



BOARD CHARACTERISTICS AND EARNINGS MANAGEMENT OF LISTED CONSUMER GOODS COMPANIES IN NIGERIA: A CAUSALITY ANALYSIS

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Abstract

This study examined the relationship between board characteristics (BC) and earnings management (EM) of selected listed consumer goods companies in Nigeria in terms of their causal relationship. The study used a dataset of nineteen (19) consumer goods that were listed on the floor of the Nigeria Exchange Group from 2010 to 2022. It examined how four BC (board size (BDS), gender diversity (BGD), independence (BIN) and frequency of meetings (BMT) as well as logarithm firm size, LOGSIZ (in terms of its assets) was causally related to EM (discretionary accruals) of the companies. The study tested for the stationarity and long run relationship of the research variables and used the Engel Granger causality test to ascertain the presence, strength and direction of causal relationship between BC and EM. Estimates panel Granger causality models revealed that out of all the BCs, only BMT had a significant causal relationship with EM. Specifically, BDS, BGD, BIN and LOGSIZ have no significant causal relationship with DAC as their respective probabilities of F-Statistics are all greater than 0.05 level of significance. However, BMT has a significant unidirectional causality with DAC with the causal effect running from DAC to BMT implying that DAC elicited the frequency of BMT during the period. The study concluded that BC has significant causal effect on EM, at least, in terms of the frequency of board meetings, implying the rejection of the null hypothesis of no significant causality. The study therefore recommended that companies should adopt proactive rather than monitoring mechanisms to detect and mitigate earnings management early and set predefined thresholds or criteria that automatically trigger focused review sessions with oversight functions strategically targeted at specific risk indicators.

Keywords: board characteristics, earnings management, causality analysis, listed consumer goods companies, Nigeria

1. Introduction

The effectiveness of corporate governance structures is influenced by the composition, size, and diversity of a company's board (Okike et al., 2015). The board of directors plays a central role in ensuring that managers act in the best interest of shareholders (Aleqab & Ighnaim, 2021). Effective governance frameworks help align management decisions with shareholders' goals, thereby curbing unethical practices like earnings management (Fama & Jensen, 1983). In Nigeria, the corporate governance landscape has been shaped by several regulatory frameworks, including the Companies and Allied Matters Act (CAMA) of 2020 and the Nigerian Code of Corporate Governance (NCCG) of 2018. These frameworks emphasize the importance of a robust board

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structure in ensuring accountability, transparency, and the integrity of financial reporting (Okike et al., 2015). A well-structured board is typically characterized by an optimal size, independent directors, gender diversity, and a clear separation between the CEO and board chairman roles.

The issue of earnings management has become a significant concern in the corporate world, particularly within firms in developing countries (Adegbite & Nakpodia, 2021). Earnings management refers to the manipulation of financial statements to achieve a desired financial outcome, often at the expense of the accuracy and integrity of financial reporting (Healy & Wahlen, 1999). This practice can lead to serious consequences for investors, regulators, and other stakeholders, as it undermines the credibility of corporate financial reports. Within the Nigerian context, where corporate governance frameworks are still evolving, the structure of a company's board has been identified as a key factor that can either mitigate or exacerbate the problem of earnings management (Babatunde & Olaniran, 2009).

The problem of earnings management may be pronounced in manufacturing firms where companies face intense pressure to meet the expectations of investors and analysts. This sector is highly competitive, with firms striving to maintain profitability in the face of economic challenges such as fluctuating exchange rates, inflation, and unstable government policies (Attia et al., 2022). The drive to present a favorable financial outlook can lead companies to engage in earnings management practices, thereby distorting their true financial performance. This practice not only misleads investors but also weakens the overall trust in the capital market, which is essential for economic growth and development.

In light of these challenges, the structure of corporate boards plays a crucial role in either preventing or facilitating earnings management (Buraik & Idris, 2020). Agency theory suggests that well-structured boards, characterized by a balance of independent directors, optimal board size, and a clear separation of roles between the CEO and board chairman, can effectively monitor management activities and reduce the likelihood of earnings manipulation (Jensen & Meckling, 1976). However, in Nigeria, the effectiveness of board structures in curbing earnings management remains an area of concern. While regulatory frameworks such as the Nigerian Code of Corporate Governance (NCCG) of 2018 emphasized the need for strong board oversight, the implementation and enforcement of these guidelines are often inconsistent (Enache & Hussanev, 2020). As a result, many consumer goods companies continue to engage in earnings management practices despite the presence of corporate governance codes.

Board size refers to the number of directors on the board and has mixed implications-while larger boards may offer a diversity of expertise and enhance monitoring, overly large boards may suffer from coordination inefficiencies (Jensen, 1993; Xie et al., 2003). Board gender diversity, often measured by the proportion of female directors, is increasingly recognised for its potential to strengthen ethical standards and reduce opportunistic financial behaviour, as women are associated with greater risk aversion and stakeholder orientation (Adams & Ferreira, 2009; Uwuigbe et al., 2014). Board independence, typically the proportion of non-executive directors, is fundamental in ensuring objective oversight of management and constraining earnings manipulation (Beasley, 1996; Klein, 2002). Meanwhile, the frequency of board meetings serves as a proxy for board diligence and oversight intensity, with studies suggesting that more frequent

meetings are associated with greater financial reporting quality (Vafeas, 1999; Osazuwa & Che-Ahmad, 2016).

One major issue that contributes to the persistence of earnings management is the lack of independent directors on boards. Independent directors are expected to provide unbiased oversight of management activities, as they are not influenced by internal politics or personal relationships with the management team (Fitrasari, 2023; Klein, 2002). However, in many Nigerian consumer goods companies, boards are often dominated by insiders or affiliated directors, which weakens the board's ability to exercise independent judgment (Ogundajo & Onakoya, 2023). This lack of board independence can lead to the manipulation of financial reports, as directors may prioritize personal or managerial interests over the interests of shareholders. Even if board structure affects earnings management of the listed consumer goods, it does not translate to the former causing the latter. The area of causality between these two research variables is yet to be deeply examined in literature. Therefore, this anchored the focus of the study.

2. Literature Review

This study provided insights into some relevant concepts, theories and previous empirical works on the relationship between companies' board characteristics and their earnings management practices.

Conceptual Review

Earnings Management

The motives for earnings management are varied. One key reason is performance-based compensation, where managers have incentives to manipulate earnings to meet specific targets and boost their bonuses or stock options (Cheng et al, 2006). Another motive is to meet or exceed analysts' forecasts, as this can positively affect a company's stock price and reduce the cost of capital (Dechow et al. 1996).

Additionally, earnings management may be employed during periods of heightened scrutiny, such as in the lead-up to a company's public offering or in cases of financial distress. However, earnings management poses significant risks. It reduces the quality of financial reporting and obscures the real performance of firms, thereby undermining investors' trust in financial statements. Furthermore, it can lead to severe reputational damage and regulatory penalties if exposed (Chen, et al., 2020). In Nigeria, earnings management has been a persistent issue due to factors such as weak enforcement of regulations, limited oversight mechanisms, and governance lapses (Okoye & Alao, 2008).

While non-discretionary accruals are typically not indicative of earnings management activities according to Abdelkarim and Khaled (2020), discretionary accruals, sometimes referred to as anomalous accruals, are often central to earnings manipulation concerns. Discretionary accruals refer to assets and liabilities that management is not obligated to include in the financial statements but may choose to do so if it enhances the clarity or understanding of the financial information. Discretionary accruals are calculated by subtracting non-discretionary accruals from the total accruals. Several models can be employed to calculate non-discretionary accruals (Agwor & Onukogu, 2018), including the cash flow model, the balance sheet model, and the modified Jones model. The cash flow model calculates total accruals by subtracting operating cash flow

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from income before extraordinary items, while the balance sheet approach uses current assets and current liabilities to determine total accruals (Ideh et al., 2021).

Earnings management can be carried out through several techniques, which generally involve manipulating financial reports to meet certain objectives. Here are the keyways earnings management is typically done: such techniques include revenue recognition timing, expense manipulation, big bath accounting and cookie jar reserves and depreciation and amortization adjustments (Hajawiyah, et al 2020).

Revenue recognition is a crucial area of earnings management. Managers may choose to accelerate or delay the recognition of revenues depending on their financial targets. Accelerating revenue means recognizing income before the actual delivery of goods or services, which can inflate current period earnings. On the other hand, delaying revenue can reduce income in a strong period to create a buffer for weaker future performance, aligning earnings with investor expectations (Enache & Hussainey, 2020).

Expense manipulation is another way of earnings management. Research by Hajawiyah et al. (2020) shows that expense manipulation is particularly prevalent in industries with high levels of intangible assets, where companies have greater discretion over when to capitalize or expense certain costs. This is especially relevant in the technology and pharmaceutical sectors, where R&D costs can be deferred to future periods to smooth earnings. Moreover, the use of provisions and accruals has been identified as a key area where managers exercise judgment in expense recognition (Garcia-Sánchez & García-Meca, 2018).

In practice, companies deliberately overestimate liabilities or expenses in one period to create financial reserves that can be used in future periods to smooth earnings and artificially maintain financial stability (Dobija & Pulawska, 2022). These reserves can be drawn upon during lean financial periods, giving an inflated sense of profitability.

While both "Big Bath" accounting and cookie jar reserves are technically permissible under accounting standards, they are viewed as deceptive because they distort the financial realities of the company (Lim & Mathews, 2021). In addition, Garcia-Blandon and Martinez-Blasco (2022) stated that companies can adjust the useful life or residual value of assets to manipulate the depreciation charged in each accounting period. For instance, straight-line depreciation might reduce expenses in earlier periods, increasing profits, while accelerated depreciation can generate higher expenses sooner to reduce taxable income (Garcia, et al 2017).

Board Characteristics

Board characteristics can influence a board's ability to provide diverse expertise and manage oversight effectively. While larger boards can bring a range of perspectives, they may struggle with coordination, potentially reducing their effectiveness (Choi et al., 2007). Smaller boards may be more cohesive but might lack the diversity needed to navigate complex governance challenges (Anderson & Reeb, 2004). Board independence, defined by the presence of directors not involved in the company's day-to-day operations, is vital for providing objective oversight and mitigating risks such as earnings manipulation (Klein, 2002). Research highlights that independent directors are instrumental in monitoring management and reducing the likelihood of unethical financial practices (Garcia et al., 2022).

Gender diversity has emerged as a critical factor in board effectiveness. Studies suggest that gender-diverse boards improve decision-making processes and reduce earnings manipulation due to the diverse perspectives and ethical considerations introduced by female directors (Adams, 1994 et al., 2023). Moreover, the separation of the CEO and board chairman roles prevents the concentration of power in a single individual, reducing the risk of self-serving behavior and enhancing board oversight (Fama & Jensen, 1983).

In Nigeria, corporate governance is guided by the Nigerian Code of Corporate Governance (NCCG), which emphasizes the importance of board composition in promoting transparency, accountability, and ethical decision-making (Onyejekwe & Ujah, 2022). Studies increasingly show that gender-diverse boards improve corporate decision-making, promote ethical conduct, and enhance financial performance (Terjesen et al., 2016). Gender diversity on boards is believed to introduce diverse perspectives, foster better risk management, and mitigate unethical practices, such as earnings manipulation (Gul et al., 2011).

According to Kaczmarek et al., (2022), frequent meetings allow boards to keep abreast of operational developments and respond to emerging risks, thereby strengthening their monitoring functions. Moreover, well-organized meetings are essential for ensuring that directors fulfill their fiduciary duties, particularly in overseeing financial reporting and earnings management (Sharma & Iselin, 2019).

Empirical Literature

On the effect of board size on earnings management, Githaiga et al. (2022) assessed board size's effect on earnings management across 88 East African Community (EAC) firms from 2011 to 2020. Using the system generalized method of moment (SGMM) estimation, the study found a significant negative relationship between board size and earnings manipulation. Additionally, independence, gender diversity, and financial expertise were linked to improved governance and reduced earnings management. Larger firms demonstrated stronger governance effects.

Also, Attia et al. (2022) analyzed board attributes and real earnings management (REM) in 78 Egyptian listed companies from 2008 to 2017 using SGMM. Board size negatively correlated with REM, except when measured through abnormal cash flow from operations (ABCFO). Board meetings, however, had a positive and significant relationship with REM. The study recommended tailoring governance practices to suit each country's institutional and economic context.

Bello et al. (2024) explored the relationship between board attributes and earnings management among eight deposit money banks (DMBs) listed on the Nigerian Exchange Group from 2012 to 2021. Employing ordinary least squares regression, the study revealed that board independence significantly reduces earnings manipulation, while board size showed no significant impact. They recommended that shareholders constitute appropriately sized and effective boards to enhance oversight and curb earnings management.

On how board diversity and independence affect earnings management, Orajaka (2022) examined corporate board diversity, focusing on foreign board membership in 25 Nigerian non-financial firms. The results showed that firms with more foreign and independent directors and female board members engaged less in earnings manipulation, while firms with directors holding significant stock displayed higher earnings management levels.

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Jonah et al. (2023) examined the effect of board gender diversity on earnings management among listed industrial goods companies in Nigeria from 2018 to 2022. The results indicated that female board members positively influence earnings per share (EPS), while male board members negatively affect EPS. The study concluded that gender diversity significantly impacts earnings management.

Studies have revealed the effect of multiple board characteristics on earnings management. Huang et al. (2021) employed data envelopment analysis (DEA) and the Tobin regression model to explore the impact of earnings management and board characteristics on company efficiency. Their study utilized a sample of 396 Taiwanese electronics and biotechnology firms spanning from 2009 to 2017. The findings revealed that earnings management had an insignificant effect on company efficiency overall. However, the interactions between earnings management and board characteristics yielded mixed results. Specifically, companies that engaged in earnings management saw improvements in efficiency when they had experienced directors, a higher proportion of female directors, and more frequent board meetings. Conversely, a larger number of independent directors and higher director attendance rates at board meetings were found to decrease company efficiency. Despite the engagement in earnings management, the study suggests that board diversity, particularly with more female directors and frequent meetings, can still positively influence firm performance.

Hope and John (2023) studied board characteristics and earnings management in 12 Nigerian DMBs from 2016 to 2021. Using panel regression, the study found that board size and composition negatively correlated with earnings management, while board diversity showed no significant impact. They recommended ensuring sufficiently large and well-composed boards for effective oversight and reduced earnings manipulation.

Almalki (2023) analyzed the impact of corporate governance on earnings management in Saudi Arabia, using data from 112 listed firms between 2006 and 2017. A corporate governance index was constructed to measure compliance with the Saudi Corporate Governance Code (SCGC). The findings showed a significant negative relationship between the governance index and earnings management, though this effect weakened in firms with high family ownership. Independent directors, larger boards, frequent audit committee meetings, and institutional and government ownership were linked to reduced earnings management. Conversely, audit committee independence and blockholder ownership had no significant effect. The study highlighted the SCGC's effectiveness in curbing earnings manipulation.

Van-der-Wal (2020) examined the impact of CEO power on firm performance, along with the moderating role of independent directors, using a sample of 142 UK-listed firms from 2013 to 2018. The study employed ordinary least squares (OLS) regression analysis, with CEO power defined by factors such as compensation, ownership, founder status, duality, and tenure. The results showed a significant positive relationship between CEO power and market-based firm performance, as measured by Tobin's Q. Furthermore, independent directors moderated the effect of CEO power on firm performance. The study found that independent directors weakened the relationship between CEO compensation-based power and Tobin's Q but strengthened it when CEO power was based on ownership, founder status, duality, or tenure.

Sunday et al. (2021) analyzed the effect of corporate board characteristics and earnings management in Nigerian banks from 2009 to 2018. The modified Jones model was used to measure earnings management, while four board attributes (size, independence, gender diversity, and board meeting frequency) were examined. The random effects generalized least square analysis reveals a significant negative relationship between board size, board independence, and earnings management. However, gender diversity and the frequency of board meetings did not significantly affect earnings management. The study suggests that corporate governance regulations should promote the inclusion of a reasonable number of external directors on boards to curb earnings manipulation.

In research examining the effect of board characteristics on earnings management, particularly as it relates to consumer goods companies in Nigeria, a key gap remains unexplored: the causal relationship between these two variables. While existing studies have generally focused on correlations and effects between various board characteristics and the occurrence of earnings management, none has sufficiently delved into establishing a significant causal link, particularly from board structure to earnings management practices. This gap is critical, as understanding whether specific board attributes actively influence, or curb earnings management would provide deeper insights into corporate governance effectiveness. This lack of attention to causality limits the ability of corporate governance policymakers and stakeholders to make informed decisions on board composition and governance reforms. By addressing this gap, future studies can contribute more robust evidence on whether improving board structure can directly mitigate earnings manipulation, thus fostering transparency and accountability in financial reporting among Nigerian consumer goods companies.

Relevant Theories

Stewardship Theory

Unlike agency theory, which assumes that managers are self-interested and prone to opportunistic behavior, stewardship theory posits that managers are inherently trustworthy and motivated to act in the best interests of the firm (Donaldson & Davis, 1991). This theory suggests that managers and directors are stewards of the firm's resources and aim to maximize shareholders' wealth because their goals are aligned with those of the owners.

With respect to board characteristics and earnings management, stewardship theory argues that the board's role should not merely be that of a watchdog but should also involve fostering a supportive environment that allows management to make long-term decisions without being burdened by excessive oversight. Proponents of stewardship theory believe that when managers are trusted and given autonomy, they are less likely to engage in earnings manipulation (Davis et al., 1997). The rationale here is that managers are intrinsically motivated to maintain the firm's integrity and will avoid practices that could harm the organization's reputation or long-term performance.

According to stewardship theory, the board structure should emphasize collaboration between executives and directors rather than a strict oversight model. In this context, combining the roles of CEO and chairman is viewed positively, as it leads to unified leadership, faster decision-making, and alignment between the management and the board (Donaldson & Davis,

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1994). This contrasts sharply with agency theory, which views such role duality as a risk factor for earnings management due to the concentration of power.

Research supporting stewardship theory suggests that firms with fewer independent directors may not necessarily exhibit more earnings manipulation. Instead, the quality of the relationship between management and the board may play a more significant role in determining the firm's financial reporting practices (Muth & Donaldson, 1998). In a steward-managed firm, earnings management is less likely because managers and directors are working together to achieve shared objectives.

Summarily, stewardship theory highlights the importance of trust and alignment between the board and management in reducing the likelihood of earnings manipulation. While agency theory advocates for strict oversight, stewardship theory emphasizes collaboration and shared goals as the best way to ensure ethical financial reporting.

Stakeholder Theory

Stakeholder theory, developed by Freeman (1984), broadens the scope of corporate governance by considering the interests of all stakeholders in the decision-making process, not just shareholders. According to this theory, a company's board should act in the best interests of a wide range of stakeholders, including employees, customers, suppliers, creditors, and the community at large.

For earnings management, stakeholder theory may suggest that boards should ensure that the firm's financial reporting reflects the interests of all stakeholders, rather than manipulating earnings to satisfy short-term shareholder demands or management bonuses. Boards that are accountable to a diverse group of stakeholders are less likely to approve or ignore earnings management practices because such practices could harm the firm's reputation, credibility, and long-term sustainability (Phillips et al., 2003).

A stakeholder-oriented board structure typically includes members who represent different stakeholder groups or have a strong commitment to corporate social responsibility (CSR). Such boards are often more transparent in their financial reporting practices and are likely to avoid earnings manipulation to protect the interests of a broader array of constituents.

Ethical Leadership Theory

Ethical leadership theory focuses on the role of ethical leadership in shaping the behaviors of individuals and organizations. Brown and Treviño (2006) argue that ethical leaders, who prioritize fairness, transparency, and accountability, create an organizational culture that discourages unethical practices like earnings management.

Relating to board characteristics, this theory implies that the ethical orientation of board members significantly influences corporate governance practices, including financial reporting. Boards with a strong ethical foundation are more likely to emphasize transparency and accuracy in financial reporting, reducing the likelihood of earnings manipulation. Ethical leaders within the board can set the tone for the organization, promoting a culture of integrity that extends to management and employees alike.

Ethical leadership theory also emphasizes the importance of setting clear ethical guidelines and providing strong oversight to ensure that these values are upheld across the organization. Boards that prioritize ethical leadership are more vigilant in detecting and preventing earnings

management, as they understand the broader implications of such actions on the firm's reputation and stakeholder trust (Kaptein, 2008).

3. Methodology

Research Design and Model

This study used longitudinal and expo-facto research design. This is because a repetitive observation of the same variables for some periods and data are sourced secondary sources. The study will cover twenty-one (21) consumer goods listed on the Nigeria Exchange Group (NGX) from 2010 to 2022. However, two of the firms (DN DN Tyre & Rubber Plc and Union Dicon Salt) were dropped from the list due to unavailability of requisite data.

The functional relationship between board structure and earnings management is linearly expressed as: $EM = f(BS; SIZ)$ (i)

Decomposing $BS = BDS, BGD, BIN, BMT$, while $EM = DAC$. For the purpose of analysis, and substituting the decomposed variables into BS and EM , the model for the study is expressed econometrically as: $DAC_{it} = \alpha + \beta_1 BDS_{it} + \beta_2 BGD_{it} + \beta_3 BIN_{it} + \beta_4 BMT_{it} + \beta_5 LOGSIZ_{it} + \epsilon_{it}$... (ii)

Where: α is Regression intercept; $\beta_1 \dots \beta_6$ is Coefficients of BS variables; ϵ is Error term; DAC_{it} is Discretionary accruals for consumer goods companies in (i) at time (t); BDS_{it} is Board size of company i at time t; BGD_{it} is Board gender diversity of company i at time t; BIN_{it} is Board independence of company i at time t; BMT_{it} is Board meeting of company i at time t; and $LOGSIZ_{it}$ is Logarithm of size of company i at time t (control variable).

The pre-estimation tests and diagnoses used in this study include the Augmented Dickey Fuller ADF) stationary test and the Phillip-Perron – Fisher (PP-Fisher) test of long-run relationship (co-integration). The PP– Fisher unit root test technique is used to test for the stationarity of each of the variables in the study. This test is an extension of the Phillips-Perron test applied to panel data and aggregates individual p-values across cross-sectional units using Fisher's test statistic. The PP-Fisher test is robust to heteroskedasticity and autocorrelation in the errors.

The decision rule involves comparing the test's p-value with a significance level (often 0.05); if the p-value is lower, the null hypothesis of a unit root is rejected, indicating stationarity. Nevertheless, the study used the Perdroni residual co-integration to test whether long run relationship exists between the dependent and independent variables. This test includes several statistics that account for within-dimension and between-dimension panels, offering robustness in detecting cointegration across diverse units. The decision rule involves evaluating the test statistics against critical values; if the statistic value exceeds the critical threshold or the p-value is below the chosen significance level (0.05), the null hypothesis of no cointegration is rejected, suggesting the variables are cointegrated across the panel.

Panel Granger Causality Modelling

The objective of this study is achieved by employing the Granger causality test. A causality exists between two variables if previous changes in one (X) is able to exert present changes in another (Y) than the previous changes in the other (Y) is able to exert on itself. This implies that previous changes in X can help predict the present changes in Y. In this study, the causal relationship between board structure (BS) and earnings management (EM) is expressed as:

$$EM_t = \alpha_0 + \sum_{k=1}^M \beta_k EM_{t-k} + \sum_{i=1}^N \alpha_i BS_{t-1} + \mu_t \dots\dots\dots (iii \ a)$$

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$$BS_t = \alpha + \sum_{k=i}^M \delta_k BS_{t-k} + \sum_{i=1}^N \gamma_i EM_{t-1} + V_t \quad \dots\dots\dots(iii \text{ b})$$

Where: EM_t is Earnings management (DAC); BS_t is Board characteristics (all board structure variables as defined in equation (iii a&b); μ_t and V_t are equally uncorrelated error terms; k & i are number of lags

Generally, the null hypothesis to be tested in Granger causality test is that for all, $\alpha_1 = 0$ and that $\delta_k = 0$ for all k 's. The alternative hypothesis is that α_1 and δ_k is not equal to zero for at least some of the i 's and k 's. Furthermore, if the α_1 's are statistically significant but δ_k 's are not, it means that BS Granger causes EM and vice versa. However, if α_1 and δ_k is both significant, then a bidirectional causality exists between them.

4. Results and Discussions

First, the descriptive statistics of and correlations among research variables are established and thereafter the test of their stationarity and long-run relationship are conducted

Descriptive Statistics

The descriptive statistics examined here include the mean, minimum, and maximum values. Others include the coefficients of skewness, kurtosis and the Jarque-Bera test of normal distribution. Table 1 contains the summarised version of the descriptive statistics of the research variables.

Table 1

Descriptive Statistics of Research Variables

Variables	DAC	BDS	BGD	BIN	BMT	LOGSIZ
Mean	-0.0295	10.4979	17.5781	80.3337	5.0166	8.8560
Median	-0.0370	10.0000	16.6700	70.0000	5.0000	7.5100
Maximum	0.9860	17.0000	50.0000	77.6363	8.0000	151.7300
Minimum	-0.7730	4.0000	0.0000	25.0000	2.0000	2.0400
Std. Dev.	0.1618	3.1120	10.8993	49.5943	1.4576	14.4376
Skewness	0.9974	0.1292	0.4141	1.5404	0.5859	8.6427
Kurtosis	12.0809	2.4088	3.4307	2.3823	2.7362	78.1470
Jarque-Bera (J-B)	868.0170	4.1798	8.7507	566.5543	14.4879	59706.28
Probability (J-B)	0.0000	0.1237	0.0126	0.0000	0.0007	0.0000
Sum	-7.1002	2530.0000	4236.320	24180.42	1209.0000	2134.306
Sum Sq. Dev.	6.2830	2324.349	28510.46	590302.20	509.9336	50026.80
Observations	241	241	241	241	241	241

Source: Author (2024)

This table provides insights into the distribution, spread, and central tendency of each variable across 241 observations. From the observations, the mean of DAC is -0.0295, indicating a slight tendency towards negative discretionary accruals. The median is -0.0370, aligning closely

with the mean, suggesting a moderate skew. Its skewness of 0.9860 indicates a rightward skew while its kurtosis of 12.0809 signifies high peakedness which suggest the presence of outliers. The Jarque-Bera (J-B) probability of 0.0000 indicates that the data is non-normally distributed.

For BDS, the mean is 10.4979 and the median size is 10.0000, close to the mean. The variable is relatively normal distribution with skewness at 0.1292 and kurtosis at 2.4088. Its J-B probability of 0.1237 suggests that the distribution is not significantly different from normal. On its part, BGD has a mean of 17.58%, suggesting a low average gender diversity. Its skewness of 0.4141 shows a slight right skew while the J-B probability of 0.0126 indicates mild non-normality. Board independence (BIN) has a mean value of 80.3337, indicating a generally high degree of board independence. Its skewness and kurtosis are 1.5404 and 2.3823 respectively, indicating a highly non-normal distribution. This is confirmed by the J-B probability of 0.0000.

BMT has a mean of 5.0166, suggesting boards meet about five (5) times a year on average. Furthermore, the logarithm of firm size (LOGSIZ) has a mean of 8.8560 with a median of 7.5100. Its skewness is 8.6427 and kurtosis of 78.1470 indicating severe positive skewness and high peakedness. Nevertheless, the J-B probability of 0.0000 points to a non-normal distribution. The non-conformity with normal distribution of majority of the research variables is expected because of its nature (data extracted from different firms at different times and based on individual firms' characteristics).

Pearson Correlation

As revealed in table 2, the degree of co-movement between the independent and explanatory variables.

Table 2

Pearson's Correlation Coefficient

Variable	DAC	BDS	BGD	BIN	BMT	LOGSIZ
DAC	1.0000					
BDS	0.0680	1.0000				
BGD	0.0499	-0.1943	1.0000			
BIN	0.0434	0.0217	0.0553	1.0000		
BMT	-0.0778	0.1112	0.0504	-0.0369	1.0000	
LOGSIZ	0.0612	0.1167	0.0045	0.0108	0.0189	1.0000

Source: Author (2024)

From table 2, DAC shows weak correlations with all other variables. BDS shows a slight positive correlation of 0.0680, suggesting a minimal relationship between board size and discretionary accrual. BGD revealed a minimal positive correlation of 0.0499 while BIN showed a very small positive correlation of 0.0434. BMT had a small negative correlation value of -0.0378 and LOGSIZ presented a slight positive correlation of 0.0612.

By and large, all the other board structure variables have weak correlations with one another as revealed in table 2. It is concluded that the descriptive statistics highlight some non-normality in distributions, particularly for DAC, BIN, and LOGSIZ. Correlation values are generally weak, suggesting that there may not be strong linear relationships between DAC and other board and firm characteristics in this sample. However, the slight positive correlation

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between DAC and BDS as well as the negative correlation between BDS and BGD could suggest areas worth exploring further in terms of board structure's impact on discretionary accrual and gender diversity.

Test of Stationarity

For variables to have causal relationship, they should be stationary. The PP-Fisher unit root test is used to test the stationarity of each of the research variables. The summary of the results of the tests are displayed in Table 1 In panel data, stationarity is crucial for determining whether variables are suitable for econometric modeling.

Table 1

Summary of Stationarity Test Results

Variable	Method: PP-Fisher				Stationarity Order
	At Level (5%)	At 1 ST DIFF (5%)			
	PP-Fisher Stat	Prob	PP-Fisher Stat	Prob	
DAC	182.473	0.0000	-	-	I(0)
BDS	74.4771	0.0004	-	-	I(0)
BGD	56.2245	0.0287	-	-	I(0)
BIN	85.0331	0.0000	-	-	I(0)
BMT	32.9327	0.1641	149.613	0.0000	I(1)
LOGSIZ	50.9778	0.0776	176.243	0.0000	I(1)

Source: Author (2024)

From Table 1, DAC, BDS, BGD and BIN are stationary at level without differencing as the probabilities of the PP-Fisher Statistic are all less than 0.05 level of significance (LOS), that is $p < 0.05$ LOS. However, BMT and LOGSIZ became stationary after their first difference Variables that become stationary at level exhibit some level of stability in its mean and variance over time without differencing.

Panel Co-integration Test

The Granger approach to causality requires that the variables studied should have long-run relationship, that is they must be co-integrated. The Pedroni Residual Cointegration Test is used to assess the presence of a long-run equilibrium relationship among variables in the panel data. The test considers two alternative hypotheses: one with common autoregressive coefficients (within-dimension) and another with individual autoregressive coefficients (between-dimension).

With respect to the within-dimension (common AR coefficients), the Panel v-Statistic is: -0.6881 with probability of 0.7543 (unweighted) and -2.6893 and probability: 0.9964 (weighted). The high p-values indicate that we cannot reject the null hypothesis of no cointegration. The Panel rho-Statistic: = 2.4446, probability = 0.9927 (unweighted) and 3.3427, probability = 0.9996 (weighted). These high p-values suggest no evidence of cointegration. Thirdly, the Panel PP-Statistic = -9.5471, probability = 0.0000 (unweighted) and -6.2207, Probability: 0.0000 (weighted).

Table 2
Test of Co-integration

Pedroni Residual Cointegration Test				
Null Hypothesis: No cointegration				
Alternative hypothesis: common AR coefs. (within-dimension)				
	Statistic	Prob.	Weighted Statistic	Prob.
Panel v-Statistic	-0.688070	0.7543	-2.689285	0.9964
Panel rho-Statistic	2.444616	0.9927	3.342722	0.9996
Panel PP-Statistic	-9.547141	0.0000	-6.220728	0.0000
Panel ADF-Statistic	-3.255905	0.0006	-3.105210	0.0010
Alternative hypothesis: individual AR coefs. (between-dimension)				
	Statistic	Prob.		
Group rho-Statistic	4.283853	1.0000		
Group PP-Statistic	-11.31474	0.0000		
Group ADF-Statistic	-2.214914	0.0134		

Source: Author (2024)

Both versions are highly significant, allowing us to reject the null hypothesis of no cointegration, suggesting evidence of a long-term relationship. The Panel ADF-Statistic = -3.2559 and probability = 0.0006 (unweighted) and -3.1052 and probability = 0.0010 (weighted). ADF statistics are significant, indicating evidence of cointegration.

With respect to between-dimension (individual AR coefficients), the Group rho-Statistic: = 4.2839, probability = 1.0000 which suggests no cointegration. The Group PP-Statistic = -11.3147 and probability: 0.0000. This result is significant, allowing us to reject the null hypothesis, indicating cointegration.

The Group ADF-Statistic = -2.2149, probability: 0.0134. The significant p-value (0.0134) provides evidence of cointegration. While some test statistics (Panel v-Statistic, Panel rho-Statistic, and Group rho-Statistic) do not support cointegration, the Panel PP-Statistic, Panel ADF-Statistic, Group PP-Statistic, and Group ADF-Statistic are statistically significant, indicating evidence of cointegration. This implies a long-term equilibrium relationship among the variables in the panel. Given that more test statistics reject the null hypothesis than fail to reject it, these results suggest that the variables are cointegrated, particularly when focusing on tests more robust to serial correlation, such as the PP and ADF statistics.

Panel Causality Tests Results

The purpose of causality test is to ascertain whether previous changes in the dependent variable predicts present changes in the independent variables more than previous changes in the dependent variables can predict in their present changes. The results of the panel Granger causality test are displayed in Table 3.

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Table 3

Granger Causality Test Results

Panel Pairwise Granger Causality Test. Dependent Variable: DAC			
Null Hypothesis:	Obs	F-Statistic	Prob.
BDS does not Granger Cause DAC	205	2.28165	0.1048
DAC does not Granger Cause BDS		2.29632	0.1033
BGD does not Granger Cause DAC	205	1.91204	0.1505
DAC does not Granger Cause BGD		0.87901	0.4168
BIN does not Granger Cause DAC	205	1.10842	0.3321
DAC does not Granger Cause BIN		2.18003	0.1157
BMT does not Granger Cause DAC	205	0.89608	0.4098
DAC does not Granger Cause BMT		3.69878	0.0265*
LOGSIZ does not Granger Cause DAC	205	0.90040	0.4080
DAC does not Granger Cause LOGSIZ		2.10325	0.1248

Source: Author (2024)

Two variables Granger cause each other if the p-values of their F-Statistics is less than the LOS ($p < 0.05$). Based on the results in Table 4.8, BDS and DAC, BGD and DAC, BIN and DAC and LOGSIZ and DAC have no significant causal relationship as seen in their POF-Stats). However, only BMT has a significant unidirectional causality with DAC. It is shown that previous changes in DAC causes present changes in BMT than previous BTM caused in itself.

Discussion of Findings

The study found that board meetings have a significant causal relationship with earnings management, while other board characteristics do not. This means that the changes in previous DAC helped to predict present changes in board meetings. This scenario needs an elaborate discussion. A unidirectional causality that runs from earnings management (DAC) to board meetings may imply that the level or presence of earnings management influences how often the board meets, rather than board meetings directly impacting earnings management. This reverse causality could indicate that boards respond reactively to financial reporting practices, where evidence or suspicion of earnings manipulation prompts more frequent meetings. Here are possible reasons for this finding.

When discretionary accruals or signs of earnings management are detected, boards may increase the frequency of their meetings to investigate these practices more closely. Earnings management often raises red flags for potential misalignment between actual and reported financial performance, which could signal issues in transparency or governance practices. In such cases, boards may respond by scheduling additional meetings to monitor and scrutinize financial reporting, attempting to better understand or mitigate these practices (Larcker & Tayan 2011).

Also, high levels of earnings management may indicate underlying financial or operational problems within the firm. Boards might interpret discretionary accruals as a warning that management is engaging in practices to either mask underperformance or smooth income, prompting the board to meet more frequently to address these potential issues. This causality suggests that earnings management can serve as an implicit “alarm bell” that encourages boards to strengthen oversight and evaluate corrective actions.

There is also the pressure to maintain governance reputation. In firms where earnings management practices come to light, there may be an increased demand from stakeholders—such as investors, regulators, and auditors—for heightened board vigilance. Board members, seeking to maintain their governance reputation and address shareholder concerns, might respond by increasing the number of meetings to signal their commitment to addressing potential governance risks. This reactive approach indicates that earnings management practices can trigger boards to actively demonstrate oversight to maintain credibility and stakeholder trust. (Vafeas, 1999).

Furthermore, when discretionary accruals are high, boards may anticipate that the company could attract regulatory scrutiny or reputational damage. In anticipation, they may increase their meeting frequency as a proactive measure to ensure that any irregularities in financial reporting are addressed and that the board is fully informed and engaged on these matters. This pattern shows that earnings management can influence the board’s behaviour by compelling it to take a more active role in governance and risk management. In addition, earnings management can create a perception of opaqueness in financial reporting, and boards may respond by increasing meetings to enhance transparency and reinforce their fiduciary role. In this scenario, the increase in board meetings serves as an adaptive response, where the board seeks to re-establish clear oversight and mitigate the opacity associated with high DAC levels.

5. Conclusion and Recommendation

Earnings management remains a critical area in corporate governance as it reflects the potential manipulation of financial reports, which can mislead investors and stakeholders about a company's true performance. The study is motivated by the premise that effective board governance can mitigate earnings management practices by strengthening oversight and enhancing transparency. This study investigates the causal relationship between board structure—namely, board size, board diversity, board independence, board meeting frequency, and firm size—and earnings management, measured by discretionary accruals (DAC) of nineteen (19) listed consumer goods firms in Nigeria from 2010 to 2022.

The study found that EM (DAC) Granger caused board meetings during the study period with a significant unidirectional causality from DAC to BMT. On this basis, this study concludes that, at least, one component of board structure (meeting frequency) was caused by DAC. This also implies that DAC helped to predict the frequency of board meetings that changes in board composition helped in predicting the frequency of BMT.

To address the finding that earnings management (DAC) drives increased board meeting frequency as a reactive measure, companies should adopt proactive monitoring mechanisms to detect and mitigate earnings management early, rather than solely increasing oversight after irregularities arise. Implementing continuous, technology-driven financial monitoring tools—such

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as real-time data analytics and automated red-flag systems—could help boards identify potential earnings manipulation before it escalates. Additionally, boards should set predefined thresholds or criteria that automatically trigger focused review sessions, ensuring that oversight is not only frequent but also strategically targeted at specific risk indicators. This proactive approach could strengthen financial integrity, enhance board responsiveness, and shift governance from reactive to preventive, thereby reducing the likelihood of earnings management within the firm.

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