (BOD) as governance structures related to the income difference between audited and unaudited income. From 2013 to 2016, the analysis used the Korea stock exchange's 1976 non-financial company-year findings. They found that the difference between unaudited profits and real income for companies is narrower with independent BODs and international ownership, indicating that the accuracy of earnings for companies with good management was greater. In the event of a rise in foreign investment, the stock returns to the deficit in profit are lower for companies with independent directors, meaning that any corporate governance framework had different consequences. A rise had been recorded in the post-transformation phase of income management activities.

The CEO Duality's impact on the connection between the audit committee Independence and the quality of revenues had been examined by Khairul, Wan, Mas (2012). Data from business reports and the worldwide electronic archive have been compiled for the analysis. All 4 998 submissions by non-financial companies on Bursa Malaysia Kuala Lumpur's major market from 2005 to 2010 were included in this sample. The research conducted a usual least-square regression for the vision E to assess the hypothesis of this study. Based on a survey of 3,017 non-financial firms from 2005-2010 on Bursa Malaisia it was found that the standard of earnings was positively correlated with independence of the Audit Committee, but the relationship was undermined by a duality of the CEO. The findings suggest that if a CEO had undue oversight of the Board of Directors' decisions by retaining office as chairman, the controlling role of independent audit committees was ineffective in ensuring a sufficient level of revenues in the financial accounts.

## 3.METHODOLOGY

### 3.1 METHOD FOR DATA COLLECTION

Data was gathered from secondary sources which required the use of the company's financial statements. The financial statement was evaluated using the required ratios in this analysis. The data collection tool in the analysis was the audited financial accounts found in the sample firms' annual reports. The data was derived from these firms' financial statements and all pertinent data included for the study is included in the financial statements. The study of ratios and the content analysis was carried out based on the variables.

### 3.2 MODEL SPECIFICATION AND MEASUREMENT OF VARIABLES

The variables for this research was therefore be operationalized here;

$Y=f(X)$

Y= Dependent variable

X= Independent variable

Y = Earnings management (EM)

X = Corporate Governance (CG)

We had a main objective and five specific objectives and they can be represented mathematically thus:

EM = f (CG)

Y = Earnings management

y1 = Earnings quality (EQ)

X = Corporate Governance

x1 = Institutional Ownership (IOW)

x2 = Board Meeting (BM)

x3 = Board Independence (BI)

x4 = Board Financial Expertise (BFS)

x5 = Audit Committee Independence (ACI)

Then the linear regression model for each variable was developed to determine the relationship between the variables.

$EQit = \alpha 1 + \beta 1IOWit + \beta 2BMit + \beta 3BIit + \beta 4BFSit + \beta 5ACIit$ .........

Where:

$\beta$= average change in y that corresponds to a unit change in variable x

$\mu$= error term

### 3.2.1 ESTIMATION AND TECHNIQUE

**I. Coefficient of determination (Adjusted R2)**

This merely analyses the independent variable percentage explained by the dependent variable. The fitness of a regression approximation was measured and also the ratio of the explained difference to the total difference was given, which measures the proportion of variance of Y explained by X changes. The nearest the R- was to one, the higher the adjustment.

II. The F- Statistic

The F-test was used to test how important the regression equations are overall. This includes the ratio of two separate variance figures. If the F-statistic at the selected stage was important, the regression balance was sufficient.

Decision rule

Fcal > 5% = Accept H1 and reject H0

Fcal< 5% = Accept H0 and reject H1

4. Empirical Results

4.1 Descriptive Analysis

In this section of the study, the data collection was reviewed while the main elements of the data are defined. The summary statistics of the pooled series of earnings management proxy – Earnings quality (EQ) and corporate governance proxy – Institutional Ownership (IOW), Board Meeting (BM), Board Independence (BI), Board Financial Expertise (BFS) and Audit Committee Independence (ACI) shown below in Table 4.1.

Table 1: Summary Estimate of Descriptive Analysis

Keywords: Audit committee independence, Board Financial Expertise, Board Independence, Board Meetings, Corporate Governance, Earnings Management and Institutional Ownership.

| | EQ | IOW | BM | BI | BFE | ACI |
|---|---|---|---|---|---|---|
| Mean | 7.783728 | 1.477424 | 12.93010 | 5.773963 | 0.335670 | 0.683248 |
| Median | 7.854344 | 1.568202 | 3.071672 | 6.801173 | 0.005322 | 0.015394 |
| Maximum | 328.58989 | 201.73294 | 294.6061 | 107.88387 | 152.90127 | 115.95789 |
| Minimum | 6.725296 | 3.477121 | 4.311376 | 2.404800 | 3.010320 | 1.840668 |
| Std. Dev. | 16.497171 | 8.245036 | 39.30765 | 12.575341 | 10.716052 | 11.456029 |
| Observations | 100 | 100 | 100 | 100 | 100 | 100 |

**Sourced: Author's Computation using E – View 9 (2021) underlying data from NSE.**

Table 4.1 highlights the statistical properties of the variables and stresses the average, minimum, maximum and measurement dispersion of the variables involved in this analysis. The earnings performance efficiency (EQ) characteristics showed 16.49, which calculates a dispersion of the figure's distribution from average. Furthermore, the minimum values of 6.72 showed that there were time intervals in the data for low profits posted by the consumer goods firms. The maximum figures of 328.59 imply that the consumer-goods companies earned maximum income under the sample and that the consumer-goods companies with a higher ratio under the study was high.

The corporate governance characteristics - institutional ownership (IOW), Board meetings (BM), Board Independence (BI), Financial Expertise (BFE), and Independence (ACI) auditing committee (BI) reveal that consumer goods firms calculate the dispersion of average figures with standard deviation values of 8, 24, 39, 30, 12, 57, 10,71 and 11,45. The maximum interest and the management of corporations of consumer good enterprises, within the time frame of the study, was shown by a minimum of 3.47, 4.31, 2.40, 3.01 and 1.84, the maximum figures in 201.73, 294.60, 107.88, 152.90,

115.95 that the consumer good companies were more likely to administer their corporate governance by a consumer good enterprise.

**Table 2- Regression Result Output**

| VARIABLE | COEFF | STD. ERROR | T-STAT | PROB. |
|---|---|---|---|---|
| C | 10.48355 | 12.70956 | 1.731110 | 0.3522 |
| BI | -3.103356 | 4.131909 | 0.729235 | 0.0589 |
| IOW | 4.945163 | 4.878615 | 11.13804 | 0.0313* |
| BM | 6.150218 | 6.703753 | 1.284669 | 0.2021 |
| BFE | 4.26040 | 4.72172 | 0.876209 | 0.3832 |
| ACI | 2.692014 | 1.86322 | 0.116433 | 0.0642 |
| $R^2$ | 0.662088 | | | |
| ADJ $R^2$ | 0.600415 | | | |
| PROB(F-STATS) | 0.643680 | | | |
| F-STATS | 2.763019 | | | |
| DIAGNOSTIC TESTS | Probability | | | |
| HAUSMAN TEST | $chi2_{(4)}$ = 4.36 (0.5662) | | | |
| BREUSCH AND PAGAN LMT | Chibar2 $_{(01)}$ = 0.52 (0.7141) | | | |
| HETEROSKEDASTICITY | $chi^2_{(2)}$ = 2.35 (0.6985) | | | |
| SERIAL CORRELATION | $chi2_{(6)}$ = 0.83 (0.8432) | | | |
| CROSS-SECTIONAL D. | $F_{(45)}$ = 1.77 (0.5403) | | | |

**Interpretation of Diagnostic Test**

The results in table 4 show a Hausman Test of 0.5662 and Breusch-Pagan Lagrangian multiplier test of 0.7141 suggest that suggests that pooled OLS best estimator. Also, the heteroskedasticity test shows whether the remaining fluctuations of the model was continuous over time. The result of the cross-sectional independence test by Pesaran's with a p-value of 0.5403, which exceeds the chosen meaning norm by 5 percent, does not represent the prevalence of cross-sectional dependency in the information. A serial correlation test was also used to check if any autocorrelation was present in the residues and model coefficients, result showed no serial correlation. The diagnostic tests suggest no heterogeneity and no serial issues in the model.

EQit = β0+ β1IOWit + β2BMit + β3BIit +β4BFSit +β5ACIit ……… 3

The regression results in Table 4 all the corporate governance variable exerted positive effect on earning management of quoted consumer good companies in Nigeria except board independence that show a negative association, this is showed by the coefficient of the dependent variable IOW = 4945; BM = 6150, BI = -3.103356; BFS = 4.260; ACT = 2.692. this is consisting with our a priori

expectation that corporate governance measures should exert positive effect on earning management of quoted consumer good companies in Nigeria. Likewise, the probability of t-statistics of the individual coefficients are insignificant except IOW BI and ACI at 10 percentage level of significance.

The adjusted R-squared showed that about 60% variations in earning managed can be attributed by the corporate governance practice of the firms while the remaining 40% variation is caused by other factors not included in this model. The coefficient of determination shows that the main model has strong explanatory power. This is further emphasized by the probability of the F-statistic of 0.000 which shows that the regression result is statistically significant because this is less than 5%, the level of significance adopted for this study.

In addition, at the level of significance of 0.05, and F-statistics of 2.763 and p-value of 0.00, the null hypothesis that corporate governance has no significant effect on earnings management of quoted consumer good companies in Nigeria is not accepted. Therefore, from the regression estimates, CG measured by BI, IOW, BM, BFE and ACI jointly have positive effect on earnings management of quoted consumer good companies in Nigeria.

## DISCUSSION OF RESULTS AND CONCLUSION

Based on the findings and conclusions of the study, the following recommendations were offered to issue of corporate governance and earnings management;

I. Top executives of quoted Nigerian consumer good companies would have better understanding of corporate governance to improve earnings management of the organizations to a greater level of accountability and transparency.

ii. Consumer goods companies would be more desperate to find ways of maximizing and gaining optimal use of their own property so that their resources could fully be used during production processes and distribution of finished products, as this would help them to increase income.

iii. Management and shareholders of consumer good companies would also be careful of their decisions as regards leverage. The financing decision of the companies should be more of equity than debt to in order to avoid high leverage and low profitability due to increased interests paid to debt holders.

iv. Regulators review on timely basis governance regulations in order to assess its impact on financial reporting quality.

v. Regulators took into consideration the industry norms especially the existing sectorial codes in developing unified corporate governance codes

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