



THE IMPACT OF CORPORATE GOVERNANCE ON EARNINGS MANAGEMENT OF LISTED CONSUMER GOODS FIRMS IN NIGERIA

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Abstract

This study examines the impact of corporate governance on earnings management in 16 out of 21 listed consumer goods firms on the Nigerian Exchange Group from 2014 to 2023. Census sampling technique and filtering were applied to select the sample. The study employed correlational and descriptive designs, and multiple linear regressions were employed to analyse the data. The results reveal that board financial expertise (BFE) and board gender diversity were insignificantly negative and positive on earnings management respectively. In addition, board composition and audit committee effectiveness (ACE) were significantly positive and negative on earnings management respectively. Therefore, the study recommends that Nigeria Security Exchange Commission (SEC) should revise the requirements for board financial expertise to include more members with professional qualifications, enhance the independence of board, strengthen the enforcement of corporate governance principles, and promote the inclusion of more female members to board and committees.

Keywords: audit committee effectiveness, board of directors, corporate governance, earnings management, Nigeria.

1 Introduction

Financial statements are crucial for investors and stakeholders making decisions, as they aim to accurately represent a firm's financial status and performance. However, the potential for management to manipulate earnings poses significant risks, leading to conflicts of interest and undermining the reliability of financial reporting. This can adversely impact investor confidence and the firm's overall performance (Ahmad et al., 2022; Aryal & Dhesi, 2022; Hassan et al., 2022). Financial statements are susceptible to earnings management practices, which can significantly impact a firm's reported performance over both short and long time periods (Handayani & Ibrani, 2020).

Earnings management occurs when managers exercise discretion over accounting choices or operational activities, either to enhance firm value or for personal gain, making it an unethical practice. Managers may manipulate income to boost earnings and report unrealistic figures, affecting the quality and reliability of financial reports. Alternatively, they may engage in income smoothing to reduce variability in disclosed income, often for personal or contractual gain (Bala et al., 2022). Earnings management involves altering financial statements to present a more favourable financial position, which can lead to misleading reports and affect resource allocation decisions (Healy & Wahlen, 1999). This practice is often facilitated through the use of accruals and real earnings management, resulting in less reliable financial performance information (Inaam & Khamoussi, 2016; Kothari et al., 2016).

The issue of earnings management has gained significant attention in the literature, emphasising the importance of improving earnings quality, reliability, and overall financial reporting quality (Agyeman, 2020; Alzoubi, 2016). Managers may deliberately manipulate accounting numbers to achieve predetermined targets, often through the aggressive application of generally accepted accounting principles (Mardessi, 2021; Strakova, 2021). The accrual model is a prominent measure used to determine the extent of earnings manipulation, suggesting that managers use discretionary



accruals to structure financial information to suit their desires, thereby lowering the quality of earnings (Bala et al., 2018).

Empirical studies have documented various motives for earnings management, such as meeting earnings targets, personal benefit, minimising costs, and avoiding regulatory scrutiny (Jamaludin et al., 2015; Strakova, 2021). Regardless of the motive, earnings management is generally viewed as a negative factor that affects the quality and reliability of financial reports (Abubakar et al., 2020), making them an unreliable tool for financial decision-making (Aryal & Dhesi, 2022). Effective corporate governance plays a crucial role in aligning management's interests with those of shareholders. It enhances transparency, ensures robust financial reporting processes, and prevents opportunistic earnings management practices, ultimately improving the quality of disclosed information (Rahmaningtyas & Mita, 2018; Joshi, 2021).

By increasing the integrity of financial reporting and limiting agency costs like earnings management, good governance practices minimise the chances of earnings manipulation and provide non-expert readers with more reliable information (Nazir & Afza, 2018; Tulcanaza-Prieto & Lee, 2022). Agency theory emphasises the vital role of the board and audit committee in corporate governance to improve financial reporting quality, reduce information asymmetry, and ensure trustworthy disclosure (Hassan et al., 2022). Audit committees, as key governance mechanisms, are responsible for overseeing financial reporting and aligning managers' interests with investors' interests (Zgarni et al., 2016; Bala, 2018). Overall, good governance practices are foundational to a firm's integrity, efficiency, and performance, with the potential to curtail earnings management and increase firm value (Abata & Migiro, 2016; Dhu & Hbp, 2019; Widagdo et al., 2021).

Proper monitoring promotes transparent, reliable financial reporting, limiting information asymmetry and unbiased opinions that could lead to material misstatements (Rahmina & Agoes, 2014; Yahaya & Okoroigwe, 2022). Effective boards of directors contribute to transparency, disclosure, and ethical behaviour (Kim, 2023). The board, as a crucial governance mechanism, oversees strategic objectives, protects shareholder value, and ensures high-quality financial reporting processes. Board expertise, especially financial expertise, is key for building stakeholder trust and navigating complex resource dependencies (Lee et al., 2024). A greater proportion of financial experts on the board can also reduce the risk of accounting manipulation (Bala et al., 2018).

Board diversity has been considered a governance mechanism to enhance board effectiveness (Atty et al., 2018). Studies indicate that appointing female directors can improve board independence, shareholder wealth, and reduce the likelihood of financial restatement (Oradi & Izadi, 2019). Female board members may serve as a control mechanism, reducing earnings management and enhancing financial reporting quality (Kajola et al., 2020). However, the relationship between board gender diversity and earnings management remains unclear, as some findings suggest gender diversity does not significantly impact earnings management (Abdullah & Ismail, 2016).

Gender-diverse boards have been found to enhance value perspective, board heterogeneity, independent decision-making, financial and economic efficiency, transparency, creativity, and monitoring (Govindan et al., 2023; Umar & Nuhu, 2023). The enhanced monitoring of gender-diverse boards is expected to limit earnings management and improve financial reporting quality (Mensah & Boachie, 2023). Women on boards are less likely to engage in unethical behaviour, potentially influencing earnings management practices (Farouk & Isa, 2018).

The audit committee is a crucial component of corporate governance. Its primary responsibilities include verifying the accuracy and reliability of financial information, ensuring compliance with accounting standards and regulatory requirements, and overseeing internal controls, ethical practices, and the quality of financial reporting (Soliman & Ragab, 2014; Bala, 2018; KPMG, 2023). Agency theory suggests that an effective audit committee can enhance reporting quality,



minimises information asymmetry, and reduces irregularities (Cohen et al., 2008). Factors such as industry expertise, independence, size, and meeting frequency can enhance audit committee effectiveness, helping to constrain managerial opportunism and improve financial reporting quality (Ellwood & Garcia-lacalle, 2015; Constantatos, 2018; Kapkiyai et al., 2020).

Despite the existence of regulatory frameworks governing financial reporting, many firms continue to engage in earnings manipulation, leading to high-profile financial scandals and corporate failures such as Carillion, Folli Follie, Wirecard, FTX, Luckin Coffee, and the Adani Group. Opportunistic managers often unethically practice earnings management, manipulating financial information to overstate their firm's performance or understate profits in order to attract investors (Akintoye & Kassim, 2022; Bala et al., 2022). These corporate collapses caused by earnings manipulation and other unethical practices have intensified concerns about the quality of financial reporting, underscoring the need for robust corporate governance.

The Nigerian consumer goods sector has also faced corporate failures resulting from unethical practices, weak corporate governance and inadequate oversight. These issues have compromised the reliability of financial information and undermined firm performance. Even after scandals such as Cadbury Nigeria Plc and Unilever Nigeria, the sector faces other cases of corporate failure like Jos International Breweries Plc, and Premier Breweries Plc (Abata & Migiro, 2016; Newsdirect, 2016; Premium, Times, 2023).

The primary objective of this study is to examine the impact of corporate governance on earnings management practices in listed Nigerian consumer goods firms. Specifically, the study aims to investigate the influence of board composition/independence, board financial expertise, board gender diversity, and audit committee effectiveness on earnings management in these firms.

To achieve these objectives, the following null hypotheses were formulated and tested:

- H₀₁:** Board composition/independence has no significant impact on earnings management of the listed consumer goods firms in Nigeria.
- H₀₂:** Board financial expertise has no significant impact on earnings management of the listed consumer goods firms in Nigeria.
- H₀₃:** Board gender diversity has no significant impact on earnings management of the listed consumer goods firms in Nigeria.
- H₀₄:** Audit committee effectiveness has no significant impact on the earnings management of listed consumer goods firms in Nigeria.

This study offers significant benefits for the academic field and various stakeholders. It contributes to the existing literature on corporate governance and earnings management, providing a valuable reference for future research in this area. The findings offer important insights for regulators, shareholders, investors, contractors, employees, and the management of consumer goods firms listed on the Nigerian Exchange Group (NGX). The study can assist shareholders in board selection, help boards in audit committee selection, and guide management in reducing earnings management practices. Additionally, it will aid regulators and policymakers in formulating more effective regulations and policies. Theoretically, the study validates key theories like agency theory and resource dependence theory, emphasising the critical role of corporate governance and audit quality in mitigating conflicts between managers and shareholders. This enhances the understanding of boards' and audit committees' responsibilities in ensuring the reliability of financial reports.

The study examined the impact of corporate governance on earnings management of listed consumer goods firms in Nigeria from 2014 to 2023. The choice of this period was centred on events that are likely to have impacted firm financial performance locally and globally, such as the economic recession between 2016 and 2018, the global coronavirus pandemic, and the recent high inflation rate faced by the Nigerian economy.



2. Literature Review

The relationship between corporate governance and earnings management is crucial for ensuring business integrity and reliable financial reporting. Accrual accounting, which involves recognising expected revenue and expenses when earned rather than when cash is exchanged, can provide managers with flexibility to manipulate reported earnings (Miko, 2016; Bala, 2018). Effective corporate governance structures, such as an independent board of directors and its committees, are crucial for addressing this agency problem and curbing earnings management. Independent board members, who are non-executive directors with no other affiliation with the firm, can bring objective judgement and necessary scrutiny to management proposals and actions, especially on strategic issues.

Conceptual Framework

Figure 1 showed the conceptual framework that guided this study

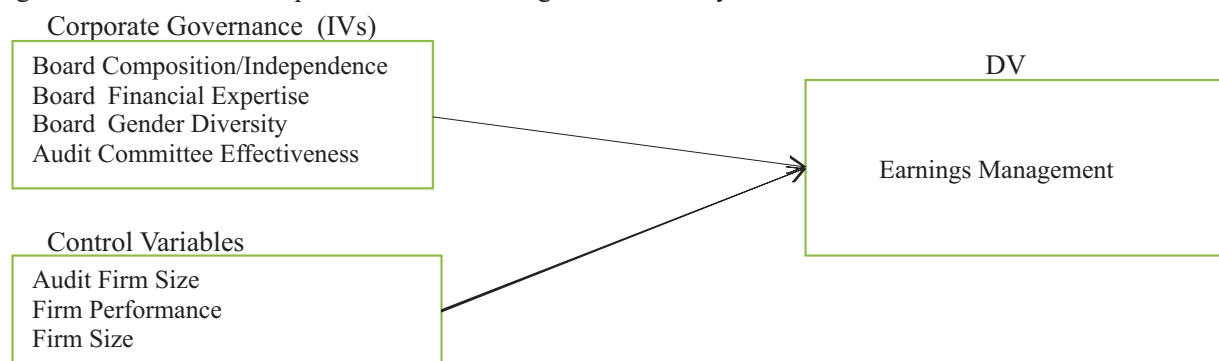


Figure 1: *Conceptual Framework of the impact of Corporate Governance on Earnings Management*

Theoretical Review

Agency theory

Agency theory provides a framework for understanding the potential conflicts of interest between managers and shareholders, and how corporate governance mechanisms like the board and audit committee can help align their objectives. Agency theory emphasises the importance of the board and audit committee as key components of corporate governance. The board's financial expertise can help reduce information asymmetry and accounting manipulation, while the audit committee's objectivity and assurance role can increase the reliability of financial reporting and limit earnings management. External auditors also play a critical role in reducing agency conflicts and ensuring accurate, compliant financial disclosures. Overall, the agency theory framework underscores the board's significant part in enhancing financial reporting quality, reducing conflicts, and promoting transparency within the firm's corporate governance.

Resource Dependence Theory

The resource dependence theory suggests that firms rely on external factors (stakeholders) to meet their resource needs. Since firms cannot fully control these resources, they engage in strategic actions to manage their dependencies. One such action is earnings management, where firms manipulate earnings to present a financially stable and reliable image and maintain favourable relationships with key stakeholders. Corporate governance mechanisms, particularly the board of directors, play a crucial role in improving firm governance and managerial oversight. Previous research indicates that directors with diverse skills, knowledge, and experience can help improve earnings quality by preventing earnings management activities. A higher percentage of financial experts on the board can also reduce the degree of accounting manipulation, as their knowledge and expertise contribute to more transparent and reliable financial reporting. The board acts as a strategic partner to management, providing valuable expertise, specialised skills, and advice in various areas to assist the



firm in effectively setting policies and strategies. This emphasises the significance of board expertise in building bridges to critical resources and fostering confidence among investors and other stakeholders in the transparency of the financial reporting process.

Review of Empirical Studies

Board Composition and Earnings Management

The proportion of independent, non-executive directors on the board is a key indicator of the strength of the corporate governance framework. These independent directors should be the key members of the board, providing oversight and accountability to protect the interests of investors and other stakeholders. The empirical studies reviewed present mixed findings on the relationship between board composition, particularly board independence, and earnings management.

Some studies have found a negative relationship, suggesting that independent boards are effective in curbing earnings manipulation (Githaiga et al., 2022; Iqbal et al., 2023). However, other studies have reported a positive or no significant relationship between board independence and earnings management (Rajeevan & Ajward, 2020; Adeoye et al., 2021). For instance, Obigbemi et al. (2016) examined Nigerian firms and found a negative relationship between board composition and earnings management. The study, which sampled 137 quoted Nigerian firms over an 8-year period from 2003 to 2010. Discretionary accrual was measured using the performance-matched modified Jones model. The authors recommend that regulators enforce the preparation and publication of financial reports by firms operating in Nigeria.

Similarly, Githaiga et al. (2022) found that board independence had a negative and significant impact on earnings management in East African firms sample of 88 listed firms for the period 2011 to 2020. The study estimated earnings management using the Modified Jones model (1995) and adopted the system generalised method of moments (SGMM) estimation model, agency theory, positive accounting theory, and political cost theory to underpin the study after controlling for firm age and firm performance.

Conversely, Adeoye et al. (2021), also focusing on Nigeria, revealed that board independence was positively associated with earnings management in a sample of 20 listed non-financial firms from 2009 to 2018. This contrasts with the findings of Obigbemi et al. (2016) and suggests that the appointment of board members should be based on their past records rather than just the proportion of independent directors. Equally, Hasan et al. (2022) recorded that board independence positively impacted FRQ for Pakistani firms. The study used accrual base models to capture the FRQ in a study on the impact of corporate governance on financial reporting quality (FRQ) in Pakistan and the UK by using three accrual-based models to analyse 1550 firm-year observations from 2009-2018, including 78 Pakistani firms and 77 UK firms. On the other hand, Rajeevan and Ajward (2020) also found an insignificant relationship between board independence and earnings management in Sri Lankan firms.

Board Financial Expertise and Earnings Management

The board's financial expertise refers to the number of directors with accounting and financial knowledge. The existing research on the relationship between board financial expertise and earnings management presents mixed findings. Several studies have examined this issue across different contexts: For instance, Hussaini and Gugong (2015) found a negative relationship between board financial expertise and earnings management among listed food and beverage firms in Nigeria from 2009-2014. They concluded that board members with financial expertise are better able to detect and deter earnings management.

Similarly, Silva et al. (2017) documented a negative association between board financial/accounting expertise and the degree of earnings management in a sample of listed firms on the Colombo Stock Exchange in Sri Lanka from 2014-2016. In contrast, Rajeevan and Ajward (2020) and Tuan (2022) reported a positive relationship between board accounting/financial acumen and earnings



management in their respective studies of listed firms in Sri Lanka from 2015-2017 and 27 listed Vietnamese banks from 2012-2021. More recently, Githaiga et al. (2022) found that board financial expertise had a negative and significant impact on earnings management in a study of listed firms in the East African Community from 2011-2020.

Board Gender Diversity and Earnings Management

The presence of female board members represents gender diversity on the board of directors. The influence of female board members on earnings management has been extensively researched, with mixed findings. Some studies have found that the presence of women on corporate boards can help mitigate earnings management practices (Omoye & Eriki, 2014; Farouk & Isa, 2018; Aryal & Dhesi, 2022); others have found no significant relationship between gender diversity on boards and earnings management (Osemene et al., 2018; Tuan, 2022; Vadasi & Polyzos, 2023). For instance, Abdullah and Ismail (2016) examined the association between the representation of women on boards and audit committees and earnings management. They found that the presence of women on the board or audit committee was not associated with a propensity for earnings management in a study of non-financial firms listed on Bursa Malaysia from 2008 to 2011. The authors suggest that having women directors who only serve on the board is not sufficient for women to make a difference in terms of mitigating aggressive earnings management, and they need to serve on the audit committee as well.

In contrast, the findings of Aryal and Dhesi (2022) support the view that gender diversity can restrain earnings management. Their research, based on FTSE350 firms in the UK, identified a negative relationship between earnings management and the presence of females on the board. The study recommends further research to explore the impact of corporate governance on earnings manipulations in other countries. Similarly, Tuan (2022) and Vadasi and Polyzos (2023) found no significant association between female participation on the board and earnings management in their respective studies of 27 listed Vietnamese banks from 2012-2021 and on 103 Greek firms listed on Athens Stock Exchange from 2015-2019.

The literature on the relationship between board gender diversity and earnings management in Nigeria presents mixed findings. Some studies have found a positive relationship between the presence of women on corporate boards and earnings management. For instance, Hussaini and Gugong (2015) examined listed food and beverage firms for the period of six years, 2009 to 2014, and reported that the number of women on the board was positively and significantly related to earnings management. In contrast, other studies have found a negative relationship. Omoye and Eriki (2014) and Farouk and Isa (2018) both found that board gender diversity was associated with lower levels of earnings management among Nigerian firms.

Omoye and Eriki (2014) examined a sample of 130 listed firms over the period of 2005 to 2010 and recommended that Nigerian stakeholders should encourage more female representation on the board. While Farouk and Isa (2018) studied 15 listed deposit money banks from 2008-2015 and concluded that board diversity and audit committee gender significantly affected earnings management, recommend that women directors on the board and committees should be carefully selected by the management to ensure their full participation. However, Kajola et al. (2020) found no significant relationship between board gender diversity and earnings management in Nigerian banks for the period 2009-2018, suggesting the impact may be limited by the low representation of women on boards.

Similarly, Osemene et al. (2018) found no relationship between board gender and earnings management practices in Nigerian deposit money banks. The study used loan loss provisions as a proxy for earnings management by applying the Chang et al (2008) model to estimate loan loss provisions on 14 quoted banks from 2011 to 2016.



Audit Committee Effectiveness and Earnings Management

The audit committee is an oversight body that is responsible for monitoring the firm's financial reporting process on behalf of the board and shareholders. Audit committee effectiveness is characterised by having financial experts who are diligent in their oversight, facilitate communication between the board and auditors, and maintain transparency and integrity in financial reporting, thereby improving the overall quality of the audit process (DeZoort et al., 2002). The relationship between audit committee effectiveness (ACE) and earnings management has yielded mixed findings in the existing literature.

Some studies suggest that effective audit committees can reduce opportunistic earnings management, while others do not find a significant relationship. For instance, Kent et al. (2010) found no significant link between ACE and discretionary accruals quality in a sample of 392 Australian public firms in 2004. In contrast, Habbash (2012) documented a significant negative association between an aggregate ACE score (comprising independent members, financial expertise, and meeting frequency) and discretionary accruals for a sample of 448 UK firms from 2003-2006. Constantatos (2018), however, reported mixed findings for Greek non-financial firms, with a negative ACE-earnings management relationship before legal changes, which turned positive after the implementation of new regulations or regulatory changes in Greece, suggesting firms may prioritise compliance over substance.

The existing research on corporate governance mechanisms presents mixed findings about their effectiveness in curbing earnings management and ensuring financial reporting reliability. These inconsistencies may stem from contextual factors like regulatory environments, measurement approaches, sample sizes, statistical techniques, and country-specific conditions. Therefore, further in-depth investigation is crucial to better understand the complex relationships and underlying mechanisms between corporate governance practices and earnings management across diverse institutional and organisational settings.

3. Methodology

The study employed a descriptive and correlational research design, focusing on twenty-one listed consumer goods firms in the Nigerian Exchange Group (NGX) as of December 31, 2023. It utilised the positivism research paradigm. The study employed a census sampling technique, examining all 21 listed consumer goods firms registered with the NGX as of the reference date. Filtering out five firms with incomplete data or financial statements were excluded, resulting in a final sample of 16 firms. The study used secondary data sourced from the audited reports of the sampled firms for the 10-year period from 2014 to 2023.

Model Specification

To examine the impact of corporate governance on earnings management, this study employed a panel model. The study employed a panel data model. The study used the Stata software to extract data and conduct multiple regressions analyses. Discretionary accruals, calculated using Kothari et al. (2005) model, were used as a proxy for earnings management, consistent with prior studies by Miko (2016), Hussaini (2018), Kjærland, et al. (2020), and Widagdo, et al. (2021). The Kothari et al. (2005) model was chosen as it provides more accurate estimates by controlling for a firm's past performance.

The cross-sectional model used to calculate discretionary accruals is as follows:

Where; TAC = total accruals; TA = total assets at the beginning of the year; Δ REV = change in sales revenue; Δ REC = change in accounts receivable; PPE = gross property, plant and equipment; ROA = net income divided by total assets; β_1 - β_4 = estimated coefficients; ε_{it} = residual (prediction error).



where $TAC_{it} = \beta_1 \left(\frac{1}{TA_{it} - 1} \right) + \beta_2 \left(\frac{\Delta REV_{it} - \Delta RE_{Cit}}{TA_{it} - 1} \right) + \beta_3 \left(\frac{1PPE_{it}}{TA_{it} - 1} \right) + \beta_4 ROA_{it} - 1 + \varepsilon_{it}$
from this model represent the estimated discretionary accruals. Finally, the panel data model used in the analysis is described as follows:

$$DAC_{it} = \beta_0 + \beta_1 BCI_{it} + \beta_2 BFE_{it} + \beta_3 BGD_{it} + \beta_4 ACE_{it} + \beta_5 BIG4_{it} + \beta_6 ROA_{it} + \beta_7 FSZ_{it} + \varepsilon_{it}$$

Where: DAC = Discretionary accruals; β_0 = constant term, β_{1-7} = coefficient of the independent variable. β_1 = Board composition/independence; β_2 = Board financial expertise; β_3 = Board gender diversity; β_4 = Audit committee effectiveness; β_5 = Big4 audit firm; β_6 = Return on assets; β_7 = Firms size; ε = term error.

Data Analysis Techniques

The study employed descriptive statistics (univariate analysis) and multiple linear regressions to assess the significance of the independent variables on the dependent variable. The positivism paradigm and descriptive analysis were used to determine the correlation between the independent and dependent variables.

Diagnostic and Post-Estimation Tests

The study conducted several diagnostic and post-estimation tests, including normality, multicollinearity, and heteroscedasticity tests. These tests were performed to ensure the validity of the data and the fitness of the model.

4. Results and Discussion

To achieve the study's objective, the descriptive and regression results were conducted to provide findings and conclusions. Table 2 presents the descriptive statistics, Table 3 display the correlation matrix, and Table 4 outlines the regression results obtained from the model.

Table 2:

Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
DAC	160	0.625	0.223	-0.096	1.871
BCI	160	0.551	0.180	0.143	0.889
BFE	160	0.317	0.105	0.091	0.667
BGD	160	0.207	0.130	0.000	0.500
ACE	160	0.825	0.381	0.000	1.000
BIG4	160	0.731	0.445	0.000	1.000
ROA	160	0.043	0.080	-0.301	0.279
FSZ	160	18.216	1.509	14.351	20.816

Source: STATA output, 2024

Table 1 shows 160 (16x10) observations. The normal value of discretionary accruals (DAC) used as a proxy for earnings management, is 63% for Nigerian listed consumer goods firms. During the period, DAC had a mean of 0.625, a standard deviation of 0.223, and a range from -0.096 to 1.871. This non-zero value indicates that firms in the sector engage in earnings management, with higher discretionary accruals corresponding to higher levels of earnings management. The board composition shows an average of 55% non-executive directors, with a minimum of 14% and a maximum of 89%, suggesting general compliance with corporate governance standards. Board financial expertise averaged 32% of members, while women held an average of 21% of board seats, with a range of 0% to 50%. This demonstrates that women are under-represented on the boards of Nigerian listed consumer



goods firms. Audit committee effectiveness contributed an average score of 83%. For control variables, 73% of firms engaged one of the Big 4 audit firms, the average return on assets was 4.3%, and the average firm size was 18.216.

Correlation Matrix

Table 2 presents the correlation coefficients among the regressors, which can be used to assess the potential for multicollinearity. Multicollinearity can lead to an increase in standard errors, and the relevant findings are shown in Table 3.

Table 3

Correlation Matrix

Variables	DAC	BCI	BFE	BGD	ACE	BIG4	ROA	FSZ
DAC	1.000							
BCI	0.230	1.000						
BFE	-0.109	0.074	1.000					
BGD	0.066	0.232	0.301	1.000				
ACE	-0.200	0.141	0.029	0.145	1.000			
BIG4	0.023	0.410	0.226	0.351	0.129	1.000		
ROA	-0.122	0.113	-0.042	0.010	0.038	0.068	1.000	ce of m
FSZ	0.082	0.076	0.260	0.423	-0.230	0.363	0.068	1.000

Source: STATA output, 2024

Iticollinearity. Given that the correlation coefficients for the variables in this study range from -0.405 to 0.420, it suggests that the independent variables are not strongly correlated, and no single independent variable significantly influences another. The VIF (Variance Inflation Factor) test results show that all variables have a VIF lesser than 10, with firm size having the highest VIF value of 1.55 and return on assets the lowest at 1.03. The mean VIF is 1.30, further indicating no concerning multicollinearity. The Breusch-Pagan/Cook-Weisberg test for heteroscedasticity had a chi-square value of 4.45 and a p-value of 0.0349, suggesting the absence of heteroscedasticity.

Panel Effects Test

Regarding the panel effects, a Hausman was conducted to determine the appropriate panel model. The insignificant result, with a chi-square value of 7.69 and p-value 0.3606, indicated the random effects model was more appropriate than fixed effect model. Finally, a Breusch-Pagan LM test was used to decide between the random effect and pooled OLS regression. The LM test value of 0.41 and p-value of 0.2600 were statistically insignificant, indicating the pooled OLS regression was most efficient estimator.



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Table 4

Summary of Regression Result

Variable	Coef.	Std. Err.	t-values	p-value	[95% Conf. Interval]
BCI	0.377	0.104	3.640	0.000	0.173 0.582
BFE	-0.323	0.170	-1.900	0.059	-0.659 0.012
BGD	0.143	0.153	0.930	0.353	-0.160 0.446
ACE	-0.129	0.048	-2.710	0.007	-0.223 -0.035
BIG4	-0.046	0.046	-1.000	0.318	-0.136 0.044
ROA	-0.451	0.213	-2.120	0.036	-0.871 -0.031
FSZ	0.008	0.014	0.610	0.545	-0.019 0.035
Cons	0.497	0.253	1.960	0.051	-0.003 0.997
R-squared	0.158				
Adj. R-sq	0.120				
F-Statistic	4.080				
F-Sig	0.000				

Source: Regression Result Output Extracted from STATA, 2024

Board Composition and Earnings Management

This study examined the impact of board composition on earnings management practices among listed consumer firms in Nigeria. The first hypothesis stated that board composition/independence has no significant impact on earnings management of these firms. However, the results reveal that board composition/independence is positively and significantly related to earnings management, with a coefficient of 0.377 and a p-value of 0.000. This suggests that greater board independence does not necessarily reduce earnings management. In fact, a one-unit increase in board independence is associated with a 0.377 increase in discretionary accruals, indicating that independent directors may not effectively monitor and constrain managerial earnings manipulation.

This finding contradicts the expectation that more non-executive directors would enhance board competence and oversight, thereby curbing earnings management. Instead, the positive and significant relationship implies that changes in board independence will lead to changes in earnings management practices among these Nigerian consumer firms at the 1% significance level. This result aligns with prior studies, suggesting that non-executive directors alone are insufficient to prevent earnings management, potentially due to management influence over their appointment and decisions. The unique Nigerian business environment, with its own set of third-party interests, may require regulatory intervention to address these corporate governance weaknesses and strengthen the link between board independence and reduced earnings management. Thus, this study rejects the first hypothesis, indicating that board composition/independence does not mitigate earnings management in the listed Nigerian consumer goods sector.

Board Financial Expertise and Earnings Management

The second hypothesis examined the impact of board financial expertise on earnings management among listed consumer firms in Nigeria. The results revealed a negative coefficient of -0.323 ($p=0.059$), suggesting that as financial experts are added to the board, earnings management decreases by 32%. This indicates that board financial expertise can curb managers' opportunistic earnings management practices in these firms. This finding aligns with resource dependence theory and prior studies (e.g., Silva et al., 2017; Bala, 2018) that documented a negative relationship between financial expertise and earnings management. However, it contradicts other research (e.g., Rajeevan & Ajward, 2020; Tuan, 2022) that found a positive relationship. Hence, the results provide statistical



evidence to reject the null hypothesis, supporting the view that board financial expertise has a significant negative impact on earnings management in listed Nigerian consumer firms.

Board Gender Diversity and Earnings Management

The study examined the impact of board gender diversity on earnings management of listed consumer firms in Nigeria. The third hypothesis stated that board gender diversity has no significant impact on earnings management of the listed consumer goods firms in Nigeria. The results showed a positive but insignificant relationship between board gender diversity (female directors) and earnings management, with a coefficient of 0.143 and a p-value of 0.353. This suggests that the presence of one or a few female board members does not significantly affect discretionary accruals management practices in Nigerian listed consumer goods firms. Therefore, the researcher failed to reject the null hypothesis, and concluded that board gender diversity does not significantly impact earnings management in this context.

This finding is consistent with some prior studies (Osemene et al., 2018; Kajola et al., 2020; Tuan, 2022; Vadasi & Polyzos, 2023), but contradicts others that found a negative and significant relationship between the two variables (Omoye & Eriki, 2014; Farouk & Isa, 2018; Aryal & Dhesi, 2022). The insignificant relationship could be attributed to systemic barriers and discrimination that limit women's access to leadership positions and relevant business experience in the Nigerian context. It was also noted that some of the sample firms did not have any female board directors, which may have impacted the findings.

Audit Committee Effectiveness and Earnings Management

The study examined the impact of audit committee effectiveness on earnings management practices of listed consumer firms in Nigeria. The fourth hypothesis tested this relationship, stating that audit committee effectiveness has no significant impact on earnings management. The regression analysis, however, showed a significant negative relationship, with a coefficient value of -0.129 and a p-value of 0.007 (significant at 5% level). This indicates that a unit increase in audit committee effectiveness is associated with a 12.9% decrease in earnings management practices.

This finding aligns with agency and resource dependence theory, suggesting that more effective audit committees can constrain earnings management. The result is consistent with prior research, such as Habbash (2012), who found a negative relationship between audit committee effectiveness and earnings management. However, Constantatos (2018) reported mixed findings on this relationship. Therefore, the study provides statistical evidence to reject the null hypothesis and conclude that audit committee effectiveness has a direct and significant negative impact on earnings management practices of listed consumer goods firms in Nigeria.

The analysis of the relationship between discretionary accruals and the study control variables revealed the following:

- Big4 audit firms (BIG4) had a negative but insignificant impact on discretionary accruals (-0.046, $p > 0.318$)
- Return on assets (ROA) had a significant negative relationship with discretionary accruals at the 5% level (-0.451, $p < 0.036$).
- Firm size (FSZ) had a positive but insignificant relationship with discretionary accruals (0.008, $p > 0.545$).



5. Conclusion and Recommendations

The study found that board financial expertise (BFE) and audit committee effectiveness (ACE) can reduce managers' opportunistic behaviour towards earnings manipulation, validating agency and resource dependence theories. However, the presence of non-executive directors (BCI) on the board did not necessarily reduce earnings management. Additionally, the presence of female board directors did not significantly impact earnings management or decrease managers' opportunistic behaviour through discretionary accruals in Nigerian listed consumer goods firms.

The study's findings are limited in Nigerian listed consumer goods firms, using only four independent variables and focusing on a few corporate governance attributes. Future research should consider including other governance attributes, firm characteristics, or audit quality variables, as well as studying other sectors for more robust results.

Based on the findings, the study recommends carefully selecting board members with relevant financial expertise and professional qualifications to improve board effectiveness. Regulators and policymakers should formulate regulations and policies to increase board effectiveness, strengthen board independence, and enforce compliance with corporate governance principles and accounting standards across all firms in Nigeria. Policies that strengthen the independence of audit committees and ensure adherence to existing policies should also be introduced to improve earnings quality in financial reporting. The insignificant relationship between board gender diversity (female directors) and earnings management could be due to the under-representation of women on the boards of Nigerian listed consumer goods firms. Policymakers should address this issue and promote greater gender diversity on corporate boards.

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