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Corporate Governance Structure and Earnings Management: An Empirical Analysis of Listed Mainstream Oil and Gas Firms in Nigeria

Imo, ThankGod Obutor (PhD)
Department of Accountancy,
Faculty of Management Sciences
Rivers State University, Port Harcourt, Nigeria
thankgod.imo@ust.edu.ng

Abstract: *The population of this study contains all the eleven (1l) mainstream oil and gas companies listed in the Nigerian Stock Exchange as at 2013.The sample size also, comprises of eleven (11) mainstream oil and gas companies in Nigeria. The number of respondents in the study was one hundred and ten (110), on a sample frame of ten (10) respondents for each firm, summing up to 110 respondents for the study, 110 structured questionnaires was correspondingly disseminated to them through hand delivery pattern, and collected data was analyzed by means of percentages; frequency tables; and multiple regression analysis (predominantly for hypotheses testing) using the Statistical Package for Social Science (SPSS) version 22.0 as aid. The results disclosed that dimensions of corporate governance structure) board independence, audit committee independence and board meeting frequency) have positive and significant influence on earnings management. The study therefore, concludes that, corporate governance structure significantly influence earnings management of listed healthcare firms in Nigeria, and recommends that, listed healthcare companies should guarantee sufficiently that, they have independent non-executive directors in the board of their companies, their audit committees should be presided over by independent non-executive directors, and board meetings should be synchronized in order not to generate opportunity for waste of man hour, so as to boost not only their clearness and disclosure excellence, but also invigorate the supervisory competence and efficacy of their board.*

Keywords: *Audit committee independence**,** Board independence**,** Board meeting frequency, Earnings management*

NTRODUCTION

The uprightness of financial disclosure has been an issue of constant concern to all especially after the series of high contour corporate disintegrations in the past as a result of accounting indignities and deceptions. These corporate disintegrations have had an inverse effect on shareholders who have perceived their financial investments abridged to naught and the corporate breakdown of these businesses in the past have highlighted the deliberate misdemeanors of managers in a spacious-continuum owing to information asymmetry. It has been suspected that managers over and over again take advantage of the asymmetric nature of information ensuing from the separation to fit into place in opportunistic earnings management

Earnings management is an effort by the managers of companies to scheme the financial reporting process in order to realize distinct selfish objectives. It occurs when managers employ judgment in financial reporting and structuring transactions to modify financial reports to either give the wrong impression to some stakeholders about the economic performance of the company or to influence contractual results that rely on disclosed accounting numbers (Healy & Wahlen, 1999). Managers have the motivation to conduct earnings management for selfish interests which may be incompatible with the interest of the shareholders and investors (Jensen & Meckling, 1976; Bergstresser & Philipon, 2006).

Against the backdrop of extenuating the conflict of interest that follows the separation between corporate ownership and control, numerous scholars (Lee, 2013; Heirany et al., 2013) have suggested corporate governance device as the universal remedy. Corporate governance is a means that is employed to condense the agency cost that emanates due to the conflict of interest that exists between managers and shareholders (Shehu & Abubakar, 2012). Corporate governance structure gives confidence of oversight and monitoring of management activities so as to bring about the finest international practices in corporate management (Lee, 2013). Physically powerful corporate governance brings about an expansive vision of the accounting process and this is linked with disclosed earnings (Heirany *et al.*, 2013).

Several scholars have investigated the relationship between corporate governance structure and earning management in various sectors in Nigeria for instance Uwuigbe *et al*. (2018), Fadzilah (2017), Imoleayo *et al.* (2016), Kankanamage (2015), Daghsni *et al*. (2016), Nevertheless, there is scantiness of scholarly enquiries on the achievable impact of corporate governance structure on earnings management in the Nigerian mainstream oil and gas sector.

In line with several scholarly submissions which robustly put forward the prospect that proper exploitation of corporate governance configuration can safeguard against managerial opportunism, it is appealing to discover the recommended connection for listed mainstream oil and gas companies in Nigeria. Nevertheless, since corporate governance possibly will be too wide-ranging to be exhausted in one study, it is necessary to constrict the area under discussion to a convenient marking out so as to situate the study in an appropriate background. Therefore, this current study, it is narrowed to corporate governance structure and is examined from three unique standpoints, specifically board independence, audit committee independence, and board meeting.

LITERATURE AND HYPOTHESES

Corporate Governance Structure

The board of directors constitutes the most essential device of corporate governance structure. and it plays fundamental and decisive roles in every organization. The Corporate Governance Structure entails composition, leadership and the information flanked by board structures. High-quality and physically powerful corporate governance acts as tough preclusion instrument against decision-making opportunism, in this manner brings about the invention of high excellent financial disclosure (Heirany *et al.*, 2013). Conspicuously, the governance of companies is deposited on its board of directors, and the shareholders have the responsibility to ensure that suitable governance is positioned by appointing directors and auditors in the company. It is by this approach, that the board watches over the company by setting policies, provision of leadership, direction of the management and stewardship disclosure to the shareholders. Corporate governance structure is examined from four dimensions, explicitly: board independence, corporate governance, audit committee independence and board meeting frequency. This study adopts board independence, audit committee independence and board meeting independence as the dimensions of corporate governance structure.

Board Independence

Board independence is the absolute and unqualified autonomy of a corporate board from any prejudice, equally in action and manifestation, to put into effect its authority in fulfilling its constitutional role devoid of fear or favour. Corporate governance essentially necessitates that the board of directors be autonomous of management and the company (Hermanson, 2003). Independence can be realized by means of the insertion of fair-minded parties, that is, external directors, to boost the boards' aptitude to be extra resourceful in keeping an eye on the top management (Fama & Jensen, 1983). It has been observed that the autonomy of the board of directors and its proficiency have a negative relationship with earnings management(Lin & Hwang, 2010). Clearly seen, board independence is the state of affairs whereby the board is collectively seen and professed to be implementing its affirmed responsibility devoid of trepidation or act of kindness.

Audit Committee Independence

It has been found that a positive association exists between audit committee ownership and earnings management (Lin & Hwang, 2010). Independence is an essential quality required for an audit committee to fulfill its oversight function which includes oversight of the financial statements, external audit and oversight of the internal control system; hence it is imagined that audit committee made up of only independent directors will be unenthusiastically linked with the level of earnings management. A familiar anticipation is that a more independent audit committee would provide more efficient oversight of the financial reporting procedure and make certain enhanced quality of earnings reported by the firm by preventing opportunistic earnings management

Board Meeting Frequency

The assiduousness of board members is frequently calculated on the board meeting attendance frequency by every one of the meeting members (Ghosh 2007; Johl*et al.,* 2015). Board with a little frequency of meeting achieves inadequately measured up to to the board with towering frequency(Francis *et al*.,2012). The frequency of board meetings possibly will mirror whether the board is vigorous or not. It is normally supposed that a vigorous board is more effectual in keeping an eye on the management, so decisions corroborates with the concern of majority. Thus, is board meeting frequency is a vital apparatus that could mitigate earrings management in view of the fact that it doles out as a means where board members gather to premeditated on fundamental concerns that will facilitate reaching firms' aspirations by this means shortening earnings management practices.

Concept of Earnings Management

Corporate earning is the net income that signifies a company's bottom line which has been documented as a principally most substantial detail in financial statements as they label or indicate the magnitude to which a firm has engrossed in value-added accomplishments (Lev, 1989). Earning management may materialize as either income-increasing or income-decreasing accounting choices. Earnings management is therefore, aneffort by management to stimulate or deploy reported earnings by means of definite accounting procedures, identifying one-time non-recurring items, conceding or fast-tracking expense or revenue dealings, or applying other methods designed to influence interim earnings.

Empirical Review

Oserogbo (2019) empirically examined the nexus before corporate governance structure and real earnings management of listed firms in Nigeria by means of forty (40) quoted manufacturing firms in Nigeria over the period 2012 to 2017. Multiple regression was used to analyze data and the outcome illustrated that board independent, corporate governance and board gender are significantly influence earnings management in Nigeria firms.

Uwuigbe, *et al* (2018) explored the effect of corporate governance elements on earnings management of listed companies in Nigeria using earnings persistence as a stand-in for evaluating earnings management. Ordinary least square regression analysis was used for analysis and the result reveal that, corporate governance elements influences the level of earnings management practice in Nigeria.

Olaoye and Adewumi (2018) investigated the effect of corporate governance and earrings management of listed deposit money banks in Nigeria for the period 2006 – 2015 based on data mined from the annual reports of the listed banks. The analysis was executed by means of descriptive statistics, Pearson's correlation and regression techniques. The taking on of the service of trustworthy audit firms has a positive but insignificant effect on earnings management of the banks under study whereas corporate governance reveals negative and insignificant effect on earnings management. Nevertheless, independent directors on the board and leverage have a negative but significant effect on earnings management of the sampled banks.

Yodbutr (2017) studied corporate governance and earnings quality of Thailand financial firms from the period of 2011 to 2015 via the multiple regression analysis and found no relationship between corporate governance and earnings quality, but the control variable of firm size had positive relationship with earnings quality. The size of firms determines the earnings quality of such firms.

From the review of literature, the study designed the following research model:

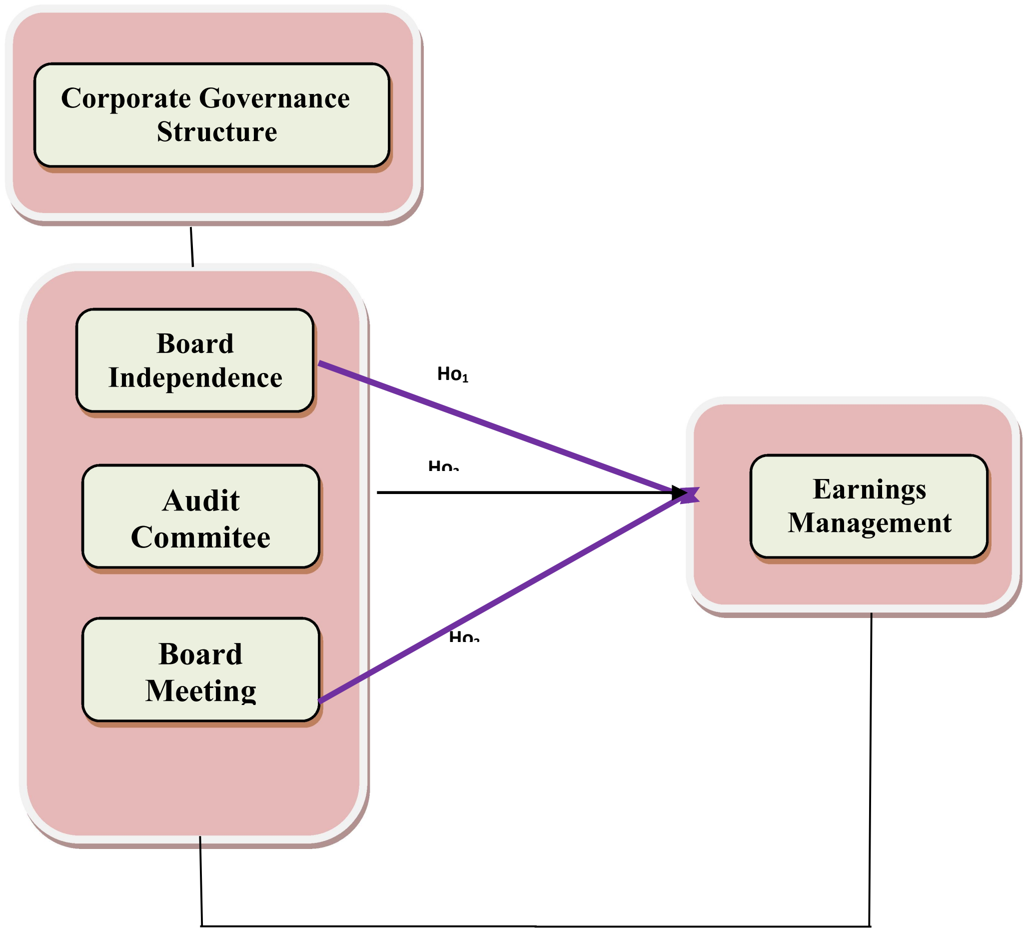

Figure 1: Research Model of Green Marketing Strategies and Firm's Sustainability

Sources: Designed by the Researchers, 2022)

From the research model, the following Hypotheses were formulated

H_{01}: Board independence does not significantly influence earnings management of listed main stream oil and gas in Nigeria.

H_{02}: Audit committee independence does not significantly influence earnings management of listed main stream oil and gas in Nigeria.

H_{03}: Board meeting frequency does not significantly influence earnings management of listed main stream oil and gas in Nigeria.

METHODOLOGY

This study adopted causal and ex-post facto research design to investigate the effect of corporate governance structure on earning management of listed healthcare firms in Nigeria.The ex-post facto research design seeks to establish causal relationship between events and circumstances. The data concerned emanate from the published annual reports of quoted healthcare companies listed in Nigeria Stock Exchange from 2010-2019. The population consists of all the quoted mainstream oil and gas companies on the Nigeria Stock Exchange, and this population comprises 11 quoted mainstream oil and gas companies on the Nigeria Stock Exchange as at 30 December, 2013. The method used in sampling is purposive sampling method; the sampling method is based on certain criteria, and 11 listed mainstream oil and gas firms were drawn.

Empirical Model Development and Specification

In line with empirical literature that links corporate governance structure to earnings management, a general quantitative representation can be made as follows:

$$EM = f(BIND, ACI, BMF)) \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots..\ldots \mathrm{I}$$

Where;
EM = Earning Management of companies in the study sample
$BIND$ = Board Independence
ACI = Audit Committee Independence
BMF = Board Meeting Frequency

Apriori Expectation

From the theoretical prescriptions, corporate governance structure is engine of growth in earnings management and driver of firm performance development. Therefore, it is expected that corporate governance structure proxied by board independence, audit committee independence, audit committee independence and board meeting frequency are expected to positively affect earnings management.

RESULTS

Statistical Test of Hypotheses

The purpose of this section is to test the three research hypotheses stated earlier in the study. Of the 110 questionnaire distributed, 95 (86%) was returned useful, This is centered on the establishment of relationship between the predictor and criterion variables. It is important for the overall research design to achieve results reproducibility and consistency. To this end, multivariate analysis was conducted to test the hypotheses. The multiple regressions test was performed on the dependent and independent variables to determine the degree of the dimensions corporate governance structure (board independence, audit committee independence, audit committee independence and board meeting. The results of the test are presented in tabular form.

Table 1: Model Summary of Corporate Governance Structure and Earnings Management

Model	R	R2	Adj R2	Std Error of the Estimate	F Change	dfi	df2	Sig. F Change	Durbin Watson
BIND	.895	.803	.802						
ACI	.681	.464	.461	.44035	700.210	1	93	.0 00	1.341
BMF	.976	.952	.936					.000	1.727
				.47225	149.196	1	94	.000	1.807
				272.73	60.3029	1	95		

Source: SPSS 22.0 window output (2022)

a. Predictor (Constant). Board Independence

b. Predictor (Constant), Audit Committee

c. Predictor (Constant), Board Meeting Frequency

d, Dependent Variable, Earnings Management.

Three models were tested signifying three predictors besides constant to establish the dependent variable that assemble doorwaynecessity in the concluding equation (BIND, ACI, BMF, EM).

Multiple correlation coefficient R=0.884 measures the degree of relationship between the actual values and predicted values. Predicted values are obtained as a linear combination of X1 (Board Independence), X2(Audit Committee Independence) and X3(board Meeting Frequency). R2 represents percentage of the variance in the dependent variable. Table 1 shows that 80.3% of the variation (model 1) in earnings management is explained by board independence single-handedly, 46.4% of the variation (model 2) is explained by audit committee independence and 95.2% of the variation (model 3) is explained by board meeting frequency.

Multi-Collinearity Test

A state of affairs of pair wise correlations authorize the disclosure of straight line routing towards zero and values of VIF over and above 10 are elementary signs of multi-Collinearity. This decision rule permits the study to institute the nonattendance of threaten circled by the enormity of the predictor variable.

Table 3: Coefficients of Corporate Governance structure and Earnings Management

	Model Constant	Unstandardized Coefficient B Beta		Standardized Coefficient Beta	t	Sig	Colinearity Statistics Tolerance	VIF
	Constant	-.763 ..694			3.139	.002		
2	**BIND**	.690	.746	.896	24.48	.000	.704	1.000
3	**ACI**	.736	.835	.681	12.43	.000	.717	1.000
4	**BMF**	1.43	.776	.976	7.765	.000	1.00	1.000

Source: SPSS 22.0 window output (2022)

a. Predictors: (Constant), BIND

b. Predictors: (Constant), BIND, ACI

c. Predictors: (Constant), BIND, ACI, BMF

d. Dependent Variable: Earnings Management

Table 3 shows a significant correlation flanked by three predictor variables and the dependent variable. Therefore this is the best fit model. The Tolerance values diverges from 0.704 to 1.000 and VIF values are 1.000, and because no multi collinearity has been observed. The Durbin – Watson (1.341, 1.727 and 1.807) (Table 1) statistics tests for auto correlation value differ from 0 to 7. As suggested by Garson (2010), the value ought to be between 1.5 and 2.5 to point in the direction of independence of observations. As exposed in Table 3, the value of the t test is 3.139, 24.48and 12.43 which is independent of observations. The conclusion of the results illustrate that the model is statistically significant at 5% significance level.

DISCUSSION OF FINDINGS

The result of the analysis is significant to the subject matter and in a straight line to the model expectations (*a priori* expectations) and completely supported the Agency theory. From our analysis, all the three hypotheses concerning board independence, auditor independence and board meeting frequency were confirmed to have significant influence on earnings management. Specifically, we found out that board independence significantly influenced earnings management. This implies that nonexecutive directors' supervisory activity is as much as necessary preclusion to put earnings management's inclination under check. This is an indication that monitoring activities of external directors are able to check against management's unrestricted accounting practices, hence authenticating the assumptions of Fama and Jensen (1983). Obviously, the addition of external directors boosts the board's aptitude to be extra resourceful in supervising top management and to guarantee there is no taking part of top managers to commandeer stakeholders' wealth. This finding is consistent with the enquiries of Olatunde and Fumilayo (2019), Imoheayo *et al.* (2016)and Egbunike *et al*., (2015).

Again, a significant and positive influence of audit committee independence on earnings management was observed. This result is a confirmation of Beasley (1996) position which indicates that, audit committee plays a significant role for the reason that it is concerned with instituting and keeping an eye on the accounting course of action to make available pertinent and realistic information to the firm's stakeholders. As sustained by the study's findings and in line with ordinary expectation, a more independent audit committee would supply more efficient oversight of the financial reporting procedure and guarantee enhanced quality of earnings disclosed by the firm by off-putting opportunistic earnings management. Hence the result substantiates the studies by Omoye & Eriki (2014) and Egbunike *et al*. (2015).

Finally, results from multivariate analyses revealed that board meeting frequency positively affects earnings management. This implies that, when the board exhibits more meticulousness in fulfilling its responsibility, this will boost the general oversight of the financial reporting procedure (Carcello *et al.,* 2002). Thus, the more board meetings, the more time is dedicated to concerns such as earnings management and vice versa (Xie *et al.,*2003).The impact of board meeting frequency on earnings management is a vital concern in organizations, this study saw the impact of board meeting frequency on earnings management where the board meetings frequency are necessarily valuable since the more the board meets, their earnings is being affected. This means that, the board of directors' efficacy is a function of time where board meetings mirror the board activity. This supports the findings of Eluyela *et al* (2018) which confirms the positive association between board meetings frequency and firm performance.

CONCLUSIONS AND RECOMMENDATION

This study assessed the degree to corporate governance structure impacts earnings management of listed oil and gas companies by means of a quantitative analysis, which makes apparent that in presence are sufficient confirmations that the constituents of corporate governance structure explored by this existing study confidently influenced earnings management, presenting an excellent verdict to declare that these pigeonholed variables (board independence, audit committee independence and frequency of board meeting) have the latent to set in motion earnings management, and their nonexistence predicts economic waning in the long run, and in consequence get in the way of earnings management of listed healthcare firms in Nigeria. The study therefore, concludes that, corporate governance structure significantly influence earnings management of listed mainstream oil and gas firms in Nigeria, and recommends that, listed mainstream oil and gas firms should guarantee sufficiently that, they have independent non-executive directors in the board of their companies, their audit committees should be presided over by independent non-executive directors, and board meetings should be synchronized in order not to generate opportunity for waste of man hour, so as to boost not only their clearness and disclosure excellence, but also invigorate the supervisory competence and efficacy of their board.

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