

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

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**UNIVERSITI UTARA MALAYSIA**

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

**By**

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**Fulfillment of the Requirement for the Master of Science (International Accounting)**

## **DECLARATION**

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

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

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## **DEDICATION**

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

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## ABSTRACT

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

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

## ABSTRAK

*Ciri-ciri lembaga pengarah telah memberikesan kepada perolehan firma kerana usahapihak pengurus menggunakan beberapa strategi untuk memanipulasiperolehan firmadengan hasrat mencapai sasaran awalyang telah ditetapkan, danciri-ciri ini boleh mempengaruhi kemungkinan tersalah laporan perolehan oleh pihak pengurus. Objektif kajian ini adalah mengkaji hubungan di antaraciri-ciri lembaga pengarah dan pengurusan perolehan di syarikat tersenarai di Nigeria. Sejumlah 79 syarikat yang disenaraikan di Bursa Saham Nigeria telah dipilih dan dianalisa. Data diperolehdaripadasumbersekunder, dengan menggunakan laporan tahunan dan akaunsyarikatkajian bagitahun kewangan 2012. Keputusan menunjukkan bahawa saiz lembaga pengarah mempengaruhi secara positif dan signifikan keatas pengurusan perolehan. Walaubagaimanapun, saiz jawatankuasa audit didapati mempengaruhi secara negatif dan hampir signifikan dengan pengurusan perolehan. Dapatan kajian ini mencadangkan bahawa syarikat tersenarai di Nigeria yang mempunyai saiz lembaga pengarah yang lebih besar tidak berkesan mengurangkan kecenderungan pihak pengurus dalam mengurus perolehan dan bahawa saiz jawatankuasa audit perluditambah untuk mengurangkan kemungkinan berlakunya pengurusan perolehan.*

**Kata kunci:** *Jawatankuasa Audit, Ciri-Ciri Lembaga Pengarah, Saiz Lembaga Pengarah, Pengurusan Perolehan*

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## TABLE OF CONTENTS

|   |          |
|---|----------|
| TITLE PAGE .....                            | i        |
| CERTIFICATION .....                         | ii       |
| DECLARATION.....                            | iii      |
| DEDICATION .....                            | iv       |
| PERMISSION TO USE.....                      | v        |
| ABSTRACT .....                              | vi       |
| ABSTRAK .....                               | vii      |
| AKNOWLEDMENT .....                          | viii     |
| TABLE OF CONTENTS.....                      | x        |
| LIST OF TABLES .....                        | xiv      |
| LIST OF FIGURES .....                       | xv       |
| LIST OF ABBREVIATIONS .....                 | xvi      |
| <b>CHAPTER ONE: INTRODUCTION.....</b>       | <b>1</b> |
| 1.1 Background of the Study.....            | 1        |
| 1.2 Problem Statement.....                  | 6        |
| 1.3 Research Questions.....                 | 8        |
| 1.4 Objectives of the Study.....            | 9        |
| 1.5 Scope and Limitation of the Study ..... | 9        |
| 1.6 Significance of the Study .....         | 10       |

|   |           |
|---|-----------|
| 1.6.1 Social/Practical Implication of the Research .....        | 10        |
| 1.6.2 Scientific /Theoretical Implication of the Research ..... | 11        |
| <b>CHAPTER TWO: LITERATURE REVIEW .....</b>                     | <b>12</b> |
| 2.1 Introduction .....  | 12        |
| 2.2 Corporate Governance .....                                  | 12        |
| 2.3 Underpinning Theories .....                                 | 17        |
| 2.3.1 Agency Theory.....  | 17        |
| 2.3.2 Debt Covenant Hypothesis .....                            | 19        |
| 2.4 Board Characteristics and Earnings Management.....          | 20        |
| 2.4.1 Board Size .....  | 20        |
| 2.4.2 Directors’ Independence .....                             | 23        |
| 2.4.3 CEO Duality.....  | 24        |
| 2.4.5 Audit Committee Expertise .....                           | 28        |
| 2.5 Summary of the Chapter .....                                | 30        |
| <b>CHAPTER THREE: RESEARCH FRAMEWORK AND METHODOLOGY .....</b>  | <b>31</b> |
| 3.1 Introduction .....  | 31        |
| 3.2 Theoretical Framework.....                                  | 31        |
| 3.3 Hypothesis Development .....                                | 32        |
| 3.3.1 Board Size.....   | 33        |
| 3.3.2 Directors Independence.....                               | 34        |

|  |           |
|--|-----------|
| 3.3.3 CEO Duality .....                          | 37        |
| 3.3.4 Audit Committee Size .....                 | 39        |
| 3.3.5 Audit Committee Expertise .....            | 40        |
| 3.4 Measurement of the Variables .....           | 42        |
| 3.4.1 Dependent Variable .....                   | 42        |
| 3.4.2 Independent Variables .....                | 43        |
| 3.4.3 Control Variables .....                    | 44        |
| 3.4.4 Model Specification .....                  | 47        |
| 3.5 Data Collection .....                        | 50        |
| 3.5.1 Sample Selection .....                     | 50        |
| 3.5.2 Data Collection Procedure .....            | 51        |
| 3.6 Data Analysis .....                          | 51        |
| 3.7 Summary of the Chapter .....                 | 52        |
| <b>CHAPTER FOUR: RESULT AND DISCUSSION .....</b> | <b>53</b> |
| 4.1 Introduction .....                           | 53        |
| 4.2 Descriptive Statistics.....                  | 53        |
| 4.3 Correlation Analysis .....                   | 56        |
| 4.4 Model of Analysis.....                       | 58        |
| 4.5 Multicollinearity .....                      | 58        |
| 4.6 Regression Analysis.....                     | 59        |

|  |           |
|--|-----------|
| 4.7 Summary .....  | 61        |
| <b>CHAPTER FIVE: CONCLUSION AND RECOMMENDATIONS .....</b>    | <b>63</b> |
| 5.1 Introduction .....                                       | 63        |
| 5.2 Conclusion.....  | 63        |
| 5.3 Limitations and Recommendations for Future Research..... | 64        |
| 5.4 Summary .....  | 65        |
| <b>REFERENCES .....</b>                                      | <b>66</b> |
| <b>APPENDIX 1: LIST OF COMPANIES .....</b>                   | <b>78</b> |

## LIST OF TABLES

| <b>TABLE NO</b> | <b>DESCRIPTIONS</b>                   | <b>PAGE NO.</b> |
|-----------------|---------------------------------------|-----------------|
| Table 3.1       | Summary of Measures of Variables..... | 50              |
| Table 4.1       | Descriptive Analysis.....             | 56              |
| Table 4.2       | Correlation Analysis.....             | 57              |
| Table 4.3       | Model of Analysis.....                | 58              |
| Table 4.4       | Multicollinearity Analysis.....       | 59              |
| Table 4.5       | Regression Analysis.....              | 61              |

## LIST OF FIGURES

| FIGURE NO | DESCRIPTIONS                       | PAGE NO. |
|-----------|------------------------------------|----------|
|           | Figure 3.1 Research Framework..... | 32       |

## **LIST OF ABBREVIATIONS**

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



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

# **CHAPTER ONE**

## **INTRODUCTION**

### **1.1 BACKGROUND OF THE STUDY**

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

Global corporate scandals that took its toll with the collapse of once prestigious companies such as Enron and Worldcom reiterated the need for an investigation into the quality of financial reports and increased the clamoring for a better governance mechanism globally. It has been observed that accountants and financial managers have systematic deficiencies in complying with accounting standards and governance systems to generate financial information (Bowen, Rajgopal & Venkatachalam, 2003). In the process of preventing companies from failures, most of the countries across the globe introduced new codes of best governance practices to align managers' interest with that of shareholders for maximizing its wealth as their main objective. Therefore an

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