CORPORATE GOVERNANCE AND EARNINGS MANAGEMENT: EMPIRICAL EVIDENCE FROM NIGERIA

Peace Onuwabhagbe Okougbo*, Elewechi Okike**

Abstract

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

Keywords: Corporate Governance, Earnings Management, Discretionary Accruals, Agency Theory, Nigeria

* *Department of Accounting, School of Business, College of Development Studies, Covenant University, Canaan land, Ota Ogun State, Nigeria*
** *International Centre for Research in Accountability and Governance, P.O. Box 112, Washington, Tyne and Wear, NE37 1YB*

1. Introduction

As one of the world's largest producers of oil, Nigeria's economic significance in the global economy is not in doubt. However, the country has earned itself an unenviable reputation as a country where corruption is rife in all aspects of public and private life (Okike, 2004). This is not suggesting that corruption is unique to Nigeria, nor to any nation in particular (see Kimbro 2002; Transparency International, 2009). It is rife in many (if not all) developing as well as developed nations (Wallace, 1987). The collapse of the US corporate giant, Enron, and revelations of unethical behaviour by members of the boards of major corporations caused many to question not only the credibility of the auditing profession, but also, the effectiveness of the structures put in place to monitor the performance of corporate boards (Okike, 2004). Cadbury Nigeria sacked its Managing Director, and Finance Director in 2006 as a result of allegations of "deliberate overstatement of the company's financial position over a number of years to the tune of between N13 and N15 billion"! This is Nigeria's version of the Enron Corporation scandal in the United States (Ajayi, 2006).

Ajayi (2006) reports that the attitude to reap off and to loot in the private sector in Nigeria has not been given the attention it deserves, yet there are lots of abuses and number juggling going on in most companies in Nigeria. He asserts that corruption is so rife in the private sector in Nigeria that most foreign companies find it difficult to appoint Nigerians as helmsmen to run their Nigerian offices. Ajayi (2006) also reports that Lever Brothers Nigeria plc. suffered a similar setback a few years back when it suddenly removed its managing director after a careful review of its finances discovered abuses and irreconcilable figures. He asserts that "the average Nigerian executive considers the funds of his/her company just another piggy bank from where all sorts of personal expenses are taken care of and every imaginable purchase is made".

Nevertheless, the Nigerian government is not complacent about addressing this social malaise. On the contrary, the government is keen to eradicate this problem, because of the desire to attract foreign investments into the country. One of the steps taken to ensure effective monitoring of the boards of companies in Nigeria is the establishment of a Code of Best Practices for Corporate Governance by the Securities and Exchange Commission (SEC) in collaboration with the Corporate Affairs Commission (CAC) 1. The two regulatory bodies believed that "adopting international best corporate governance practices are more likely to attract international investors than those whose practices are perceived to be below international standards".

Therefore, a study which investigates the relationship between corporate governance and earnings management in Nigeria is very timely and relevant. In addition to the issue of corruption, the predominance of contemporary discuss on corporate governance in Nigeria also stems from the prevailing economic crisis, downturn in the capital market, poor credit management in banking institutions, insider trading and sharp practices in organisations.

Hence, according to Oyebode (2009): there is a need to examine the essence of corporate governance and its existence (or lack of it) in the Nigerian milieu and come to grips with its efficacy in the contemporary world before attempting to formulate a prophylaxis aimed at avoiding a recurrence with a view to putting an end to the anxiety and misery that seem to have descended on Nigeria and other emergent economies in recent times.

Therefore, the question being addressed in this paper is whether or not corporate governance indices are able to restrain earnings management practices in the private sector in Nigeria.

The incidence of creative accounting and window dressing prominent in the Enron, Adelphia, World Com, Parmalat, Tyco, and Cadbury Nigeria scenarios, borders on whether good corporate governance practices exist in organisations. Also, it suggests whether or not the Codes of Best Practices adopted in Nigeria, as well as in other countries are effective in preventing corporate governance abuses. The foremost theory of corporate governance being the agency theory emanates from the fiduciary duty of managers to the shareholders in terms of devotion and commitment in managing the organizational affairs in order to maximise shareholders wealth. The evolution of sole proprietorship businesses to public limited companies due to the advantage of access to extensive capital and visibility on the stock exchange, brings to the fore the crave for reduction in agency costs and conflicts.

Background to Corporate Governance in Nigeria

Issues relating to the regulation, control and governance of business enterprises in Nigeria are largely contained within the provisions of company legislation, currently the Companies and Allied Matters Act (CAMD 1990). Okike (1994, 1998, 2007) provide evidence that this system of legislation has its roots in Nigeria's colonial past, because like other British colonies, Nigeria inherited, at independence, many rules and regulations left behind by the colonial government. This suggests that the system of corporate governance in Nigeria is essentially "Anglo-Saxon", or the "outsider control system" (Franks and Meyer, 1994), which is synonymous with countries such as the United Kingdom and the United States of America. However, this does not imply that the general principles of the 'outsider control system'

of corporate governance that applies in these developed economies (see Okike, 2007) would necessarily be translated similarly in a developing economy like Nigeria. Unfortunately, most developing countries, like Nigeria, according to Wallace (1987: 344) "seem to have no difficulty in installing and adopting …institutions, techniques, concepts, … and regulatory systems that have thrived elsewhere or have been developed outside their own territories. It is either that they lack the resources to develop them or they lack that deeper perception of the individual inadequacies in the use of these 'alien' mechanisms (systems) which alone can guide them to reformulate their objectives and refashion such imported systems to suit their own purpose, or that such mechanisms are truly universal and so are not in need of any major or radical modification.

Prior to the enactment of the CAMD 1990, the previous Companies Act that governed the operations of business activities in Nigeria (the Companies Act 1968) mirrored the UK Companies Act of 1948 to a large extent. Okike (2007) reports that the reason for this was that the British controlled most of the business activities in Nigeria during the colonial period, bringing their legislation with them, to protect their economic interests. This meant that company legislation in Nigeria, following independence in 1960, "failed to deal with company law problems that were peculiar to Nigeria's socio-cultural and political environment. It also did not address the rapid economic and commercial developments of the country" (Okike, 2007: 175). Okike (1994) provides some evidence of Nigeria's attempt to reflect its peculiar socio-economic and political culture into company legislation, whilst Okike (2007) provides some insight into the various institutions and individuals charged with the responsibility for ensuring effective accountability of public companies in Nigeria.

Currently, Nigeria operates an accounting system which is known as Generally Accepted Accounting Principles (GAAP) (Ahmed, 2010). Bhaumik & Gregoriou (2009) assert that this method of financial reporting supports the exercise of judgement in the preparation of financial statements. Conversely, given that auditing is imperfect (see Okike, 1994, 2004 for the Nigerian evidence), managements' use of judgement also creates opportunities for "earnings management", in which managers choose reporting methods and estimates that do not accurately reflect their firms' underlying economics (Bhaumik & Gregoriou, 2009). Hence, earnings management arises as a result of managers having the capacity to exercise discretion over certain accounting decisions by exploiting the loopholes in the accounting standards.

The role of corporate governance is even more useful when managers have an incentive to deviate from shareholders' interests an example being the management of earnings through the use of

accounting accruals (Bugshan, 2005). Inferably, corporate governance is likely to reduce the incidence of earnings management (Roodposhti & Chashmi, 2010). Following this pattern of thought, discretionary accruals have been used prominently in literature as a surrogate for earnings management.

This study observes the nature of relationship that exists between corporate governance mechanisms and earnings management. The focus is also on suggesting ways of restricting opportunistic earnings management in Nigerian firms which creates a picture that earnings contained in financial reports are a façade. (see Okike (1994), (1999), (2004) and (2007); also Wallace (1992)).

The sections that follow are outlined as follows: Section 2 contains the literature review and hypothesis development, Section 3, the estimation method; Section 4, the empirical results and findings; Section 5, the conclusion and recommendations.

2. Literature Review and Hypothesis Development

Although there exits copious literature on corporate governance and earnings management in some developing countries (Hashim & Devi, 2008; Ali shah, Ali Butt, & Hassan, 2009; Al-Fayoumi, Abuzayed , & Alexander , 2010), no such study has been undertaken on Nigeria. This is unfortunate, given the economic significance of Nigeria not only in Africa, but also in the global economy, as one of the world's largest producers of oil. A study such as this has policy implications for the investment climate in Nigeria, given the various initiatives (Okike, 2007, 2011) of the government to address corporate governance abuses in the country, in order to attract much needed foreign investment. The model used for measuring corporate governance advances on Syed, Safdar, & Arshad (2009) by employing a more objective method of content analysis of annual reports of listed companies in order to measure corporate governance mechanisms rather than subjectively assigning weights.

Good governance means little expropriation of corporate resources by managers or controlling shareholders, which contributes to better allocation of resources and better performance (Syed, Safdar, & Arshad, 2009). This good governance translates to corporate governance where those at the hems of affairs of the organisation exude their managerial skills in the interest of the owners and other stakeholders.

Several relevant definitions of earnings management exist in literature. Healy & Wahlen (1999) paint a robust scenario of earnings management as a situation when managers use judgement in financial reporting and in structuring transactions to alter financial report to either mislead some stakeholders about the underlying performance of the company or to influence contractual outcomes

that depend on reported accounting numbers. Leuz, Nanda, & Wysocki (2003) assert that earnings management is the alteration of firms' reported economic performance by insiders to either mislead some stakeholders or to influence contractual outcomes. Wallace & Pornsit (2004) define earnings management as the use of the flexibility in accounting principles that allow managers to influence reported earnings, thereby causing reported income to be larger or smaller than it would otherwise be. Earnings management is a form of earnings manipulation that is likely to reduce the reliability of earnings (Bugshan, 2005).

Even in the absence of fraudulent reporting, firms can manipulate reported accounting earnings because GAAP allows alternative representations of accounting events (Park & Shin, 2004). This is a potential occurrence in countries like Nigeria that observe principle based accounting which creates room for managers to apply professional judgement and discretion. Ajayi (2006) provides evidence of such abuses in the private sector in Nigeria. However, a study such as this reveals whether or not such occurrences are still prevalent, or whether or not the corporate governance mechanisms put in place are yielding expected results of curbing fraudulent reporting by those charged with corporate governance.

The UK Auditing Practices Board (2001) opines that the continuing development of good corporate governance and accounting standards together with auditing standards will help to counter the threat of aggressive earnings. In corroboration, Marra, Mazzola, & Prencipe (2011) emphasise that the high level disclosure and transparency of the International Financial Reporting Standards (IFRS) resulting in the effectiveness of corporate governance mechanisms moderates the monitoring of earnings management.

Empirical literature has discussed the objectives, categories and strategies of earning management. Earnings management is legal if the reported earnings are adjusted in line with GAAP such as changing the methods for inventory valuation and depreciation. Earnings management becomes a fraudulent activity when it falls outside the bound of GAAP like accelerating revenue recognition and deferring expenses recognition (Yang, Chun, & Ramadili, 2009). Based on this pattern of thought earnings management objective has broadly being classified into two in literature, namely: opportunistic and beneficial (Jirapon, Miller, Yoon, & Kim 2008) or opportunistic and efficient contracting (Siregar & Utama, 2008). Jirapon et.al (2008) suggest that earnings management may be beneficial because it improves the information value of earnings by conveying private information to the stockholders and the public. Whereas, opportunistic earnings management emanates from capitalising on the gaps in the accounting standards intended to deceive stakeholders.

Chih & Shen (2007) premise that insiders engage in earnings management to dilute their rent-seeking activities from outsiders in order to reduce outsider interference and protect insiders' private control benefits. The incentives to misrepresent firm performance through earnings management arise, in part, from a conflict of interest between firms' insiders and outsiders (Leuz, Nanda, & Wysocki, 2003). The resultant effect of this conflict of interest is the agency cost borne out of the questionable loyalty of managers to the owners. Hence, Jirapon et.al (2008) offers agency theory as a tool to distinguish between the opportunistic and beneficial uses of earnings management. By implication, the prevalence of high agency costs in organisations is opportunistic earnings management while low agency costs results in beneficial earnings management.

Weber (2004) explores two earnings management strategies - directional earnings management, where the objective is to shift the mean value of reported earnings, and income smoothing earnings management, where the objective is to reduce the time series variance of reported earnings.

Lo (2008) classify earnings management into two broad categories: real earnings management (i.e., affecting cash flows) and accruals management through changes in estimates and accounting policies.

In order to examine whether earnings have been managed, researchers have to measure the effects of managers' use of accounting discretion in unexpected accruals, i.e., estimates of unexpected accruals are deemed a proxy for the impact of managers' use of accounting discretion (Bhaumik & Gregoriou, 2009). Hence, the prominent surrogate for earnings management in literature is the discretionary accruals (Hashim & Devi, 2008; Thoopsamut & Jaikenglit, 2008; Ali Shah, Zafar, & Durrani, 2009). Earnings management is also proxy with abnormal accruals (Peasnell, Pope, & Young, 2004; Park & Shin 2004).

Firms are considered to have engaged in income-increasing (decreasing) discretionary accruals if they have positive (negative) estimated discretionary accruals (Yang, Chun, & Ramadili, 2009; Roodposhti & Chashmi, 2010). The income-increasing discretionary accruals depict upward managed earnings while the income-decreasing discretionary accruals depict downward managed earnings.

Earnings management is analogous to earnings quality because high-quality earnings are conservative, while low-quality earnings are upwardly managed earnings (Lo, 2008). However, both schools of thought believe that managers use discretionary accruals to convey their private information to investors (Ali shah, Ali Butt, & Hassan, 2009).

Apparent in earnings management literature is juxtaposition between earnings management and corporate governance suggesting that corporate governance can restrain the practice of earnings management. The corporate governance indices adopted in this study are CEO duality, audit committee independence, and board size. These mechanisms are selected based on the stipulation of the Securities and Exchange Commission's code of corporate governance in Nigeria (2003).

CEO duality

The separation of the offices of the Chairman and the Chief Executive officer is an essential element of corporate governance so as to prevent undue concentration of powers (Securities and Exchange Commission, 2003). Also, agency theory discourages the combination of the offices known as CEO duality because it impedes the system of checks and balances whereas stewardship theory proposes it because it enhances leadership. Thus, combining the positions of CEO and board chairperson weakens boards' effectiveness in controlling and monitoring functions, thereby increasing agency costs (Kim, Al-Shammari, Bongjin, & Lee, 2008). CEO duality becomes problematic if the interests of the CEO are different from interests of shareholders (Roodposhti & Chashmi, 2010). In bifurcated roles, two individuals can share the responsibilities such as the CEO running company operations and the board chairman addressing board issues such as strategic responsibilities (Callaghan, 2005).

Several empirical studies have measured the impact of CEO duality on earnings management.

Bugshan (2005); Sarkar, Subrata, & Kaustav (2006); Liu & Lu (2007); Roodposhti & Chashmi, (2010) find that there is a negative significant relationship between CEO duality and earnings management. Whereas, Chtourou, Bedard, & Courteau (2001); Hashim & Devi (2008); Johari, Saleh, Jaffar, & Hassan (2008); Garcia-Meca & Sanchez-Ballesta (2009); Chen & Liu (2010) provide evidence that the separation of the roles of Chairman and CEO, doubtedly has an effect on earnings management. Saleh, Iskandar, & Rama (2005) result show that CEO duality is positively related to earnings management but not significant.

Although it is expected that in order to limit agency problem, there needs to be a positive relationship between CEO duality and earnings management, but there are mixed outcomes in empirical literature. Hence this study hypothesises that:

Hypothesis 1. There is no significant relationship between CEO duality and earnings management.

The offices of the Chief Executive Officer and the Chairman are represented on the board of directors. The numbers of persons on the board are critical in examining whether the board structure of a firm is potent enough to enforce corporate governance.

Board Size

Corporate boards are responsible for monitoring the quality of information contained in the financial statements, thus they control the behaviour of senior managers in order to guarantee that their actions are aligned with the interests of stakeholders (Dimitropoulos & Asteriou, 2010). The role of corporate boards is therefore embedded in corporate governance practices with responsible boards fostering good corporate governance roles. Firth, Fung, & Rui (2007), posit that board size is another variable that affects the effectiveness of the board control function.

Agency theory and resource dependency theory are the dual schools of thoughts on the size of boards. Agency theory proposes smaller boards and as put by Ning, Davidson, & Wang (2010), when board size increases, agency problems in the boardroom increase simultaneously, therefore leading to more director free-riding problems and internal conflicts among directors. Larger boards are generally perceived to be less effective in the exchange of ideas and they increase the coalition costs amongst board members (Firth, Fung, & Rui, 2007). Board of directors play a vital role in controlling agency problem between shareholders and managers that arise due to earnings management (Ali Shah, Zafar, & Durrani, 2009). On the other hand, resource dependency theory support larger boards because of the wealth of expertise, skill, and resources the board members are likely to make accessible to the organisation.

Empirically results have shown that there is a negative significant relationship between board size and earnings management (Chtourou, Bedard, & Courteau, 2001; Bugshan, 2005; Roodposhti & Chashmi, 2010). In a study of Initial Public Offering firms, discover that board size is negatively significantly associated with earnings management (Mnif, 2009). Rashidah & Fairuzanana (2006) in a Malaysian study support the view that larger boards are ineffective in their oversight duties relative to smaller boards because they find that board size is positively related to earnings management.

The expectation is that board size would have a positive significant relationship with earnings management. A positive relationship purports a reduction in agency problems in terms of a lower board size resulting in reduced earnings management and vice versa. Therefore, the study hypothesizes that:

Hypothesis 2. There is a positive significant relationship between board size and earnings management.

Audit Committee Independence

The Companies and Allied Matters Act (1990) as amended till date, specifies the audit committee structure in Nigeria. It recommends that there be an equal number of directors and shareholders subject to a maximum of six members whose role is to examine the auditor's report and make recommendations thereon to the annual general meeting. As a result of the audit committee responsibility of overseeing internal control and financial reporting, good governance dictates that audit committee members should possess a certain level of competencies (Chtourou, Bedard, & Courteau, 2001).

Audit committee members must be aware of the ways in which management's accounting-related choices provide opportunities to manage earnings — through timing of transactions and making estimates (Weil, 2009). Garcia-Meca & Sanchez-Ballesta (2009) find that is one of the major corporate governance mechanisms in constraining earnings management.

However, earnings management occurs less frequently when the audit committee is more independent. Independent audit committees provide an effective monitoring over earnings management practices (Bukit & Iskandar, 2009). Thus audit committee helps to alleviate the agency conflicts between the top management and the shareholders by improving the quality of financial reporting and reducing the information asymmetry between inside managers and outsider shareholders (Lei, 2008).

Empirical evidence show a negative significant relationship between audit committee, and earnings management (Chtourou, Bedard, & Courteau, 2001; Bugshan, 2005; Roodposhti & Chashmi, 2010). In a Singaporean study of 485 firm-years, Zahn & Tower (2004) discover that a higher proportion of independent audit committee members are more effective at constraining earnings management. Saleh, Iskandar, & Rama (2005) result based on the Malaysian environment, shows that the presence of a fully independent audit committee reduces earnings management practices.

The study therefore hypothesises that:

Hypothesis 3. There is a negative relationship between audit committee independence and earnings management.

3. Data Estimation

Data

The data for this study is sourced from the annual reports and accounts of sixty two (62) non-financial firms listed on the Nigerian Stock Exchange for the year 2008 and analysed using content analysis. The financial year 2008 is selected because it is the most recent year with the most available annual reports and accounts. The financial institutions are excluded because the industry is highly regulated and the behaviour of their accruals differs from other industries (Saleh, Iskandar, 2005; Syed, Safdar, & Arshad, 2009). The annual reports and accounts are deemed reliable and were the most available source of data collection. The aspects of significance in the

reports and accounts are the balance sheet, the profit or loss account, the statement of cash flows, the corporate governance report, and the auditor's report.

Most of the data for the analysis is gathered from www.sbainteractive.com, a database containing information from the capital market. Also, hard copies of the annual reports for the 2008 were readily available for use for this enquiry. The sample size of 62 companies is chosen based on the availability and accessibility of data2. The cross sectional data is further analysed using the ordinary least square regression on the EViews 6 Statistical Package.

Measuring Discretionary Accruals and Model Formulation

The research adopts discretionary accruals as a surrogate for earnings management based on common usage in literature including Sarkar, Subrata, & Kaustav (2006); Hashim & Devi (2008); Thoopsamut & Jaikenglit (2008); Ali Shah, Zafar, & Durrani (2009) etc. In literature, two prominent approaches exist to measure discretionary accruals namely the balance sheet approach and the cash flow statement approach (Ali Shah, Zafar, & Durrani, 2009).

The balance sheet approach incorporates measures from the balance sheet while the cash flow statement approach uses measures from the cash flow statement. The approaches have a common feature of initially determining total accruals before deducting non-discretionary accruals to arrive at the discretionary accruals.

Balance Sheet Approach

Collins & Hribar (1999) recommend that total accruals be calculated using the following formula in the balance sheet approach:

$TA = \Delta CA - \Delta Cash - \Delta CL + \Delta STDEBT - DEPTN$
Where: ΔCA_t is change in current assets in year t
$\Delta Cash_t$ is the change in cash and cash equivalents in year t
ΔCL_t is the change in current liabilities in year t
$\Delta STDEBT$ = the current maturities of long-term debt and other short-term debt included in current liabilities during period t
$DEPTN$ = depreciation and amortization expense during period t

Cash Flow Statement Approach

The formula for the cash flow statement approach is given by (Ali shah, Ali Butt, & Hassan, 2009) as follows:

$TA_t = N.I_t - CFO_t$
Where TA_t is total accruals in year t
$N.I_t$ is Net Income in year t

CFO_t is Net cash flow from operating activities

Collins & Hribar (1999) empirically find that the balance sheet approach to test for earnings management are potentially contaminated by measurement error in accruals estimates. Consequently, the study utilises the cash flow statement approach as adopted in Ali Shah, Zafar, & Durrani, (2009); Abbas, Khan, & Rizwan (2006) to determine total accruals because it is superior and less complicated than the balance sheet approach.

The prominent research work of Dechow, Sloan, & Sweeney (1995) in the earnings management literature, display five models of discretionary accruals in an evolutionary manner: the Healy Model (1985); the DeAngelo Model (1986); the Jones Model (1991); the Modified Jones Model; the Industry model (1991).

Dechow, Sloan, & Sweeney (1995) suggest that based on the competing models, discretionary accruals should be estimated by subtracting predicted level of nondiscretionary accruals (NDAP) from total accruals (standardized by lagged total assets):

Discretionary Accruals = Total accruals - Nondiscretionary Accruals

Dechow, Sloan, & Sweeney (1995) assert that the essence of the modification of the original Jones Model is to eliminate the conjectured tendency of the Jones model to measure discretionary accruals with error when discretion is exercised over revenues. Thus, the Modified Jones Model is adopted to estimate the discretionary accruals because it advances on the errors of the original Jones Model.
$NDA_t = \alpha 1 (1/A_{t-1}) + \alpha 2 (\Delta REV_t - \Delta REC_t)/A_{t-1} + \alpha 3 (PPE_t/A_{t-1})$

Discretionary accrual (DAC) is defined as the residual from the regression of total accruals on non-discretionary accruals as given in the cross sectional model:
$TA_t /A_{t-1} = \alpha 1[1/A_{t-1}] + \alpha 2[(\Delta REV_t - \Delta REC_t) / A_{t-1}] + \alpha 3[(PPE_t/A_{t-1})] + \varepsilon$
Where:
TA_t is total accruals in current year scaled by lagged total assets
ΔREV_t is revenues in current year less revenue in previous year scaled by lagged total assets
PPE_t is gross property plant and equipment at the end of year t scaled by lagged total assets
ΔREC_t is net receivables in current year less net receivable in previous year scaled by lagged total assets
A_{t-1} is total assets at the end of year t-1
$\alpha 1, \alpha 2, \alpha 3$ are firm specific parameters
ε is the residual, which represents the firm specific discretionary portion of total accruals.

The Modified Jones Cross sectional model is selected because it has been evaluated by Bartov, Gul, & Tsui (2000) that it performs better than its time-series counterparts in detecting earnings management.

Control Variables

Despite the focus of this study being the measurement of the relationship between corporate governance and earnings management, there is still the need for the introduction of control variables to measure the effect of other external factors that can be responsible for any disparity in the relationship between the subject matter. The control variables selected in this study are firm size, firm age, auditor type, leverage, and return on assets.

Leverage is included as a control variable to describe the financial policy and the capital structure of firms. Leverage is measured as the ratio of long term debt to total assets (Bartov, Gul, & Tsui, 2000; Sarkar, Subrata, & Kaustav 2006). Financial leverage is found by Hashim & Devi (2008) to be negatively significant to earnings. In a more recent study, Roodposhti & Chashmi (2010) observes that leverage has a positive significant relationship with earnings management.

Firm size is often used as a proxy for information availability in the market (Siregar & Utama, 2008). Firm size is controlled for internal economies of scale and accessibility to market information. Fagiolo & Luzzi (2006) mention that sales is one of the alternative measures of firm size. Hence firm size is proxy with annual turnover of firms. Kim & Rhee (2003) observe that small firms engage in more earnings management than large and medium sized firms to avoid reporting losses. Contrarily, Chih & Shen (2007) in a study of nine Asian countries observe that large firms are more prone to conduct earnings smoothing. Also, Roodposhti & Chashmi (2010) observes that leverage has a positive significant relationship with earnings management.

The auditor type is captured based on a classification of audit firms into big 4 auditors and the non-big four auditors. Auditor type is used to control for auditor efficiency and effectiveness in ensuring transparency in financial reporting. Lee & Byeonghee (2002) results are mixed and insignificant. Zhou & Randal (2001) find that the big four auditor type is able to curb earnings management in Initial Public Offering firms. Also, Okike (1998 and 1999) provide evidence of better quality reporting by the Big 6 (now Big 4) audit firms in Nigeria.

The age of the firm is a relevant control variable because as Stubben (2010) explains, it represents the firms' stage in the business cycle. Firm age is measured by the age from incorporation or age from date of listing (Mnif, 2009; Loderer, Neusser, & Waelchli, 2011). Li, Zhang, & Zhou (2006), results show that firm age plays no significant role in earnings management. Wu & Huang (2011) find that there is a positive relation between the age of the firm and earnings management.

The return on assets is introduced to control for the performance of the firm. Wu & Huang, (2011)

find that there is a positive relation between return on assets and earnings management. In an Australian study, Sun & Rath (2009) observe a negative relationship while documenting strong evidence that return on asset is a primary determinant of earnings management. Lee, Li, & Yue (2005) reveals that there is positive relationship between discretionary accruals estimated from the Jones model and firms' performance.

Empirical Model

The entire estimation model is given below while controlling for firm size, firm age, auditor type, leverage, and return on assets.

$$DAC= ß0 + ßIBRDSIZE + ß2CEO+ ß3AUDCOM +B4SIZE + B5AGE+ B6AUDTYP + B7LEV+ B8ROA+ e$$

Dependent variable
DAC: discretionary accruals (income-increasing and income- decreasing accruals)

Independent variables
BRDSIZE: board size (number of directors on the board) for firm i
CEO: CEO duality (equals 1 if CEO is also chairperson of the board and 0 if otherwise)
AUDCOM: audit committee independence (number of Non-executive directors/ size of audit committee)
SIZE: firm size (log of turnover)
LEV: leverage (the ratio of long term debt to total assets (%))
AGE: firm age (company age since incorporation)
AUDTYP: the auditor type (categorical variable where 1 is assigned to the big four audit firm and 0 otherwise).
ROA: return on assets (profit after tax/ total assets)
e: an error term.

4. Empirical Results and Findings

This section discusses the descriptive as well as the empirical result, which will further aid the testing of the hypothesis. The EViews 6 is used in the estimation process.

Descriptive Statistics

The table below reports that the discretionary accruals for the sample companies have a mean value of 0.0% with a maximum value of 160.7% and a minimum of -1.26%. The zero per cent average of discretionary accruals observed is as a result of 22 firms with income increasing discretionary accruals and 40 firms with income decreasing discretionary accruals. This

implies that majority sample firms report downwards in order to probably reserve recent earnings to cover up possible losses in the future. While minority firms report upwards to cover up current losses in order to create a picture of maximising shareholders wealth and profit and also the existence of good corporate governance. The 0.0% mean of discretionary accrual is also as a result of negative total accruals prominent across firms based on negative net income and negative cash flow from operating activities.

The board size shows an average of 9 persons which are 6 board members below the stipulated maximum by the Securities and Exchange Commission (2003) of a 15 man board. Since a lower board size has been known to reduce agency costs (Firth, Fung, & Rui, 2007; Ali shah, Ali Butt, & Hassan, 2009; Ning, Davidson, & Wang, 2010), deductively the average board size appears to be efficient in reducing opportunistic earnings management. Hence the mean board size may be good for controlling earnings management.

The independence of the audit committee is rated on the average at 50% implying that there is an equal mix of directors and shareholders on the board. A highly independent audit committee results in low earnings management (Zahn & Tower, 2004). Whereas an averagely independent committee would likely result in earnings management.

The mean value of CEO duality in the sample firms is 10%. Therefore, 10% of the firms have the same person performing the dual roles of CEO and Chairman. This implies that about 90% of the sample firms have the positions of the chairman and chief executive officer separated and managed by different persons. The low level of CEO duality is a pointer to

effective implementation of the code of corporate governance for best practices which should in turn reduce the incidence of earnings management.

The average auditor type which is 73% shows that the auditors commonly engaged belong to the big four audit firms' category while 27 % are small and medium sized audit firms. There is a tendency for less earnings management in the sample because majority of the sample firms engage the big four auditors. This is because the big four auditors which are global firms are expected to be more detailed, effective and efficient in executing their tasks compared to their non-big four counterparts.

The results reveal that the age of the firms calculated from the date of incorporation has a mean of approximately 43 years. The minimum age is 2 years while the maximum age is 85 years.

The leverage of the firms shows an average of less than 0% implying that there is less debt financing and more of equity financing. This suggests that the firms are faced with little or no financial risk because the major source of capital is equity based.

The return on assets as a measure of performance and profitability reflects a mean of 12.9% which is relatively low. The rationale for this is that most firms make diminutive profits and others make losses while increasing their total assets base.

The size of the firm surrogated by annual turnover has an average of N32,957,480,0003. It is thus observed that the firms are relatively large and as such they have access to more information in the market. The large mean size also suggests that the firms benefit from activities that are related to increased firm size such as technological benefits, reduced cost of production, and a larger market.

Table 1. Summary Statistics of Variables

	DAC	BSIZE	AUDCOM	CEO	AUDTYP	AGE	LEV	ROA	SIZE
Mean	0.00	8.81	0.50	0.10	0.73	43.29	0.00	0.13	32957480
Median	-0.06	9.00	0.50	0.00	1.00	47.00	0.00	0.07	8623973
Maximum	1.61	16.00	1.00	1.00	1.00	85.00	0.00	1.73	339000000
Minimum	-1.26	4.00	0.40	0.00	0.00	2.00	0.00	-0.13	162746
Std. Dev.	0.44	2.59	0.07	0.30	0.45	15.61	0.00	0.27	57729798
Skewness	1.47	0.34	6.04	2.73	-1.01	-0.50	7.67	4.29	3.13
Kurtosis	7.77	2.77	45.10	8.44	2.02	4.11	59.92	23.47	14.84
Jarque-Bera	81.29	1.33	4954.30	153.35	13.05	5.78	8977.83	1272.51	463.29
Probability	0.00	0.51	0.00	0.00	0.00	0.06	0.00	0.00	0.00
Sum	0.00	546.00	31.30	6.00	45.00	2684.00	0.00	8.00	2040000000
Sum Sq. Dev.	11.89	409.68	0.29	5.42	12.34	14858.77	0.00	4.55	2.03E+17
Observations	62	62	62	62	62	62	62	62	62

Note: the values of company size are in billions. All the values in the table are in 2 decimal points so as to maximise space

Correlation Analysis

The test for multicollinearity is executed using correlation analysis, in order to examine the existence

of correlation between the independent variables. The applicability of this test is that if such exists, it may lead to a phony regression result.

Table 2. Test for Multicollinearity

	DAC	AUDCOM	BSIZE	CEO	LEV	ROA	AUDTYP	AGE	SIZE
DAC	1								
AUDCOM	-0.0705	1							
BSIZE	0.2387	-0.2522	1						
CEO	0.0198	-0.1032	-0.0390	1					
LEV	-0.0018	-0.0096	0.0027	-0.0399	1				
ROA	0.6621	-0.0509	0.0810	-0.0932	-0.0472	1			
AUDTYP	-0.0287	0.0436	-0.0322	-0.0434	-0.2202	-0.0172	1		
AGE	-0.0012	-0.0013	-0.1546	-0.0202	-0.0505	-0.1373	0.2451	1	
SIZE	0.0411	0.0411	0.2783	-0.0698	-0.1805	-0.0933	0.5239	0.1179	1

From table 2 above, there appears to be no case of multicollinearity among the independent variables. Hence a further analysis with the ordinary least square regression can be carried out.

Audit committee independence, leverage, firm age and auditor type show a weak negative association with discretionary accruals. There is also a weak positive association between CEO duality, firm size and discretionary accruals. The board size is positively associated to discretionary accruals reflecting a strong-weak relationship. While return on assets reflects a strong positive association with discretionary accruals.

Regressions of Estimated Model

Table 3 reveals some test statistics at the lower segment such as the coefficient of determination (R^2), F-statistic. This aspect contains the analysis of the derived result from the estimated regression model.

The variable for audit committee independence is found to have a positive insignificant effect on earnings management. This corroborates the findings of Roodposhti & Chashmi (2010) who find that a possible explanation for the insignificant relationship is that the board of directors is seen as ineffective in discharging their duties due to management dominance over board matters. Though the correlation between audit committee independence and earnings management is negative, when included alongside the corporate governance mechanisms and the control variables the relationship turns positive. The reason for the difference in the sign of the coefficient is because the correlation test measures the bivariate relationship between audit committee independence and discretionary accruals. However, regression test is multivariate and therefore the relationship between audit committee independence and discretionary accruals is influenced by the other variables present in the model. The result from the descriptive statistics of a 50% independent audit committee on the average, seems to be appropriate in this model since the greater the independence the greater the earnings management. We therefore reject the hypothesis that there is a negative relationship between audit committee independence and earnings management.

The board size reflects a positive significant relationship with earnings management at a 10% level of significance. This is as a result of the tendency of larger boards to increase agency costs one of which is earnings management. Also, larger boards are perceived to contribute to agency conflicts because the more the board members, the longer the time spent in decision making, and the greater the conflict of personalities. The result is consistent with the findings of Rashidah & Fairuzanana (2006) that a positive relationship exists between corporate governance and earnings management. The positive relationship suggests that smaller boards are most appropriate to reduce earnings management. Hence the hypothesis proposing a positive significant relationship between board size and earnings management is accepted.

The relationship between CEO duality and earnings management is positive and insignificant. The regression results provide evidence that CEO duality does not really affect earnings management. Drawing from the result from the descriptives, the reduced level of CEO duality and a greater separation of the roles of chairman and CEO among the sample firms does not have an impact on earnings management.

Table 3. Regression Result

Dependent Variable: DAC				
Method: Least Squares				
Date: 06/12/11 Time: 16:59				
Sample: 1 62				
Included observations: 62				
	Coefficient	Std. Error	t-Statistic	Prob.
AUDCOM	0.138276	0.652167	0.212025	0.8329
BSIZE	0.031437	0.01865	1.68569	0.0977*
CEO	0.14874	0.145619	1.021428	0.3117
LEV	1654.718	4122.289	0.401408	0.6897
ROA	1.107834	0.160859	6.887007	0***
AUDTYP	-0.07913	0.117653	-0.672533	0.5042
AGE	0.003797	0.002886	1.315796	0.1939
SIZE	0.023644	0.031298	0.755457	0.4533
C	-0.99239	0.562128	-1.765409	0.0833
R-squared	0.504171	Mean dependent var		7.16E-18
Adjusted R-squared	0.429329	S.D. dependent var		0.44142
S.E. of regression	0.333461	Akaike info criterion		0.774897
Sum squared resid	5.89339	Schwarz criterion		1.083674
Log likelihood	-15.0218	Hannan-Quinn criter.		0.89613
F-statistic	6.736458	Durbin-Watson stat		2.16947
Prob(F-statistic)	0.000005			

Note: ***, **, * significant at 1%, 5% and 10% respectively

This evidence is substantiated by the findings of Chtourou, Bedard, & Courteau (2001); Hashim & Devi, (2008); Johari,Saleh, Jaffar, & Hassan(2008); Chen & Liu, (2010); Garcia-Meca & Sanchez-Ballesta, (2009) who argue that the separation of the roles of CEO and Chairman doubtedly has an effect on earnings management. Therefore, the hypothesis relating to an insignificant relationship between CEO duality and earnings management is accepted. This could be a resultant effect of a situation whereby the management officials collude with some other members of the board to execute earnings management without the knowledge of the Chief Executive Officer or Chairman. In this light, agency theory perspective on zero tolerance for CEO duality does not hold because a separation of the positions has no effect on earnings management.

With respect to the control variables, return on assets is significant while leverage, age, auditor type, and size are insignificant. The return on assets shows a positive significant relationship at 1% level of significance with earnings management. This suggests that the performance of the sample firms affects earnings management primarily. Lee, Li, & Yue (2005) and Wu & Huang (2011) have found out same that a higher return on assets results in higher earnings management. Financial leverage is found not to have any significant relationship with earnings management because the firms do not really finance operations with debt but use more of equity. Therefore, there are no debt pacts to be upheld by the sample firms.

Age of the firm is also positive and insignificant because a young or old firm may be naturally inclined to manage earnings.This implies that the stage of a firm in its business cycles does not affect its earnings management. The auditor type appears to be negative and insignificant which is consistent with the results of Lee & Byeonghee (2002). This might be as a result of the fact that the exercise of professional judgement on financial reporting issues still lies with the management while auditing remains an imperfect task. Inferably the type of auditor engaged in the firm has no impact on earnings management in terms of the ability to enforce transparency in financial reporting.

Firm size is found to have no effect on earnings management. This suggests that the benefit of economies of scale accruing to firms as a result of the size has no effect on earnings management.

The r squared depicts that the model explains 50.4% of the variation in earnings management. Also the F-statistic shows that the model is significant at 1% level. Thus the model measuring the relationship between corporate governance and discretionary accruals is valid at 99% confidence level.

Conclusions and Recommendations

The study examined the relationship between corporate governance and earnings management with evidence from Nigeria, using ordinary least square regression on 62 (sixty two) selected firms listed on the Nigerian Stock Exchange.

It is primarily observed that the relationship between corporate governance indicators and earnings management provides mixed outcomes. Audit committee independence and CEO duality as corporate governance indicators have no significant relationship with earnings management whereas board size reflects a positive significant relationship. In the context of Nigeria, where company legislation prescribes that the audit committee should consist of an equal number of directors and shareholders it could imply that this committee is ineffective and redundant as far as protecting the interest of shareholders is concerned. As a matter of fact, Okike (2007), Adegbite (2010) and Uche (2011) provide evidence in support of this assertion. There is now such a proliferation of shareholder associations in Nigeria (because many of their members want to sit on the board of listed firms) to the point that the SEC now regulates shareholder associations in Nigeria. Firms with a smaller board size therefore engage less in earnings management and vice versa. The advocacy is for a suitable board size of 8 to 9 persons based on the result from the descriptive statistics. The Securities and Exchange Commission Code of Corporate governance in Nigeria (2003) specifies a maximum of 15 board members, yet there remains this underlying question: What is really the size of a small board?

Secondly, we observe that most firms utilise income-decreasing discretionary accruals and less of income-increasing discretionary accruals. The incentive to manage earnings downwards is so as to use current profit to cover up future losses. Managers would likely prefer to report downward earnings rather than upwards to the stakeholders so as to paint a picture of a fair performance and reserve the earnings that accrue to shield future losses.

Thirdly, it is empirically detected that return on assets is the only control variable that has a significant relationship which is positive, with earnings management. Performance is therefore one of the key determinants of earnings management because the more the profitability, the greater the earnings management. This does not relay that performance inhibitors should be employed to reduce earnings management because the primary goals of firms are to maximise both profit and shareholders' wealth. Rather, firms should work towards maintaining increasing levels of profits and desist from making losses so as to preclude downward management of earnings. This is crucial to attracting foreign investments, as investors are more likely to want to invest in a profitable and well-managed company than one making losses and poorly managed.

In the correlation analysis, it is noted that board size and return on assets exhibit the highest associativity with earnings management. This also translates to the regression result where it is apparent that both variables are the only statistically significant variables. This does not come as a surprise, given that these are the areas where corporate governance in Nigeria faces the greatest challenge of probity and accountability. The more profitable a company is, the more there is the opportunity for corporate governance abuses. As Ajayi (2006) asserts, "the average Nigerian executive considers the funds of his/her company just another piggy bank from where all sorts of personal expenses are taken care of and every imaginable purchase is made". Appointments to boards in Nigeria most often than not have socio-cultural and political connotations. According to Ajayi (2006), "corporate governance and responsibility has been sacrificed at the altar of nepotism and corruption" in the private sector in Nigeria."

For future researches, discretionary accruals can be categorised separately into income increasing and income decreasing discretionary accruals and tested for individual relationship with corporate governance. Also, other control variables like return on equity, earnings per share, and growth can be introduced to examine their impact on earnings management. Further studies should also probe into determining a suitable small sized board to ensure reduced incidence of earnings management. A wider range of corporate governance indicators including ownership concentration and board composition can be studied to observe their effect on earnings management. The Modified Jones Crosssectional Model is employed to determine the relationship between corporate governance and earnings management because the time series model was not statistically significant (contained in the appendix). Imminent researches should still adopt the Modified Jones Cross Sectional model but with an increased number of firm observations.

Endnotes

1 The authors acknowledge the helpful comments of participants at the 1st African Accounting and Finance Conference, Accra, Ghana, 7th-9th September 2011. The paper also won the Emerald Best Paper Award at the conference. The authors are also grateful to William Judge for his helpful comments on an earlier version of the manuscript. A revised version was also presented at the British Accounting and Finance Association (BAFA) Annual Conference in Brighton UK, 12-14th April 2012, and the helpful comments of participants at the conference is acknowledged.

2 See Okike (2007) for the roles of the SEC and the CAC in regulating corporate governance in Nigeria.

3 Wallace (1987), Okike (1996), Adegbite (2010) and Uche (2011), amongst others provide evidence of the difficulties of accessing (human and secondary) data from Nigeria. Although the Nigerian Stock Exchange Library is expected to have copies of the annual reports of all listed companies, this is often

not the case. These reports are not readily available, and are not accessible electronically, either.

4 At the time of writing, N250 is equivalent to £1.00

References:

1. Abbas, Z., Khan, A. M., & Rizwan, M. F. 2006. Abnormal accruals and firm value, panel data analysis of banking industry of Pakistan. European Journal of Scientific Research, Vol. 14 No.4, pp 445-454.
2. Adegbite, E. 2010. The Determinants of Good Corporate Governance: The Case of Nigeria Unpublished PhD Thesis, Cass Business School, London.
3. Ahmed, I. 2010. Is Nigeria Prepared for International Financial Reporting Standards? http://dailytrust.dailytrust.com/, accessed 26 April 2011.
4. Ajayi, B. 2006. Cadbury: Nigeria's Enron. Nigeria world, Thursday, December 14. http://nigeriaworld.com/feature/publication/babsajayi/121406.html, accessed 15 November 2011.
5. Ali shah, S. Z., Ali Butt, S., & Hassan, A. 2009. Corporate governance and earnings management: empirical evidence from Pakistan companies. European Journal of Scientific Research, Vol. 26 No.4, pp. 624-638.
6. Ali Shah, S. Z., Zafar, N., & Durrani, T. K. 2009. Board composition and earnings management an empirical evidence form Pakistani listed companies. Middle Eastern Finance and Economics Vol.3, pp.28-38.
7. Bibliography \l 1033 Bartov, E., Gul, F. A., & Tsui, J. S. 2000. Discretionary-accruals models and audit qualifications. Journal of Accounting and Economics, Vol. 30 No.3.
8. Bhaumik, S. K., & Gregoriou, A. 2009. "Family" ownership, tunnelling and earnings management: a review of literature. Working Paper Number 954. 1-31, William Davidson Institute, University of Michigan.
9. Bugshan, T. 2005. Corporate governance, earnings management, and the information content of accounting earnings: theoretical model and empirical tests. Unpublished doctoral dissertation, Queensland, Australia
10. Bukit, R. B., & Iskandar, T. M. 2009. Surplus free cash flow, earnings management and audit committee. International Journal of Economics and Management, Vol. 3 No.1, pp. 204-223.
11. Callaghan, M. A. 2005. The relationship between chief executive officer duality and subsequent corporate financial performance. Unpublished doctoral dissertation, Capella University.
12. Chen, K. Y., & Liu, J.-L. 2010. Earnings management, CEO domination and growth opportunities. International Journal of Public Information Systems, Vol.1, pp.43-69.
13. Chih, H.–L., & Shen, C.–H. 2007. Earnings management and corporate governance in Asia's emerging market. Corporate Governance: An International Review, Vol. 15 No.5, pp. 999-1021.
14. Chtourou, S. M., Bedard, J., & Courteau, L. 2001. Corporate governance and earnings management.

http://www.ssrn.com/abstract=275053, accessed 15 July, 2010.
15. Collins, D. W., & Hribar, P. 1999. Errors in estimating accruals: implications for empirical research. http://papers.ssrn.com/sol3/papers.cfm?abstract_id=179928, accessed 16 June 2011.
16. Dechow, P. M., Sloan, R. G., & Sweeney, A. P. (1995). Detecting earnings management. Accounting Review, Vol.70 No.2, pp. 197-225.
17. Dimitropoulos, P. E., & Asteriou, D. 2010. The effect of board composition on the informativeness and quality of annual earnings: empirical evidence from Greece. Research in International Business and Finance, Vol.24, pp.190-205.
18. Elder, R., & Zhou, J. 2002. Audit firm size, industry specialization and earnings management by initial public offering firms. http://ssrn.com/abstract=321041 accessed 15 November, 2011
19. Fagiolo, G., & Luzzi, A. 2006. Do liquidity constraints matter in explaining firm size and growth? Some evidence from the Italian manufacturing industry. Industrial and Corporate Change, Vol.15 No 1, pp.1-39.
20. Firth, M., Fung, P. M., & Rui, O. M. 2007. Ownership, two-tier board structure, and the informativeness of earnings –evidence from china. Journal of Accounting and Public Policy, Vol.27, pp.463-496.
21. Franks, J. & Meyer, C. (1994). Corporate Control: a comparison of insider and outsider systems, Working Paper, London Business School.
22. Garcia-Meca, E., & Sanchez-Ballesta, J. P. 2009. Corporate governance and earnings management: a meta- analysis. Corporate governance: An International Review, Vol.17 No.5, pp.594-610.
23. Hashim, H. A., & Devi, S. S. 2008. Board independence, CEO duality and accrual management: Malaysian evidence. Asian Journal of Business and Accounting, Vol.1, pp.27-46.
24. Healy, P. M., & Wahlen, J. M. 1999. A review of earnings management literature and its implications for standard setting. Accounting Horizons, Vol.13 No.4, pp 365-383.
25. Jirapon, P., Miller, G. A., Yoon, S. S., & Kim, Y. S. 2008. Is earnings management opportunistic or beneficial? An agency theory perspective. International Review of Financial Analysis, Vol.17, pp.622-634.
26. Johari, N. H., Saleh, N. M., Jaffar, R., & Hassan, M. S. 2008. The influence of board independence, competency and ownership on earnings management in Malaysia. International Journal of Economics and Management, Vol.2 No.2, pp.281-306.
27. Kim, K.H., Al-Shammari, A. H., Bongjin, K., & Lee, S.-H. 2008. Ceo duality, leadership and corporate diversification behaviour. Journal of Business Research: 1-8.
28. Kim, Y., & Rhee, G. S. 2003. The effect of firm size on earnings management. http://www2.hawaii.edu/~fima/PDF/Finance_Seminar/EarningsMgmt.pdf, accessed 15 July, 2010
29. Kim, Y., Liu, C., & Rhee, S. 2003. The relation of earnings management to firm size. Retrieved from University of Hawaii System Website:
30. http://www2.hawaii.edu/~fima/Working_Papers/2003_papers/WP03-02.pdf

31. Lee, B. B., & Byeonghee, B. C. 2002. Company size, auditor type and earnings management. Journal of Forensic Accounting: pp.27-50.
32. Lee, C.-W. J., Li, L. Y., & Yue, H. 2005. Performance, growth and earnings management. http://papers.ssrn.com/sol3/papers.cfm?abstract_id=871144&, accessed 23 May, 2011.
33. Lei, K. 2008. Earnings management and corporate governance in UK: the role of board of directors and audit committee. Unpublished doctoral dissertation. University of Singapore, Singapore
34. Leuz, C., Nanda, D., & Wysocki, P. D. 2003. Earnings management and investor protection: an international comparison. Journal of Financial Economics,Vol.69, pp.505-527.
35. Li, J., Zhang, L., & Zhou, J. 2006. Earnings management and delisting risk of initial public offerings. Research Paper Series; AAA 2008 Financial Accounting and Reporting Section (FARS) Paper, Simon School, University of Rochester.
36. Liu, Q., & Lu, Z. J. 2007. Corporate governance and earnings management in the Chinese listed companies: a tunnelling perspective. Journal of Corporate Finance Vol.13, pp.881-906.
37. Lo, K. 2008. Earnings management and earnings quality. Journal of Accounting and Economics, Vol.45, pp.350-357.
38. Loderer, C. F., Neusser, K., & Waelchli, U. 2011. Firm age and survival. http://ssrn.com/abstract=1430408, accessed 14 June, 2011.
39. Marra, A., Mazzola, P., & Prencipe, A. 2011. Board monitoring and earnings management pre- and post-IFRS☆. International Journal of Accounting, Vol. 46 No 2, pp.205-230.
40. Mnif, A. 2009. Corporate governance and management earnings forecast quality: evidence from IPOs. Post-Print halshs-00459171, HAL.
41. Ning, Y., Davidson, W., & Wang, J. 2010. Does optimal corporate board size exist: an empirical analysis? Journal of Applied Finance, Vol.20, pp.57-69.
42. Okike, E. N. 1994. Curious auditing regulations in Nigeria: A case study of cultural/political influences on auditing practice. International Journal of Accounting, Vol.29, pp.78-91.
43. Okike, E. N. 1998. Voluntary disclosures in corporate audit reports: A Nigerian case study: . International Journal of Auditing Journal, Vol.2, pp.139-166.
44. Okike, E. N. 1999. A longitudinal analysis of the quality of audit reporting on the accounts of listed companies in Nigeria following the indigenization of equity capital. Research in Accounting in Emerging Economies, Supplement 1, pp.255-286.
45. Okike, E. N. 2004. Management of crisis: The response of the auditing profession in Nigeria to the challenge to its legitimacy. Accounting, Auditing and Accountability Journal, Vol.17 No.5, pp.705-730.
46. Okike, E. N. 2007. Corporate governance in Nigeria: The statusquo. Corporate Governance: An International Review, Vol.15 No.2, pp.173- 193.
47. Okike, E. N. 2011. The code of corporate governance in Sub-Saharan Africa: Efficiency gains or social legitimation. Paper presented at the 1st African Accounting & Finance Conference, September 7th-9th, 2011, Alisa Hotel, Accra, Ghana.
48. Oyebode, A. 2009. The imperative of corporate governance in Nigeria. http://www.nigeriavillagesquare.com, accessed 12 October, 2010
49. Park, Y. W., & Shin, H.-H. 2004. Board composition and earnings management. Journal of Corporate Finance, Vol.10 No.3, pp. 431-457.
50. Peasnell, K., Pope, P., & Young, S. 2001. Board monitoring and earnings management: do outside director's influence abnormal accruals? Working Paper no. 016, Lancaster University Management School: Lancaster
51. Peng, M., Zhang, S., & Li, X. 2007. CEO duality and firm performance during china's institutional transitions. Management and Organisation Review, Vol.3 No.2, pp.205-225.
52. Rashidah, A. R., & Fairuzanana, H. M. 2006. Board, audit committee, culture and earnings management: Malaysian Evidence. Managerial Auditing Journal, Vol.21 No.7, pp.783-804.
53. Roodposhti, R. F., & Chashmi, N. S. 2010. The effect of board composition and ownership concentration on earnings management: evidence from Iran. World Academy of Science, Engineering and Technology, 66.
54. Saleh, N. M., Iskandar, T. M., & Rama, M. M. (2005). Earnings management and board characteristics: evidence from Malaysia. Jurnal Pengurusan, Vol.24, pp.77-103.
55. Saleh, N. M., Iskandar, T. M., & Rama, M. M. (2007). Audit committee characteristics and earnings management: evidence from Malaysia. Asian Review of Accounting, Vol.15 No.3, pp.147-163.
56. Sarkar, J., Subrata, S., & Kaustav, S. 2006. Board of directors and opportunistic earnings management: evidence from India. http://www.isb.edu/CAF/htmls/Jayati.pdf, accessed 15 July, 2010
57. Securities and Exchange Commission. 2003. Code of corporate governance in Nigeria.
58. Siregar, S. V., & Utama, S. 2008. Types of earnings management and the effect of ownership structure, firm size, and corporate governance practices: evidence from Indonesia. International Journal of Accounting, Vol.43, pp.1-27.
59. Smith, M. H. 1980. A multidimensional approach to individual differences in empathy. Unpublished doctoral dissertation, University of Texas, Austin.
60. Stubben, S. R. 2010. Discretionary revenues as a measure of earnings management. Accounting Review, Vol. 85 No.2, pp. 695-717.
61. Sun, L., & Rath, S. (2009). An empirical analysis of earnings management in Australia. International Journal of Human and Social Sciences, Vol.4 No.14, pp.1069-1085.
62. Syed, Z. A., Safdar, A. B., & Arshad, H. 2009. Corporate governance and earnings management: An empirical evidence from Pakistani listed companies. European Journal of Scientific Research: Vol. 26, No. 4, pp. 624-638,
63. The Auditing Practices Board. 2001. Aggressive earnings management. London: CCAB Limited.
64. Thoopsamut, W., & Jaikenglit, A. 2008. The relationship between audit committee characteristics, audit firm size and earnings management in quarterly financial reports of companies listed in the stock exchange of Thailand. Paper presented at the 8th

Global Conference on Business and Economics. Florence, Italy.

65. Uche, C. 2011. An Investigation into Shareholder Activism in Nigeria. Unpublished doctoral thesis, King's College, London.

66. Wallace, R.S.O. 1987. Disclosure of accounting information in developing countries: a case study of Nigeria. Unpublished doctoral thesis, University of Exeter, Exeter.

67. Wallace, R.S.O. 1992. The growing pains of an indigenous accounting profession, Accounting, Business and Financial History, Vol.2, pp.25-53.

68. Wallace, D. N., & Pornsit, J. 2004. Earnings management following duality creating successions: Ethno statistics, impression management. Retrieved, from A Social Science Research Network Web site: http://ssrn.com/abstract=1483765

69. Wang, Y.-H., Chuang, C.-C., & Lee, S.-L. 2010. Impact of compositions and characteristics of board of directors and earnings management on fraud. African Journal of Business Management, Vol.4 No.4, pp.496-511.

70. Weber, M. L. (2004). Executive equity incentives, earnings management and corporate governance.

71. Weil, R. L. 2009. Quality of earnings and earnings management: a primer for audit committee members. http://www.aicpa.org/ForThePublic/AuditCommitteeEf fectiveness/AuditCommitteeBrief/DownloadableDocu ments/Audit_Committee_Quality_of_Earnings.pdf, accessed 11 May, 2011.

72. Wu, C.-H., & Huang, L.-J. 2011. Market expectations and discretionary accruals. Paper presented at the International Symposium on Finance and Accounting, Bangkok.

73. Yang, W. S., Chun, S. L., & Ramadili, S. M. 2009. The effect of board structure and institutional ownership structure on earnings management. International Journal of Economics and Management, Vol.3 No.2, pp.332-353.

74. Zahn, M. V., & Tower, G. 2004. Audit committee features and earnings management: further evidence. International Journal of Business Governance and Ethics, Vol.1 No. 2/3, pp.: 233-258.

APPENDIX 1

List of Sample Companies

Academy Press	Lafarge
Afprint	Livestock Feed
African Petroleum	Longman
Ag. Leventis	May & Baker
Ashaka Cement	Mobil Oil
Avon Crowncaps	NAHCO
Bagco	Nampak Nigeria
Benue Cement	NASCON
Berger Paints	NigerianBottling Company
Beta Glass	Neimeth
Boc Gases	Nestle
Cadbury	Nigerian Breweries
Cap Plc	Nigerian Enamelware
Cappa & D'alberto	Nigerian Ropes
CCNN	NNFM
Chevron	Oando
Con Oil	Pz Cussons
Constain	R.T.Briscoe
Cutix Plc	Roads
Dangote Flour	Seven-UpBottling Company
Dangote Sugar	SNLTECH
DNMeyer	Thomas Wyatt
Eternal Oil & Gas	Total Nigeria
First Aluminium	Triple Gee and Company
Flour Mill	UAC
GSK	UACN Property
Guinness	Unilever
Inter Breweries	United Nigerian Textiles
Ipwa	University Press
Japaul Oil	Vitafoam Nigeria
John Holt	Vono Products