OBAFEMI AWOLOWO UNIVERSITY

CORPORATE GOVERNANCE AND EARNINGS MANAGEMENT PRACTICES IN LISTED NON-FINANCIAL FIRMS IN NIGERIA

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ABSTRACT

The study determined the level of compliance with corporate governance codes by listed non-financial firm in Nigeria and examined extent of earnings management practices. It also investigated effect of corporate governance compliance on earnings management practice in listed non-financial firms. These were with the view to providing information on extent to which corporate governance ameliorate problems associated with earnings management practices.

The study used secondary data. Population for this study was 189 non-financial firms listed on Nigeria Stock Exchange (NSE), 30 firms with complete financial data and active stock trading records for each year between period 2008 and 2017, purposively selected based on up-to-date available data. Data on corporate governance mechanism and earnings management such as total assets, net revenue, account receivable, property, plant and equipment and return on assets for the firms were obtained from the annual publications of the sample covering the period 2008-2017. Data obtained were analysed using percentages, graph and fixed effect model of panel regression analysis.

The results showed that the listed firms exhibited moderate level (62.87%) of corporate governance compliance. The results also showed the percentage average of extent of earnings management across sampled firms was 34%. In addition, the study revealed that corporate governance mechanism such as board size ($t = 3.225$, $p < .05$) had a positive and significant effect on earnings management while board composition of independent directors ($t = -2.136$, $p < .05$) showed a negative and significant effect.

The study concluded that corporate governance mechanisms significantly minimises practice of earnings management among listed non-financial firms in Nigeria.

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CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Multiple ownerships businesses across globe have resulted to business complexity. Consequently, the need to separate the owners from control was appreciated with the introduction of 2003 corporate governance code. Obviously, the separation differentiates between the capital providers (Shareholders) and the managers (Directors), and prompts the need for sound mechanism to harmonise and protect these interests. Corporate governance explains processes, relations and all mechanisms through which organizations activities are monitored, supervised and, coordinated to guard the balancing procedure benefit of the players in an entity. Love (2011) and Ofo, (2013), defined corporate governance as a way the fund providers or corporate financiers guarantee themselves of receiving returns for their investment. From above, there are two views from this definition; the first view is referred to as narrow thought while the second view holds extensive ideology. The narrow schools recognised corporate governance to mean shareholders and management whilst extensive ideologies' view explains the term corporate governance as the stakeholders and management. The stakeholders in this regard includes; shareholders, financiers, management, suppliers, customers, community and government.

Corporate governance generates structure for achieving organizations' objectives from every area of management like; controls, action plans, corporate disclosure, performance measurements, precise and implied deal between organization and stakeholders to observe some rights, duties, rewards and procedures for matching the conflicting interests regarding such duties, privileges, roles, information and feed-back flows as checks-and-balances. The organization's marketability, expansion, and stability depend on aptitude of boards of directors to provide huge concentration towards performing their duties with high ethical values and high sense of responsibility, good policy making procedures, effective and efficient system of monitoring, and committed spirit to implementation of good governance practices (Abanikanda, 2014).

The prospects of corporate governance include complete formation and issuance of different codes in Nigeria to protect the investors' wealth (Miko and Kamadin, 2016). Corporate governance is not a new idea in Nigeria, resolute attempt made by the government to ensuring good business control especially for public companies includes, endorsement of companies act 1990, adoption of various corporate governance code issued by Nigeria stock exchange commission (SEC) in 2003 and, Investment and Securities' act 2004 (Abanikanda, 2014). The 2011 code for public companies in Nigeria was introduced to complement existing framework for corporate governance practice, in particular, Company and Allied Matters Acts (CAMA) 1990. Other areas where codes of conduct exist are Nigerian Communications Commission (NCC); Central Bank of Nigeria (CBN), National Pension Commission (NPC); National Insurance Commission (NIC) for regulating various relevant industry operators (Miko and Kamardin, 2016).

Corporate governance became a universal issue of interest among investors, researchers, government and corporations due to several corporate scandals in early twenty first century such as Xerox 2000, Errons 2001 and, worldcom 2002 (Omurgonulsen and Ugur, 2015), Cadbury Nigeria plc, African Petroleum plc and Lever brothers in Nigeria 2004 (Ijeoma 2014, Osisioma and Enahoro, 2015). Thereafter, investors became curious and anxious for what should be done to eradicate the incessant scandals and maximize shareholders value. Onyema (2011) opined that "corporate governance is about managing company within the legal and regulatory framework by way of making and improving shareholders' value". Oba (2014), in a study, explained that the objectives of the idea of best governance principles are; to enhance higher firms' value, to achieve a better financial