

Effect of Board Attributes on Earnings Management of Listed Deposit Money Banks in Nigeria

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Abstract

This research examines the effect of board attributes and earnings management of deposit money banks listed on Nigeria Exchange Group for ten years period (2012-2021). Eight out of Twenty-one deposit money banks listed on Nigerian Exchange Group as at 31st December, 2021 were selected as the samples using filtering method. Ordinary least square regression technique was employed as technique of data analysis. The results shows that board independence is negative but statistically significant there by increased and reduced earnings management respectively while board size is negative and statistically insignificant in reducing earnings management of deposit money banks in Nigeria. Thus, it is recommended that shareholders of DMBs in Nigeria should put in place ideal boards with adequate members so as to provide an oversight role that would minimize on earnings management.

Keywords

Board Attributes, Board Independence, Board Size, Earnings Management

1. Introduction

In recent decades, numerous financial reporting scandals, such as those involving Enron and World coming in the USA, and Cadbury, Oceanic Bank, and Skye Bank in Nigeria, have emerged. These incidents highlighted ethical shortcomings stemming from inadequate corporate governance practices within these entities. Consequently, the credibility of financial reports produced by corporation for stakeholders, capital markets and the public has been substantially compromised, impacting the sustainable development of these organization. Weak corporate governance frameworks offer managers opportunities to engage in activi-

ties that diminish the quality of reported earnings (Githaiga, Kabete, & Bonareri, 2022).

It is evident that this phenomenon occurs when management engages in financial statement fraud through deliberate manipulation of earnings reporting. This practice is also known as earnings management, creative accounting, big-bath accounting, or financial statement manipulation. Adebisi (2017) contended that such conduct by corporate managers has cast doubt on the efficacy of corporate governance frameworks in deterring opportunistic behavior by managers.

Earnings management poses a significant concern for stakeholders of companies, alongside other financial issues. According to Beatty, Ke and Petroni (2002), managers resort to earnings management either for personal gain or to convey a particular signal. Numerous research findings suggest that earnings are prone to manipulation and that legal frameworks influence the prevalence of earnings management practices. Countries with stringent regulations on investor protection and well-developed stock markets tend to exhibit lower levels of earnings management. Additionally, DeFond (2010) demonstrates that countries with inadequate regulatory regimes experience heightened levels of earnings management. Managers exercise their discretion to manipulate earnings in order to bolster their performance, often disregarding the interests of other stakeholders, as noted by Abri, Arumugam, and Balasingam (2019). Nugroho and Eko (2011) observed that this advantage is associated with management's endeavors to control specific sales or profits for purposes directly or indirectly linked to the organization's objectives. Significant discrepancies between a bank's actual and expected earnings can negatively impact share prices. Continuation of this trend may prompt investors to question the accuracy of projected earnings (Bataineh, Abuaddous, & Alabood, 2018).

Both research and practice persistently examine the role of corporate governance in managing earnings manipulation. Adebisi (2017) defines corporate governance codes as a set of rules, procedures, and processes governing and overseeing a corporation. Corporate governance, as outlined by Enofe and Igbinoba (2020), entails effectively managing the interests and demands of various stakeholders, including shareholders, executives, customers, suppliers, financiers, government, and the environment. The board of directors is established as the governing body of the bank to ensure effective corporate governance (Enofe & Igbinoba, 2020).

Corporate frauds have been documented worldwide, and Nigeria has also experienced its fair share of such scandals. For instance, the financial sector encountered issues involving banks like Savannah Bank, Pan African Bank, Skye Bank, Oceanic Bank, Diamond Bank, and a recent incident where the former head of the Central Bank of Nigeria allegedly utilized intermediaries to acquire Union, Keystone, and Polaris Bank, leading to the dismissal of the boards of the affected banks (Leadership Newspaper, 2024). According to Okaro, Ofoegbu and Okafor (2018), the inefficiency of the Board of Directors (BOD) was identified as the root cause of these concerns.

Numerous empirical studies have explored the impact of board characteristics on earnings management in developed countries such as the USA and UK. Some of these investigations include those by Luo and Jeyaraj (2019), Lakhal, Aguir, Lakhal and Malek (2015), among others. Additionally, research has been conducted in developing nations like Ahmed (2013) and Rajeevan & Ajward (2019). Local research has also delved into the relationship between board attributes and earning management with studies by Obigbemi, Omolehinwa, Mukoro, Ben-Calcb, and Olusanmi (2016), as well as Egbunike, Ezelibe, and Aroh (2015), among others.

Previous studies have yielded conflicting findings regarding the correlation between board characteristics and earnings management. This study seeks to evaluate the influence of board independence and board size on earning management of listed Deposit Money Banks (DMBs) in Nigeria. To achieve this objective, the following research questions were formulated:

Does the level of board independence impact earnings management in Nigerian DMBs?

To what extent does the size of the board affect the practice of earning management in DMBs in Nigeria?

2. Literature Review

2.1. Conceptual Framework

The study centers on earnings management as the dependent variable, with board attributes, specifically board independence and board size, serving as the independent variables. Figure 1 illustrates the conceptual model of the research.

2.1.1. The Concept of Earning Management

Earnings management entails the use of accounting techniques to craft financial statements and records that present a distorted and favorable depiction of a company's activities and financial position (Habib, Uddin, & Islam, 2013). Healy and Wahlen (2009) observed in their study that earnings management is a deliberate tactic employed by management to manipulate financial reports and transactions. This manipulation aims to either mislead specific stakeholders about the genuine economic performance of the company or influence contractual outcomes reliant on reported accounting figures. Naseer (1993) defined earning management as a series of actions undertaken by the management to boost current reported earnings without a corresponding increase in the organization's long-term profitability. Saleh and Haat (2014) emphasized that earnings management involves the manipulation of accounting components within income statements and statements of financial position.

These adjustments may align with legal requirements but could still mislead certain stakeholders. Saleh and Haat (2014) observed that earnings management capitalizes on the leeway provided by accounting regulations and principles to manipulate expense and revenue recognition. These definitions and explanations suggest that managers take advantage of weaknesses in accounting standards and

regulatory frameworks to modify financial information.

2.1.2. Concept of Board Attributes

Board attributes encompass the qualities of corporate boards tasked with overseeing the overall management of companies. According to [Mwendwa \(2020\)](#), board attributes constitute the essential elements of corporate governance. The performance of firms is intricately tied to the functions carried out by management and corporate governance as a procedural mechanism. [Nasution and Nengzih \(2020\)](#) delve into diverse facets of corporate governance, including processes such as disclosures, voting rights, and regulations. Nonetheless, this study specifically concentrates on particular board characteristics such as board size, the representation of women on the board, and the presence of non-executive directors.

Board attributes are concerned with the efficient management of an organization, ensuring that stakeholders, who are the owners, receive a fair return on their investment. This is crucial because the interests of shareholders often diverge from those of managers. The main challenges stem from the complexities of managing and coordinating activities, arising from the varied interests of the company's stakeholders. Given this context, corporate governance lacks a single definition. The concept is defined and understood differently across different regions of the world, depending on the relative influence of owners, managers, and capital providers ([Farouk, 2014](#)). According to [Abri et al. \(2019\)](#), board attributes entail the process of determining how organizational resources will be utilized and resolving conflicts among the numerous actors within the organization. Corporate governance encompasses the manner in which the management of a company is influenced by multiple stakeholders, such as owners, creditors, and other concerned parties.

2.1.3. Concept of Board Independence

Board independence pertains to the inclusion of directors who maintain independence from the management within the board structure. An independent director, particularly a non-executive director, is an individual unaffected by management influence and is unencumbered by involvement in the company or any other affiliation that could significantly impede their ability to make impartial decisions on behalf of the organization ([Swai & Mbogela, 2016](#)). The board of directors acts as a focal point for the firm, serving as a central framework and internal control mechanism. Its purpose is to oversee the actions of senior management.

[Schipper \(1989\)](#) proposed that the effectiveness of the board hinges on its composition. They argued that the inclusion of non-executive members strengthens the internal control process within the Board of Directors. Indeed, all board members bear the responsibility of actively contributing to the enhancement of shareholders' equity. Consistently, research affirms the pivotal role of non-executive directors in overseeing management and providing valuable supplementary exper-

tise (Ishaq, 2017).

Typically, their primary responsibilities involve bolstering the reputation and governance practices of organizations, acting as vigilant overseers, and playing a critical role in risk management. Independent directors are individuals appointed by shareholders to represent their interests and aid in mitigating agency conflicts.

2.1.4. Concept of Board Size

Board size refers to the total count of directors, encompassing both the CEO and Chairman, serving on the board of each selected company during each accounting period. The number of seats occupied by directors on the board serves as a proxy for this variable. Board size represents the collective presence of all directors, including the CEO and Chairman, within the board of each sampled company for each accounting cycle (Shakir, 2008). This includes individual serving as outside directors, executive director, and non-executive directors (Shakir, 2008). The size of the board of directors has garnered significant attention. Regarding board size, there exists a trade-off between the benefits of increased experience and monitoring capabilities, and the drawbacks stemming from coordination issues (Ekpulu & Iyoha, 2021). While a larger board size initially enhances board functions and enhance decision-making. It can ultimately lead in coordination and communication, potentially diminishing board effectiveness and, consequently, organizational performance.

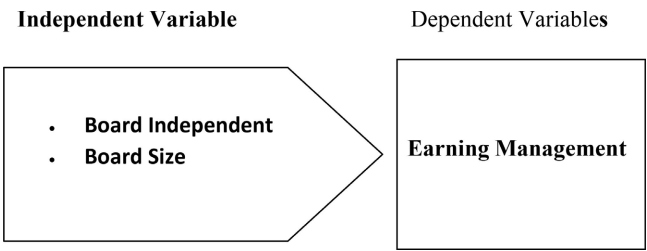


Figure 1. Conceptual model. Source: Authors, 2024.

2.2. Theoretical Framework

Agency Theory

The agency theory asserts that the board of directors functions as the representative of the shareholders hence bearing the responsibility to act in the shareholder’s best interest. In such scenarios, the agent may occasionally neglect to prioritize the shareholders’ best interests, resulting in a phenomenon termed agency loss. Advocates of the agency approach view the manager (directors) as an economic entity tasked with mitigating issues and safeguarding the interests of shareholders (Hermalin, Welsbach, & Adams, 2010). Agency theory holds significant relevance and utility in resolving conflicts between the principal (owners) and agent (managers) within an organization. Consequently, the study is grounded in agency theory as its conceptual framework.

2.3. Empirical Review

Haruna, Musa, Nuraddeen, Saifullahi, and Hussaini (2023) explore the relationship between board characteristics and the practice of earnings manipulation in publicly traded deposit money banks on the Nigeria Stock Exchange over a decade-long period (2010-2019). The study employs multiple linear regression analysis for data examination. The findings reveal a substantial increase in the academic qualifications and credit background of board members, resulting in a decrease in earnings manipulation. However, the influence of these factors on earnings management did not reach statistical significance. Conversely, the presence of a board audit significantly diminishes managers' inclination towards earnings management. Hence, the study recommended that the regulators overseeing Nigeria listed deposit money banks encourage the establishment of audit committee in these banks. This is due to the demonstrated significant impact of audit committees in deterring and mitigating discretionary accruals, thereby enhancing earnings quality in banks.

In their investigation, Sunday, Wasiu, Abiola, and Adekunle (2021) explored. The relationship between corporate board characteristic and earnings management in Nigerian banks spanning from 2009 to 2018. The utilized the modified Jones model's discretionary accruals to measure the dependent variable, earning management while considering four corporate board attributes (size, independence, gender diversity and frequency board meeting) as independent variables. The outcome of random effect generalized least square reveals a statistically significant but negative relationship between board size, board independent and earnings management. However, there is no subtotal correlation found between the gender diversity of a board and earning management. Likewise, the frequency of board meeting did not significantly impact earning management. Ideally, corporate governance regulations should endorse a considerable number of directors, within reasonable limits, and prioritize the inclusion of external directors on corporate boards.

Muhammad and Musa (2018) conducted a study to explore the influence of board structure and audit committee on the practice of earnings management among listed deposit money banks in Nigeria. The model serve as proxy for earnings management. The board structure was assessed through variables such as the presence of female directors, foreign directors, board ownership, board size, board composition, and the existence of an audit committee. Data were gathered from the annual reports and financial statements of fourteen banks listed from 2006 to 2016, With ordinary least square with Ordinary Least Square regression employed for analysis. The findings reveal that the presence of women directors and a larger board size significantly deter earnings management. Conversely, board ownership and the presence of an audit committee were found to have a notable positive impact on earnings management in banks. However, the presence of foreign directors and the composition of the board did not exert the significant influence on the practice of earnings management. The

study recommends enhancing the representation of female directors and expanding the size of the board. Furthermore, it suggests reducing the percentage of shares held by directors and reinforcing the audit committee to enhance the credibility and reliability of financial report.

Hope and John (2023) investigate the influence of board characteristics on earning management of listed deposit money banks in Nigeria over the period of from 2016 to 2021. Board size, board diversity, and board composition serve as indicators of the characteristics of the boards of the listed deposit money banks in Nigeria. Discretionary accruals is utilized as an indicator for the practice of earnings management in this study. The data is sourced from the published annual audited accounts and financial report of listed deposit money banks. A panel dataset comprising twelve publicly traded banks is utilized covering five years. The study employs various methodologies including descriptive statistics, correlation analysis, the Hausman test, and panel regression. The findings reveal a significant negative association between board size, board composition, and earnings management. However, board diversity does not appear to have a meaningful impact on earnings management. They study recommends that shareholders of commercial banks in Nigeria establish effective boards with an adequate number to fulfill an oversight that will mitigate earnings management.

Githaiga et al. (2022) explore the influence of board size on earnings management (EM) within the context of developing region. The study contributes to the existing literature by examining whether the company's size affect the relationship between the board characteristic and EM, Data for the study were gathered from 88 publicly traded companies with the East Africa Community (EAC) spanning from 2011 to 2020. The researcher employed the system generalized method of moment 9SGMM) estimating approach to mitigate potential issues of endogeneity and reverse casualty. The finding reveal a robust and statistically significant correlation between board size and earnings management effectiveness. Additionally, the result showed that board independence, gender diversity, and financial expertise had a noteworthy and adverse impact on EM. Moreover, the study confirmed that the size of the company influences the relationship between board size, board independence, gender diversity, and EM. Consequently, this study enriches the current body of knowledge by conducting empirical research on the topic within the East African Community. Furthermore, it fills a gap in existing evidence by examining whether the size of a corporation influence the association between board characteristic and EM.

3. Research Methodology

The research utilized Ex-post facto research design. The study population comprised 21 deposit money banks listed on the Nigerian Exchange Group from 2012 to 2021. However, for convenience, 8 out of the 21 mentioned Deposit Money Banks (DMBs) were selected. The sample strategy employed a purposeful approach to select banks with international authorization as detailed in the table

below. This is to allow researcher to gather in-depth information from the sample banks (**Table 1**).

Table 1. List of sample banks.

S/N	Bank Name	
1	Access Bank	Selected
2	Union Bank of Nigeria	Selected
3	Fidelity Bank Plc	Selected
4	First Bank of Nigeria	Selected
5	First City Movement Bank	Selected
6	Guaranty Trust Bank	Selected
7	United Bank of Nigeria	Selected
8	Zenith Bank	Selected

In the study, secondary data concerning board attributes and earnings management information utilize Discretionary accruals (DAC) serve as proxy for the dependent variable. The independent variable was represented by board attributes, specifically board independent and board size. Secondary data, typically derived from publicly accessible databases and financial reports, aids in the examination of board qualities and earnings management. The bank's website and annual report provide information on board size and independence. Accounting figures for earnings management such as discretionary accruals, were obtained from banks' annual reports accessible on their websites and financial databases.

Various data analysis techniques were employed, including descriptive statistic correlation analysis, and regression analysis, utilizing the Statistical Package for the Social Sciences (SPSS) version 20.

$$DAC_{it} = \beta_0 + \beta_1 BIND + \beta_2 BSZ + e$$

where:

DAC = Discretionary Accrual;

BIND = Board Independent;

BSZ = Board Size;

e = Stochastic error term;

$\beta_1, \beta_2, \beta_3$ are regression parameter, also the slope of each variable.

4. Research Analysis and Finding

4.1. Descriptive Analysis

Table 2 presents the descriptive statistics of the data utilized in the study, including the minimum, maximum, mean, and standard deviation of the variables.

Table 2 illustrates the range of values for earnings management, showing the lowest value observed. Despite suggesting elevated levels of earnings

Table 2. Descriptive statistics of the dependent and independent variable.

	N	Minimum	Maximum	Mean	Std. Deviation
	Statistic	Statistic	Statistic	Statistic	Statistic
Earnings Management	80	0.00	0.22	0.0619	0.05225
Board Independence	80	36.84	93.75	60.9881	13.76397
Board Size	80	6.00	21.00	14.5750	3.14129
Valid N (listwise)	80				

Source: SPSS Output.

management, the data indicates significant variability, with reported values reaching a maximum of 0.22. The average value further underscores the prevalence of earnings management during the study period, as evidenced by the figure of 0.0619.

Regarding board independence (BIND), **Table 2** presents an average value of 60.9881, with a standard deviation of 13.76397. This average indicates a substantial presence of independent directors on the boards of listed Deposit Money Banks (DMBs) in Nigeria. This suggests that independent directors play a significant role on the boards of DMBs. However, the standard deviation highlights considerable variability from the average value. The lowest and highest percentages of independent directors are reported as 36.84% and 93.75%, respectively.

Furthermore, the table illustrates the range of board sizes, ranging from a minimum of six (6) to a maximum of twenty-one (21). This indicates that the smallest number of board members in banks throughout the study period was six, while the highest was twenty-one. On average, banks typically had fourteen (14) board members, suggesting that this number was prevalent among the majority of banks.

4.2. Correlation

Table 3. Correlations.

(a)			
		Earnings Management	Board Independence
Earnings Management	Pearson Correlation	1	−0.186
	Sig. (2-tailed)		0.099
	N	80	80
Board Independence	Pearson Correlation	−0.186	1
	Sig. (2-tailed)	0.099	
	N	80	80

Continued

(b)			
		Earnings Management	Board Size
Earnings Management	Pearson Correlation	1	−0.040
	Sig. (2-tailed)		0.725
	N	80	80
BoardSize	Pearson Correlation	−0.040	1
	Sig. (2-tailed)	0.725	
	N	80	80

Source: SPSS Output.

Table 3 presented above showcases the correlation findings, revealing the extent of the relationship between earnings management and board independence among DMBs in Nigeria from 2012 to 2021. The Pearson correlation coefficient of -0.186 denotes a negative association between earnings management and board independence. This negative correlation implies that a decrease in earnings management corresponds to a decrease in board independence among DMBs in Nigeria.

Additionally, the table presents the results concerning the correlation between earnings management and board size among DMBs in Nigeria throughout the study duration. The Pearson correlation coefficient of -0.040 signifies a negative correlation between the two variables under investigation, considering their inter relation. This negative correlation between earnings management and board size of DMBs in Nigeria implies that a reduction in earnings management corresponds to a decrease in board size.

4.3. Regression Results

In this section, the regression results of all the variables engaged by the study are presented and analyzed in the following tables.

Table 4. Model summary^b.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	0.389 ^a	0.151	−0.091	0.12216	1.733

Source: SPSS Output.

Table 4 presented above showcases the correlation findings, revealing the extent of the relationship between earnings management and board independence among DMBs in Nigeria from 2012 to 2021. The Pearson correlation coefficient of -186 denote a negative association between earnings management and board independence. The negative correlation implies that a decrease in earn-

ings management corresponds to a decrease in board independence among DMBs in Nigeria.

Table 5. Analysis of variance. ANOVA^a.

	Model	Sum of Squares	df	Mean Square	F	Sig.
1	Regression	0.011	2	0.005	2.067	0.134 ^b
	Residual	0.205	77	0.003		
	Total	0.216	79			

Source: SPSS Output.

The F-statistic of 2.067 displayed in the Analysis of Variance (ANOVA) table signifies the overall significance of the model. However, the analysis lacks statistical significance since the calculated value of Sig. (which stands at 0.134b) surpasses the 5% significance level or the confidence interval (i.e., at 0.05) (**Table 5**).

4.4. Hypothesis Testing

Consequently, two hypotheses were formulated and evaluated using the ordinary least squares regression method with the assistance of SPSS 20. The regression results utilized for hypothesis testing in the study are extracted from **Table 6** presented below.

Table 6. Coefficients.

	Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
	(Constant)	0.153	0.049		3.117	0.003
1	Board Independence	−0.001	0.000	−0.244	−2.001	0.049
	Board Size	−0.002	0.002	−0.141	−1.154	0.252

Source: SPSS Output.

First Hypothesis

H01: There is no significant relationship between the board Independence and earnings management of DMBs in Nigeria.

The t-test reveals a statistically significant influence of board independence. This is evidenced by the computed p-value (0.049), which falls below the significance threshold of 0.05. Consequently, this outcome provides justification for rejecting the null hypothesis, which suggests no significant correlation between board independence and earnings management of DMBs in Nigeria, and accepting the alternative hypothesis.

Second Hypothesis

H02: There is no significant relationship between the board size and earnings management of DMBs in Nigeria.

The t-test indicates that the board size lacks a significant statistical effect. This is due to the computed p-value (0.252), which surpasses the significance threshold of 0.05. Consequently, the result supports the acceptance of the null hypothesis, suggesting no substantial correlation between board size and earnings management of DMBs in Nigeria, while rejecting the alternative hypothesis (H1).

Discussion of Finding

Based on the findings, the level of board independence significantly influenced earnings management in listed deposit money banks in Nigeria, as evidenced by its statistical significance at a 5% level. Thus, enhancing board independence is expected to lead to a reduction in earnings management.

This finding is consistent with the study conducted by Bello et al. (2023), which also observed a substantial impact of board independence on earnings management among the deposit money banks in Nigeria.

Conversely, the analysis revealed that board size did not exert a significant impact on earning management at a 5% significance level. This suggests that increasing the board size may not necessarily result in higher levels of earnings management among listed deposit money banks in Nigeria. However, it implies that the optimal board size should strike a balance between being excessively large or small, aiming instead for a suitable magnitude to facilitate active and effective member engagement.

This will ensure that board members can effectively fulfill their responsibilities in curbing discretionary accruals.

Interestingly, this finding contradicts the prior study of Bello et al. (2023), which found a significant effect of board size on earnings management among listed DMBs in Nigeria.

5. Conclusion and Recommendation

This study examined the impact of board attributes on earnings management among publicly traded deposit money banks listed on the Nigeria Exchange Group over a ten-year period (2012-2021). The research findings revealed that the degree of independence among the board of directors significantly and negatively affects earnings management in listed DMBs in Nigeria. This underscores that the presence of independent board members exerts a substantial influence on the earnings management of DMBs in Nigeria. Therefore, enhancing the level of board independence is expected to naturally decrease the incidence of earning management among listed DMBs in Nigeria.

Furthermore, the study also found that size of the board has a modest negative impact on the practice of earning management among listed deposit money banks in Nigeria. Specifically, an increase in the board size correlates with corresponding increase in earnings management by Nigerian DMBs.

Based on the finding and conclusions from this study, the recommendation is as follows:

The study proposes that owners of deposit money banks (DMBs) in Nigeria should establish competent board with an adequate number of members to effectively oversee operation, thereby mitigating earnings management. Additionally, the study recommended that DMBs in Nigeria ensure that their boards are properly structured with independent directors who can offer external insights and expertise to minimize earning manipulation.

Conflicts of Interest

The authors declare no conflicts of interest regarding the publication of this paper.

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