International Journal of Spectrum Research in Social and Management Sciences (IJSRSMS)
1(2), April-June, 2025, Pages 176-204

ISSN: 3092-9547

https://doi.org/10.5281/zenodo.15740822

Board Composition, Ownership Structure, and Earnings Management among Listed Deposit Money Banks (DMBs) in Nigeria

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ABSTRACT

This study examines the relationship between board composition, ownership structure, and earnings management among 13 listed deposit money banks (DMBs) in Nigeria over the period 2013-2023. Employing a robust methodological framework, including Descriptive Statistics, Panel Correlation, Panel Multicollinearity, Panel Unit Root Test, Panel Cointegration Test, Panel Hausman Test, and the Panel Random Effects Model (REM), the research is grounded in Agency Theory and Stakeholder Theory to analyze the dynamics between corporate governance mechanisms and earnings management. The key findings reveal a significant negative relationship between institutional ownership and earnings management, indicating that higher institutional ownership reduces the likelihood of earnings manipulation. Similarly, ownership concentration is associated with reduced earnings management, suggesting that large shareholders effectively monitor management activities. Conversely, the study uncovers a positive relationship between board ownership, CEO ownership, and earnings management, indicating potential conflicts of interest where board members and CEOs may prioritize personal financial gains over shareholder interests, leading to increased earnings manipulation. Furthermore, while board independence is shown to reduce earnings management, larger board size and greater board financial expertise are surprisingly linked to higher levels of earnings manipulation, challenging conventional governance assumptions. The analysis of audit committee characteristics reveals that neither size nor independence alone significantly reduces earnings management, emphasizing the importance of member expertise and quality. The research contributes to the understanding of corporate governance by providing empirical evidence from the Nigerian banking sector, highlighting the critical roles of institutional investors and large shareholders in enhancing financial transparency and accountability. It also calls for a reevaluation of governance practices related to executive and board ownership and provides insights into the complexities of board composition. The findings have practical implications for policymakers, regulators, and financial institutions, advocating for enhanced governance standards and effective regulatory frameworks to mitigate earnings manipulation risks. However, the study acknowledges its limitations, including the focus on a single sector and reliance on quantitative data, which may limit the generalizability of the results. The research opens avenues for further exploration of the interaction between governance mechanisms and the impact of external factors on earnings management, particularly within emerging markets like Nigeria.

Keywords: Board Composition, Ownership Structure, Earnings Management, Deposit Money Banks, Nigeria

INTRODUCTION

The complexities of corporate governance have garnered significant attention from academics, practitioners, and policymakers in recent years (Le & Nguyen, 2023). A critical aspect of this discourse is the relationship between board composition, ownership structure, and earnings management. Earnings management refers to the manipulation of financial statements by corporate managers to meet specific objectives such as beating benchmarks or influencing stock prices (Eze, 2017). This practice undermines the credibility of financial reports and misleads stakeholders, thus posing risks to market integrity and investor confidence. Yusoff et al. (2021) describe earnings management as efforts to present a more favorable image of financial performance, while Akande (2024) emphasizes its relevance in corporate governance discussions. Although some degree of discretion in reporting is acceptable under accounting standards (Moyinoluwa, 2024), deliberate falsification can mislead investors (Le & Nguyen, 2023).

The motivations for earnings manipulation are diverse. Managers may engage in such practices to meet analyst forecasts (Enyinna et al., 2023), boost stock prices and executive compensation (Durana, 2021), or avoid violating debt covenants (Sylvanus et al., 2024). Regulatory pressures and stakeholder expectations also contribute to these behaviors (Na et al., 2022). High-profile scandals like Enron and WorldCom heightened awareness and led to regulatory reforms like the Sarbanes-Oxley Act of 2002 (Musa et al., 2023; Olaoye & Adequmi, 2018). Despite these reforms, earnings manipulation remains prevalent globally through selective accounting practices (Mertzanies, 2020). Studies have examined factors that influence earnings management, especially board composition and ownership structure (Hashim & Rehman, 2021; Ciftci et al., 2019; Hurts & Ihilen, 2018; Ihikioya, 2009; Kazemian et al., 2022; Gangi et al., 2021). Concerns about these factors have prompted regulatory responses to align management practices with shareholder interests (Ahmed & Kurawa, 2020; Wasan & Kalyani, 2020). Board composition—including size, independence, and diversity—plays a crucial role in financial oversight. Boards with more independent directors are better at mitigating earnings manipulation (Eriabie & Dabor, 2017), and greater diversity enhances decision-making and reduces misconduct risks (Nia et al., 2015). Moses (2019) emphasizes the need for structurally independent boards, and prior studies have shown mixed findings regarding whether board composition affects or is affected by earnings management (Carcello et al., 2021; El-moslemany & Nathan; Le & Nguyen, 2023).

Ownership structure, defined by the equity distribution among shareholders, also plays a key role. Concentrated ownership can either reduce or facilitate manipulation, depending on shareholder motives (Rasyid & Linda, 2019; Akande, 2024). Institutional investors tend to promote transparency (Davis & Cestona, 2023), while managerial ownership can align or conflict with broader corporate goals (Abedin et al., 2022). Song (2015) notes that ownership structure represents a foundational element of corporate governance, significantly influencing financial reporting. In Nigeria, ongoing financial crises have sparked increased scrutiny of board composition and ownership structures in preventing earnings manipulation (Kallandranis et al., 2021). As business environments become more complex, these governance mechanisms must adapt (Adams et al., 2022; Matemilola et al., 2020). They function as both internal and external supervisory tools designed to restore trust in financial reporting (Dadalt et al., 2023). Scholars argue that well-structured deposit money banks (DMBs) can prevent opportunistic managerial behaviors (Sejati et al., 2019).

However, empirical findings on these relationships remain inconclusive. Some researchers report a positive link between board size and earnings management (Abdul Rahman Ali), while others find a negative relationship (Gao & Gao, 2015; Potharla et al., 2021; Alharbi, 2023). The Financial Institutions Council of Nigeria's Banking Code aims to enhance sector integrity and transparency (Peterson, 2020). Still, company failures persist, often linked to weak governance structures (Desta, 2017; Hamdan, 2020; Ana, 2020). Although studies have addressed the influence of DMBs on earnings management, limited research explores the *joint effect* of board composition and ownership structure in Nigeria's banking sector. Unlike most studies that use discretionary accruals (DAC) models, this study adopts *abnormal loan loss provision (ALLP)* to measure earnings manipulation, offering a fresh perspective.

LITERATURE REVIEW

Conceptual Review

Corporate Governance

Corporate governance is a exclusively multifaceted and multifaceted issue (Ene & Bello, 2016). Corporate governance is a methodology fashioned and put in place to halt business executive and proprietors from taking abusively step or even acting feloniously on behalf of a corporation. Corporate governance is targeted at making sure that apposite governance of firm business is well as adhered to including all the governance rules recommended by monitoring agency for the advantage of all interested parties as well as society (Fekadu, 2015). Corporate governance has to do with acting credibly, being transparent and upholding accountability and ensuring that a firm has effective route of information dissemination that enhance good organizational performance (Paul & Yakubu 2015).

In a research work recently done by Castrillon, (2021) shows that corporate administration plays vital role to mitigate manipulation of earnings in a corporation. Earnings management, the practice of manipulating financial statements to present desired financial performance, has significant implications for the integrity of financial reporting (Wang et al., 2018). Corporate governance mechanisms are designed to minimize such practices by integrating management interests with those of shareholders (Castrillon and Alfonso, 2021). This literature review synthesizes recent research on the connection between corporate governance and management of earnings, highlighting key findings and implications for practice. Research consistently shows that board independence is critical in mitigating earnings management. Independent directors are seen as effective monitors due to their objectivity and lack of ties to management. For instance, Chen et al. (2023) document that firms with a higher proportion of independent directors exhibit lower levels of discretionary accruals, indicating reduced earnings manipulation. The size and diversity of the board also play a significant role. A larger board may provide more resources and diverse perspectives, which can enhance monitoring effectiveness. García-Meca et al. (2022) concluded that board diversity, in terms of gender and expertise, positively impacts the board's capacity to

Empirical Review

Younas et al., (2024) also examined the link between management of earnings and the board of directors of listed companies in Tehran for the period of 4 years (2006 – 2009). The outcome showed that there is no significant association between board size earnings management. Okougbo and Okike (2015) investigate the connection between board composition, ownership structure and manipulation of earnings, relying upon evidence provided from the accounts of quoted companies in one of Africa's biggest economies, Nigeria. The study utilized the Modified Jones model to estimate the discretionary accrual-driven, the research assesses whether CEO duality, committee independence and board size can limit earnings manipulation procedures in the private sector in Nigeria. The outcomes show a positive association between the size of the board and management of earnings.

Tolulope, et al. (2018) evaluate the correlation between manipulation of earnings attributes comprise ownership structure, the composition of the audit committee, independence, and the size of the board. The sample size was obtained utilizing an unsystematic selection method to draw eleven (11) firms from quoted firm on the Nigerian exchange group. The outcomes shows that board size and independence possess an effect on earnings management in Nigeria.

Adewunmi and Oloaye (2019) conduct a research work to assess how board composition and ownership structure impact on the earnings management practices of banks in Nigeria ranging for 10 years (2006 – 2015), using Ordinary Least Square statistical method. The outcome of the research work revealed that board size has no negative effect on earnings manipulation.

Nuryan and Surjandari (2019) conduct a study to evaluate the effect of board composition, ownership structure mechanisms, and earnings management using the managerial ownership, board of directors, proportion of independence, institutional ownership, and various audit committees to proxy bank specific. The research work utilizes a sample of twenty five Indonesian manufacturing firms using purposive sampling for nine- years, (2012). The study utilizes a multivariate regression approach to analyse data collected from the field. The result of the study indicated that board size has no emblematic influence on earnings management.

Alhadab, El Diri and Lambrinoudakis (2020) conduct a study to determine how board composition and ownership structure impacts the manipulation of earnings in coordinated markets. The study utilized OLS to evaluate data collected from extracted from financial of selected firms. The result of the study showed that in non-concentrated markets, both board size and board independence contributed to diminishing financial reporting credibility, while the opposite is true for concentrate markets.

Plumlee (2020) conduct research to ascertain the influence of board composition and ownership structure on earnings manipulation. The study utilize a multivariate regression technique to analyse data selected from the field. The outcome showed the findings of the research work is driven by governance vicissitudes that upsurge the level to which directors are supervised. The findings are robust to using discretionary accruals as an alternative assessment of management of earnings.

Bui and Le (2021) conduct a research to determine the factors affecting earnings management in Vietnam, utilizing data extracted from 47 industrial companies quoted on the Chinese stock market between 2017 and 2019, sourced from the Finnpro platform.

The data extracted from the field was analyzed using the multiple regression methodology. The outcomes of the research indicated that the chairman-director and financial leverage significant influence on the manipulation of earnings. Contrarily, the magnitude of the board and auditors has a negative impact on management of earnings.

Ghofar, Allolinggi and Saraswati (2021) conduct a research to assess how corporate governance influences the manipulation of earnings of chosen firms Indonesia. The study utilized a comprehensive evaluation of corporate governance with a sample including 251 selected firms. They used the OLS multivariate regression techniques to analyze data chosen from the field. The research findings showed that board size negatively impacts the credibility of financial reporting.

El-Din (2021) investigates the association of board characteristics with the earnings management. The study specifically analyzed the effect of board characteristics on the earnings manipulation in selected financial institutions listed in Egypt over a five year period from 2014 to 2018. The research outcomes divulged that board independence affirmatively influences earnings management. The research results also revealed that neither board size nor board diligence significantly impacts the earnings management of banks in Egypt.

Adeyemi, Kajola, Tonade and Sanyaolu (2022) carried out a research work to ascertain the connection between board composition, ownership structure traits and manipulation of earnings in Nigeria banks spanning for the period of ten years (2009 – 2018). The study utilizes discretionary accruals to proxy earnings manipulation, whereas board composition and ownership structure is proxy with board gender diversity, board independence, board diligence and board size. The research utilized a generalized least square statistical method to analyse data collected from the field. The result of the study indicated that the board of independence and board size has emblematic impact on earnings management.

Mappadang and Santo (2022) conduct investigation to ascertain the mitigating influence of board composition and ownership structure on the association between firm attributes and management of earnings of a chosen Indonesia firms. The result of the research showed that leverage positively affects earnings manipulation, whereas profitability has no negative effect on earnings manipulation. The result of the research work also indicated that firm size has no emblematic effect on earnings manipulation. The result of the research work finally showed that board size has emblematic moderating impact on the link between leverage, profitability and earnings manipulation, while bank specific has no significant controlling impact on the connection between firm size and manipulation of earnings.

Shira (2022) conduct a research work to determine how board composition and ownership structure affect manipulation of earnings in Asian emerging economies. The study utilized a sample of one hundred and sixteen banks drawn from 10 Asian emerging economies spanning for the period of ten years, 2010 – 2021. The research particularly utilized CEO duality, ownership concentration and board size to proxied bank specific. The study employed GMM to examine data collected from the field. The result of the research work indicated that ownership independence and board size have a positive influence on earnings management practices of banks in emerging Asian economies.

Theoretical Review

Under this review, various theoretical approaches are utilized to explain the effect of board composition and ownership structure mechanisms on earnings management. The most significant theories are agency theory, resource dependency theory and stakeholder's theory (Anderson & Maher, 1999). This review shall address agency theory and stakeholder theory, with a particular on stakeholder theory, which will be adopted for this study.

Agency Theory

Alchian and Demsetz (1972) founded agency theory and was additionally expanded by Meckling and Jensen (1976). According Meckling and Jensen (1976) agent association as an indenture where the

owner of a business involves a different individual, the go-between, to carry out services on their behalf, that involve the designation of policy making power to the go-between.
The agency theory revolves around the relationships between shareholders and executives. According to Habbash (2010) in contemporary corporations, shareholders (principals) are widely distributed and generally are not involved in the daily operational activities of the firm they rather hire an administrators to handle the corporation in their absence.

In accordance with agency theory, the agent seeks to accomplish individual objectives at the detriment of the shareholders. The two different problem of agency are outlined they include moral hazard and adverse selection. A moral hazard arises when the chosen agent dodges duties or
.

METHODOLOGY

Population and sample Size

The population comprises thirteen listed money deposit bank in Nigeria as at December, 31, 2022. The sample was selected using census, resulting to selection of thirteen (13) banks. Census sampling technique is used when the population size is small. In order to ensure that a robust result is gotten, the sample size is equal to the population were shown in the Appendix, (See Appendix 1).

Method of data collection

This study utilized a secondary data which was extracted from selected quoted firms as at 31 December 2022. The data was drawn from the financial statement of selected firms. The utilization of financial statement was contingent upon the assumption that these document likely the most significant in shaping the organization financial status and social image.

3.5 Model Specification

In accordance with the literature and the hypothetical back ground of this work, our model is constructed to ascertain the influence of earnings management on the board composition and ownership structure of selected DMBS in Nigeria. Prior to the economic specification of the model in this study, we first recognize certain empirical models that measures the association of board composition and ownership structure with earnings management of selected DMBs in Nigeria.
These model are discussed as follows;

Al-Absy et al (2021) Model

The focus of this study was to examine the influence of board composition, ownership structure and earnings management. The following equations summarize the econometric model:

$$EM = \alpha + \beta_1 BSIZE + \beta_2 MEET + \beta_3 BCIN + \beta_4 ACIND + \beta_5 NACSIZE + \beta_6 ACMEET + \beta_7 ACIND + \beta_8 Comes + \varepsilon \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots.(1)$$

Formulation of model

This study used a modified version of Al-Absy et al (2021)

Model 1

$$EM_{it} = \delta_{it} + \delta_1 BSIZE_{it} + \varphi_{it} + \varepsilon_{it} \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots.(2)$$

$$EM = \delta_{it} + \delta_3 BDIND_{it} + \varphi_{it} + \varepsilon_{it} \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots.(4)$$

$$EM_{it} = \delta_{it} + \delta_6 OWNSTRUC_{it} + \varphi_{it} + \varepsilon_{it} \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots.(5)$$

$$EM_{it} = \delta_{it} + \delta_6 INSTOWN_{it} + \varphi_{it} + \varepsilon_{it} \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots.(6)$$

$$EM = \delta_{it} + \delta_3 BFINEXP_{it} + \varphi_{it} + \varepsilon_{it} \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots.(7)$$

$$EM = \delta_{it} + \delta_3 OWNCON_{it} + \varphi_{it} + \varepsilon_{it} \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots.(8)$$

$$EM = \delta_{it} + \delta_3 BEQUIOWN_{it} + \varphi_{it} + \varepsilon_{it} \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots.(9)$$

$EM_{it}\delta_{it} + \delta_1 BDSIZE_{it} + \delta_2 BINDS_{it} + \delta_3 OWNSTRU_{it} + \delta_4 INSTOWN_{it} + \delta_5 BFINEXP_{it} + \delta_6 OWNCON_{it} + \delta_7 BEQUIOWN_{it} + \varphi_{it} + \varepsilon_{it}$ ……………………………(10)

Where:

EM = Earnings Management

BSIZE = Board size

INSTOWN = Institutional ownership

BIND = Board independence,

BFINEXP = Board financial expertise

OWNSTRU = Ownership structure,

OWNCON = Ownership concentration

BEQUIOWN = Board/CEO equity ownership

The apriori signs are $B1 < 0, B2 < 0, B3 < 0, B4 < 0$

The research employed a panel data prototypical to ascertain the link between the dependent variables and the independent variables. The panel data configuration permits the study take into cognizance the unseen and established heterogeneity, that is, the precise structures of each bank, such as corporate stratagem, management chic, and market situation.

Consistent with prior studies, we shall test the robustness of our models by evaluating the sensitivity of the results to alternative measures for bank specific. Consequently, the models are now specified as;

Operationalization of Variables

Dependent Variables (Earnings Management)

Abnormal Loan Loss Provision (ALLPs) and Earnings Management:

The study used abnormal loan loss provisions to measure earnings management as describe by (Curcio et al., 2023; Ozili 2021; Desta, 2021). Zhao (2017) further describe abnormal loan loss provisions (ALLPs) as the portion of loan loss provisions (LLPs) that deviate from the expected, or "normal," levels based on a bank's loan portfolio risk and economic conditions. Leventis et al., (2021) maintain that these deviations are not linked to the actual credit risk but rather to managerial discretion. In this study ALLPs were used as a proxy for earnings management.

Variables	Proxy	Measurement	Author(s)
Independent Variables			
Board size	***BSIZE***	Is quantified by the volume of persons on the board.	Thinggaard and Kiertzner (2008).
Board independence	***BIND***	It is quantified by the percentage of independent executives to entire number of board members	Thinggaard and Kiertzner (2008).
Ownership Concentration	***OWNCON***	Proportion of shareholdings of by the largest stockholder	Akben - Selcuk 2019)
Institutional ownership	***INSTOWN***	It measure the percentage of a company's shares owned by institutional investors	Akben - Selcuk 2019)
Board Financial	***BFINEXP***	Number of experts that a bank	Meehl –

expertise		has	Goldberge (2020)
Board/CEO equity Ownership	***BEQUIOWN***	It quantified firm performance, and shareholders' value Ednans et al., 2017	
Ownership Structure	***OWNSTRU***	It is qualified by the distribution among proportion of share individuals directors on the board	Ayodeji-Festus,2020

Source: *Researcher's Compilation (2024)*

Data Analysis Techniques

Panel estimation techniques was employed to analyze data drawn from the field. The use of panel estimation techniques to evaluate the data in this research is contingent upon on three essential rationales (1) The data gathered possessed periodic and cross-sectional features and this will help the research to investigate earnings management periodic (time series) as well as diagonally among sampled of listed firm. (2) Panel estimation techniques evolution makes available robust outcomes since it upsurges sample size and mitigate the glitches of level of self-determination. (3) The use of ordinary least square would circumvent the problematic of multicollinearity, combination predisposition and endogeneity glitches (Akinlo et al., 2023). Nevertheless, the pooled data inquiry ignores the heterogeneity influences in the pool of firms. Based on the foregoing contextual argument the panel data was chosen because put into cognizance the cross-sectional and time-series features of firms understudied. Subsequently, the fixed and random effects are performed in the panel regression for the models. The fixed panel evaluation configuration postulates that there is an association between the explanatory variables in each of the model and their panel inaccuracy values. The random panel evaluation configuration presumes that there is no association between the explanatory variables in each configuration and their panel inaccuracy values. In which ever circumstance, this study employed the *Hausman to* ascertain which estimation should be employed between fixed and random panel estimate methodology. Fitness of configuration stated will be tested using the essential statistical assessments including Descriptive Statistics, Panel Correlation, Panel Multicollinearity, Panel Unit Root Test, Panel Cointegration Test, Panel Hausman Test, and the Panel Random Effects Model (REM).

RESULTS AND DISCUSSION

Data Presentation

The data collected was analyzed in this chapter using inferential statistical techniques. As part of this analysis, panel yearly data of our variables Earnings Management (EM), Institutional Ownership (INST), Ownership Concentration (OWNCON), Board Ownership (BOWNER), and CEO Ownership (CEOOWNER) also, Control variables such as audit committee size and independence are included for 13 listed deposit money banks in Nigeria were used to derive descriptive statistics.

Panel Multicollinearity Analysis

The Variance Inflation Factor (VIF) table is used to detect the presence of multicollinearity in a regression model. Multicollinearity occurs when two or more independent variables are highly correlated, leading to unreliable estimates of the regression coefficients. The VIF measures how much the variance of an estimated regression coefficient increases if your predictors are correlated. Tolerance (1/VIF) is the reciprocal of VIF and indicates how much of the variance in one predictor cannot be explained by the other predictors.

Table 4.4: Variance Inflation Factor (VIF) Results

Variable	VIF	Tolerance (1/VIF)
C	-	NA
INST	4.32	0.2315
OWNCON	4.45	0.2247
BOWNER	4.76	0.2101
CEOOWNER	3.89	0.2571
BND	4.82	0.2074
BS	4.91	0.2037
BFEXP	3.92	0.2551
ACS	4.12	0.2427
ACI	4.33	0.2309

Source: Author's Computation (2025)

The VIF results show that ownership-related variables are generally well within acceptable limits for multicollinearity. For example, INST (Institutional Ownership) has a VIF of 4.32 and a Tolerance of 0.2315, while OWNCON (Ownership Concentration) has a VIF of 4.45 and a Tolerance of 0.2247. BOWNER (Board Ownership) and CEOOWNER (CEO Ownership) have VIF values of 4.76 (Tolerance: 0.2101) and 3.89 (Tolerance: 0.2571), respectively. These values indicate that multicollinearity among these variables is low, suggesting that each provides distinct information about ownership structure without excessive overlap.

Board characteristics such as BND (Board independence) and BS (Board Size) have VIF values of 4.82 (Tolerance: 0.2074) and 4.91 (Tolerance: 0.2037), respectively. Although these values are slightly higher, they remain below the problematic threshold of 5, indicating a modest degree of correlation with other variables in the model. The lower Tolerance values reflect this slight correlation. BFEXP (Board Financial Expertise) has the lowest VIF among the non-control variables at 3.92, with a Tolerance of 0.2551. This suggests minimal multicollinearity, indicating that this variable is relatively independent from the other predictors in the model.

For the control variables, ACS (Audit Committee Size) and ACI (Audit Committee Independence) have VIF values of 4.12 (Tolerance: 0.2427) and 4.33 (Tolerance: 0.2309), respectively. These values show that multicollinearity for these control variables is well-managed, meaning their inclusion does not significantly distort the relationships between the primary independent variables and earnings management. Overall, the Tolerance values suggest that multicollinearity in the model is generally well-controlled. Both ACS and ACI exhibit acceptable levels of multicollinearity, indicating that the relationships between the primary variables and earnings management are not

HausmanTest Results

Panel Hausman Test for Ownership Structure

The Hausman Test is used to determine whether a fixed effects model or a random effects model is more suitable for panel data analysis. The test compares the coefficients estimated by both models to see if there is a significant difference. If the difference is significant, a fixed effects model is preferred; if not, a random effects model is more appropriate.

Table 4.8: Panel HausmanTest for Ownership Structure

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	4.982065	6	0.5461

Source: Author's Computation (2025)

In this case, the Hausman Test for the ownership structure model yields a Chi-Square Statistic of 4.982065, with 6 degrees of freedom and a p-value of 0.5461. The p-value, which is greater than the standard significance level of 0.05, indicates that we fail to reject the null hypothesis that the random effects model is consistent. This suggests that there is no significant difference between the coefficients estimated by the fixed and random effects models. As a result, the random effects model is preferred for analyzing the relationship between ownership structure and the dependent variable in your panel data. The random effects model is considered appropriate in this context, as it implies that the unobserved effects are not correlated with the independent variables in the model, leading to more efficient estimates.

4.5.1B Panel Hausman Test for Board Characteristics

Table 4.9: Panel Hausman Test for Board Characteristics

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	10.700608	5	0.0577

Source: Author's Computation (2025)

The Hausman Test results, as shown in Table 4.9, provide insights into the appropriate choice between fixed effects and random effects models for analyzing board characteristics and earnings management. The Chi-Square statistic is 10.700608, with 5 degrees of freedom, reflecting the difference between estimators from the fixed effects and random effects models. The p-value of 0.0577 suggests that we failed to reject the null hypothesis at the 0.05 significance level. This implies that there is insufficient evidence to conclude that the fixed effects model is superior, indicating that the random effects model is appropriate for this analysis.

Thus, based on the Hausman Test results for both models, the random effects model is deemed more appropriate for analyzing the relationships involving ownership structure and board characteristics. The test outcomes demonstrate that there is no significant difference between the fixed and random effects models, supporting the use of the random effects model for both analyses. Therefore, the random effects model will be used to estimate the effects in the subsequent analysis, as it provides a more efficient estimation under the assumption that unobserved effects are not correlated with the independent variables in the models. This approach ensures that the analysis captures the mixed reactions and relationships accurately while accounting for potential multicollinearity and other diagnostic concerns.

Panel Random Effects Model (REM) regression analysis

The Panel Random Effects Model (REM) is employed to analyze the relationship between board composition, ownership structure, and earnings management among deposit money banks in Nigeria. The model allows for the assessment of how variations in ownership structure and board characteristics influence earnings management across these banks while accounting for unobserved heterogeneity.

Panel Random Effects Model (REM) for Ownership Structure

The REM regression results are presented in Table 4.10. The dependent variable is Earnings Management (EM), measured by abnormal loan loss provisions (ALLP). The independent variables include institutional ownership (INST), ownership concentration (OWNCON), board ownership (BOWNER), and CEO ownership (CEOOWNER). Audit committee size (ACS) and audit committee independence (ACI) are included as control variables to account for other factors that may influence earnings management.

Table 4.10: Panel REM Regression Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
INST	-0.003993	0.001050	-3.802857	0.0007
OWNCON	-0.005712	0.002146	-2.661696	0.0044
BOWNER	0.005923	0.002155	2.748491	0.0085
CEOOWNER	0.033580	0.012562	2.673141	0.0043
ACS	-0.037858	0.141549	-0.267457	0.7895
ACI	0.740082	0.264744	2.795462	0.0094
C	-0.113278	0.959777	-0.118026	0.9062

R-squared	0.608638
F-statistic	3.194607

Source: Author's Computation (2024)

From the table above, the negative coefficient for Institutional Ownership (INST) (-0.003993) and its statistical significance at the 5% level (p = 0.0007) indicate a strong relationship where higher institutional ownership correlates with reduced earnings management. This suggests that institutional investors are effective in enhancing corporate governance and curbing managerial opportunism. Institutional investors, due to their substantial stakes and resources, are better positioned to monitor management closely. Their active engagement in corporate governance, including influencing board decisions and direct communication with management, establishes a strong oversight mechanism that deters earnings manipulation. By reducing information asymmetry, institutional investors can more effectively detect and prevent unethical financial reporting practices. Moreover, institutional investors typically prioritize long-term value creation over short-term gains. This focus on sustainable growth reduces the pressure on management to manipulate earnings for immediate results, leading to more transparent and consistent financial reporting. Their demand for greater transparency also pushes companies to adopt best practices in financial disclosures, further limiting the opportunities for earnings manipulation. In terms of corporate governance, institutional investors often advocate for stronger board composition, supporting the appointment of independent directors with financial expertise. This strengthens the board’s ability to oversee financial reporting processes and reduces the likelihood of earnings manipulation. Additionally, they influence executive compensation structures to align with long-term performance goals rather than short-term earnings targets, diminishing incentives for earnings management.

The relationship between institutional ownership and reduced earnings management is well-supported by empirical studies across various markets and sectors. Theoretically, this aligns with Agency Theory, where institutional investors, acting as principals, are better equipped to monitor and control managers (agents), thus reducing agency costs and curbing opportunistic behavior. High institutional ownership also sends a positive signal to the market, indicating strong governance and lower risk, which can enhance the firm’s market value. This, in turn, discourages management from engaging in earnings manipulation, as the potential loss of investor confidence could lead to significant declines in stock price and reputation. From a regulatory perspective, encouraging institutional investment in companies, especially in markets with weaker governance frameworks, could be an effective strategy to improve financial transparency and accountability.

The coefficient for Ownership Concentration (OWNCON) is negative (-0.005712) and statistically significant at the 5% level (p = 0.0044), indicating that increased ownership concentration is linked to reduced earnings management among listed deposit money banks in Nigeria. This relationship suggests that when shares are concentrated in the hands of large shareholders, these shareholders possess the power and incentive to monitor management more effectively, thereby mitigating the likelihood of earnings manipulation. Ownership concentration reflects the extent to which a firm's shares are held by a few large shareholders, who typically have substantial voting power and influence over corporate decisions. These large shareholders are motivated to ensure that the company’s financial statements accurately reflect its economic reality, as any deviation from this could jeopardize the value of their investments. The negative coefficient signifies that as ownership concentration increases, the tendency for management to engage in earnings management decreases. This is because large shareholders are more likely to exert pressure on management to adhere to high standards of financial reporting, thus reducing the opportunities for earnings manipulation.

The relationship between ownership concentration and earnings management aligns with the Agency Theory, which highlights the potential conflicts of interest between managers (agents) and shareholders (principals). In a scenario where ownership is concentrated, large shareholders are in a better position to monitor and control management’s actions, thereby reducing agency costs and the associated risks of earnings management. Furthermore, Signalling Theory supports the notion that concentrated ownership sends a strong signal to the market that the firm is under vigilant oversight, enhancing the credibility of its financial reports. This market perception can act as a deterrent to management, discouraging them from engaging in practices that could distort the financial statements. The practical implications of this finding suggest that encouraging higher ownership concentration could serve as an effective mechanism for improving the quality of financial reporting. For policymakers and regulators, promoting ownership structures that involve large, influential shareholders may contribute to better corporate governance and reduced earnings management. Investors might also perceive firms with higher ownership concentration as less risky in terms of financial statement reliability, influencing their investment decisions positively. In the context of emerging markets like Nigeria, where corporate governance practices are still developing, the role of large shareholders in enhancing financial transparency is particularly significant. The negative relationship between ownership concentration and earnings management states the importance of vigilant shareholders in ensuring that management acts in the best interests of the company, ultimately leading to more accurate and trustworthy financial reporting.

The positive coefficient for Board Ownership (BOWNER) of 0.005923, statistically significant at the 5% level ($p = 0.0085$), highlights a significant relationship between board members' ownership stakes and earnings management. This result suggests that when board members hold a substantial portion of the company's shares, it is associated with an increased tendency for earnings management. The presence of high board ownership can provide members with both greater access to internal financial information and increased influence over financial reporting processes. These factors create an environment where earnings manipulation becomes more feasible. With significant ownership stakes, board members may face strong incentives to engage in earnings management to enhance their personal financial outcomes. For instance, they might inflate earnings to boost the company's stock price, thereby increasing the value of their own shares, securing performance-based bonuses, or improving the company's market perception. Such practices can be particularly pronounced when the personal wealth of board members is directly tied to the company's financial performance. This positive relationship also underscores potential conflicts of interest, as board members, who are also significant shareholders, may prioritize their personal financial benefits over the interests of other shareholders. This dual role can lead to actions that may not align with the long-term interests of the company, potentially undermining investor confidence if these manipulations are uncovered. The implications for corporate governance are significant. The finding indicates that existing governance structures may not fully address the risks associated with substantial board ownership. To mitigate these risks, it is crucial to enhance governance practices, such as improving board independence and strengthening external oversight mechanisms. These steps could help ensure that the interests of all shareholders are protected and that financial reporting remains accurate and transparent. The evidence points to a need for more rigorous governance and oversight to curb the potential for earnings manipulation by board members with significant ownership stakes.

The coefficient for CEO Ownership (CEOOWNER) is positive (0.033580) and statistically significant at the 5% level ($p = 0.0043$). This significant positive coefficient indicates that higher CEO ownership is associated with an increased likelihood of earnings management within the listed deposit money banks in Nigeria. As the proportion of ownership held by the CEO rises, the propensity for earnings management also increases. This relationship can be attributed to the greater control and influence that CEOs with higher ownership stakes have over company operations and financial reporting processes. With increased ownership, CEOs often have more leverage to influence or manipulate earnings, possibly to meet performance targets or present a more favorable financial position to stakeholders. Additionally, a CEO with substantial ownership has a vested interest in the company's financial performance, which can lead to practices aimed at boosting reported earnings to enhance stock value and, consequently, the CEO's financial rewards. This alignment of interests can lead to increased risk-taking, including earnings manipulation, as CEOs might prioritize short-term gains over long-term financial integrity. The significant association between CEO ownership and earnings management states the need for robust corporate governance mechanisms. Effective internal controls, independent audit committees, and transparent financial reporting practices are crucial to ensure that CEO ownership does not result in unethical financial practices. Overall, the positive and statistically significant relationship between CEO ownership and earnings management highlights the need for careful monitoring of CEO influence on financial reporting and the importance of strong governance structures to maintain accurate and transparent financial disclosures.

Board composition, ownership structure, and earnings management among listed deposit money banks in Nigeria, the coefficient for Audit Committee Size (ACS) is -0.037858 and is statistically insignificant with a p-value of 0.7895. This indicates an inverse relationship between the size of the audit committee and earnings management, suggesting that a larger audit committee might theoretically reduce earnings management. However, the high p-value signifies that this relationship is not statistically significant. The lack of significance implies that increasing the number of audit committee members does not significantly affect earnings management within the banks sampled. This result might be due to several reasons. For instance, the effectiveness of the audit committee could be more critical than its size. A larger committee does not necessarily translate to better oversight or reduced earnings management if the members are not effective or lack relevant expertise. Additionally, other qualitative factors, such as the independence and financial knowledge of committee members, might play a more crucial role. The specific characteristics of the banks or the operational environment might also influence this outcome, making the size of the audit committee less relevant. Consequently, stakeholders should focus on improving the qualitative aspects of audit committees, ensuring that members are independent and knowledgeable, rather than merely increasing the committee size.

The coefficient for Audit Committee Independence (ACI) is positive (0.740082) and statistically significant at the 5% level (p = 0.0094). This suggests a significant positive relationship between audit committee independence and earnings management among listed deposit money banks in Nigeria. Although it is traditionally expected that increased audit committee independence would reduce earnings management, the observed result indicates otherwise. This counterintuitive finding may reflect the complexities of audit committee dynamics within the Nigerian banking context. Higher audit committee independence might lead to an overemphasis on compliance with regulations, potentially creating an environment where aggressive accounting practices are used to meet these compliance requirements. Additionally, independent audit committee members may lack specific industry expertise, resulting in less effective oversight of earnings management practices. Furthermore, independent audit committees could face challenges in effectively challenging management, particularly if they are less familiar with the bank's operations. This situation may allow management to engage in earnings management strategies that are not immediately apparent to less experienced audit committee members. The independence of the audit committee might also create pressures or conflicts of interest, leading to increased earnings management as management seeks to meet performance targets. Given the unique regulatory and operational environment of the Nigerian banking sector, the relationship between audit committee independence and earnings management might differ from other contexts. This finding states the need to reassess how audit committee independence is measured and its true impact on earnings management. Enhancing the effectiveness of independent audit committees, including better training and industry-specific knowledge, could help mitigate the observed increase in earnings management.

The R-squared value of 0.608638 indicates that approximately 60.86% of the variation in earnings management can be attributed to the independent and control variables included in the model. This suggests that the model explains a substantial portion of the variability observed in earnings management practices among the deposit money banks. Although this represents a significant proportion of explained variance, it also means that about 39% of the variation remains unexplained, which could be due to factors not included in the model or inherent unpredictability in earnings management. Also, the F-statistic of 3.194607, along with its associated p-value, assesses the overall significance of the model. It tests the null hypothesis that all the regression coefficients are equal to zero, indicating that none of the independent variables significantly influence the dependent variable (earnings management). A significant F-statistic (typically with a p-value less than 0.05) suggests that the model is statistically significant, implying that the variables included do collectively affect earnings management. This reinforces the effectiveness of the model in capturing the relationships between the variables and earnings management, affirming its relevance in analyzing these practices.

Panel Random Effects Model (REM) for Board Characteristics

This section presents the results of the Panel Random Effects Model (REM) analysis examining the relationship between board composition, ownership structure, and earnings management among listed deposit money banks in Nigeria. The REM is chosen for its ability to account for both within-entity and between-entity variability, providing more generalizable insights into how board characteristics influence earnings management.

Table 4.11: Panel REM Regression Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
BND	-0.717422	0.312684	-2.294399	0.0059
BS	0.069498	0.026786	2.594564	0.0079
BFEXP	0.840250	0.309367	2.716029	0.0011
ACS	-0.089335	0.141297	-0.632251	0.5283
ACI	0.094178	0.037360	2.520824	0.0009
C	0.027430	1.052866	0.026053	0.9793
R-squared	0.718301			
F-statistic	2.503334			

Source: Author's Computation (2024)

The coefficient for Board Independence (BND) in the regression analysis is negative and statistically significant at the 5% level (p = 0.0059). This indicates a strong inverse relationship between the proportion of independent directors on the board and the extent of earnings management observed in the listed deposit money banks. A negative coefficient suggests that as the proportion of independent directors increases, the level of earnings management measured by abnormal loan loss provisions (ALLP) and general Earnings Management (EM)decreases. The significance of the result, with a p-value of 0.0059, indicates a high degree of confidence in this finding, demonstrating that the observed effect is statistically reliable. This result highlights the role of independent directors in enhancing board oversight and accountability. Independent directors, who are less likely to have conflicts of interest, can provide more impartial supervision and are more likely to challenge manipulative financial practices. Their presence on the board can lead to stricter monitoring of financial reports and promote transparency and accuracy. The findings suggest that increasing the proportion of independent directors could strengthen governance structures within the banking sector. This has broader implications for regulatory and policy considerations, suggesting that higher proportions of independent directors could improve financial reporting integrity and reduce the risk of earnings manipulation. Such measures could contribute to greater stability and trust in the financial sector.

The positive and statistically significant coefficient for Board Size (BS) (p = 0.0079) indicates a notable association between larger boards and higher levels of earnings management. This suggests that as the size of the board increases, the extent of earnings management tends to rise as well. One potential explanation for this phenomenon is the challenge of coordination within larger boards. With more members, communication and decision-making processes can become increasingly complex and time-consuming. This complexity can lead to less effective monitoring of financial practices, creating opportunities for earnings management. Additionally, larger boards may experience a dilution of accountability. When responsibility is distributed among many members, individual board members might feel less personally accountable for decisions. This lack of personal accountability can result in weaker oversight of financial reporting and internal controls, increasing the likelihood of earnings management. The diversity of interests in larger boards can also contribute to this effect. With members coming from various backgrounds and having different priorities, reaching a consensus on financial management practices can be challenging. The difficulty in reconciling these diverse viewpoints may lead to less stringent monitoring and oversight of earnings management. Moreover, the complexity of monitoring financial performance and compliance with accounting standards tends to grow with board size. Larger boards might struggle to effectively oversee all aspects of financial reporting due to the volume of information and the need for specialized expertise. This complexity can hinder the board's ability to identify and address earnings management issues promptly. Finally, inefficiencies in decision-making processes can arise in larger boards. The increased number of participants often results in longer deliberations and slower responses to financial anomalies. Such inefficiencies can make it harder to take timely and effective actions to curb earnings management. Overall, while larger boards are often seen as bringing diverse expertise and perspectives, the significant positive coefficient for board size suggests that these benefits may be offset by challenges in coordination, accountability, and decision-making.

The coefficient for Board Financial Expertise (BFEXP) is positive and highly significant at the 5% level (p = 0.0011), indicating a statistically significant relationship between the presence of financially knowledgeable directors on the board and the level of earnings management within the company. This result is contrary to the conventional expectation that financial expertise would reduce earnings manipulation. The positive coefficient suggests that an increase in the proportion of board members with financial expertise is associated with a higher level of earnings management. This could imply that directors with strong financial backgrounds might be more adept at understanding and navigating the complexities of financial reporting standards, enabling them to justify or facilitate earnings management practices more effectively. Their deep understanding of financial intricacies could make them more skilled at identifying and exploiting areas of flexibility within accounting standards. Additionally, the presence of financially knowledgeable directors might lead to reduced scrutiny from other board members or external auditors, based on the assumption that these experts will ensure the accuracy and integrity of financial reports. This could create an environment where earnings management practices are more easily implemented and less likely to be challenged. Furthermore, financially astute directors might be better positioned to frame and justify earnings management practices within a technically sound context, making such practices more acceptable to stakeholders. This expertise might also bring potential conflicts of interest or biases that align with earnings management strategies, influenced by personal incentives, industry practices, or broader organizational goals.

The coefficient for audit committee size (ACS) in the regression analysis is negative but not statistically significant (p = 0.5283). This indicates that, in this context, there is no strong evidence to suggest that changes in the size of the audit committee have a meaningful impact on earnings management. The negative coefficient implies a potential inverse relationship, suggesting that a larger audit committee might be associated with less earnings management. However, because this relationship is not statistically significant, we cannot confidently reject the null hypothesis that audit committee size has no effect on earnings management. The lack of significance implies that increasing the number of audit committee members may not be an effective strategy to reduce earnings manipulation. This result could be due to several factors: the effectiveness of an audit committee may rely more on the quality and expertise of its members rather than their number; there might be diminishing returns to increasing the size of the committee; or other factors influencing earnings management could overshadow the impact of audit committee size. Organizations should focus on improving the effectiveness of their audit committees through other means rather than simply increasing their size. Key considerations include ensuring that committee members have relevant expertise, enhancing their independence, and providing adequate training and resources.

The coefficient for Audit Committee Independence (ACI) is positive and statistically significant at the 5% level (p = 0.0009), indicating that a higher proportion of independent members on the audit committee is associated with increased earnings management. This result contradicts the typical expectation that greater independence should reduce earnings management. This positive relationship suggests that while independent members are expected to enhance oversight, their effectiveness may be compromised if they lack the necessary financial expertise or industry-specific knowledge. Independent members may struggle to challenge managerial decisions effectively, resulting in inadequate scrutiny and a greater opportunity for earnings management. Moreover, the independence of audit committee members might be superficial if they are not actively engaged or lack the skills to critically assess financial practices. This could create an appearance of oversight without substantial control, allowing earnings management to persist.

Additionally, management might exploit the limited expertise of independent members, strategically manipulating financial practices in ways that are not immediately apparent. This strategic manipulation could lead to increased earnings management, even while maintaining the appearance of governance compliance. Finally, the effectiveness of independent audit committee members also depends on the quality of support structures such as internal controls and the audit function. If these structures are weak, independent members may face challenges in exercising effective oversight, further contributing to the observed increase in earnings management.

The constant term in the regression model is not statistically significant (p = 0.9793), indicating that the model does not suffer from omitted variable bias and that the included variables sufficiently explain the variation in earnings management. This suggests that the absence of a significant constant term implies that the model's independent variables capture the key factors affecting earnings management without missing critical variables. The R-squared value of 0.718301 shows that approximately 71.83% of the variation in earnings management is explained by the model, emphasizing the role of board characteristics in financial reporting practices. This high R-squared value indicates the model's robustness in accounting for a significant portion of the variability in earnings management. The F-statistic further supports the model's overall significance, confirming that the independent variables collectively contribute meaningfully to explaining earnings management. Thus, the insignificant constant term, high R-squared value, and significant F-statistic together validate the model's effectiveness and relevance in analyzing the determinants of earnings management.

Empirical Results and Research Hypotheses Testing

This section presents the results of the Panel Random Effects Model (REM) regression analysis used to test the study's hypotheses regarding the impact of ownership structure and board composition on earnings management among Deposit Money Banks (DMBs) in Nigeria. The analysis aims to determine the validity of each hypothesis based on empirical evidence.

Hypothesis 1: Institutional Ownership and Earnings Management

Hypothesis: There is no significant relationship between institutional ownership and earnings management among Deposit Money Banks (DMBs) in Nigeria.

Result: The Panel REM regression results show a negative coefficient for Institutional Ownership (INST) of -0.003993 with a p-value of 0.0007. This result is statistically significant at the 5% level, indicating a significant negative relationship between institutional ownership and earnings management. Higher institutional ownership is associated with lower levels of earnings management. This finding supports the hypothesis that institutional investors, due to their active engagement and oversight, can reduce earnings manipulation. Thus, the null hypothesis is rejected.

Hypothesis 2: Ownership Concentration and Earnings Management

Hypothesis: There is no significant relationship between ownership concentration and earnings management among Deposit Money Banks (DMBs) in Nigeria.

Result: The coefficient for Ownership Concentration (OWNCON) is -0.005712 with a p-value of 0.0044, which is statistically significant at the 5% level. This negative relationship suggests that increased ownership concentration leads to reduced earnings management. Large shareholders have the power to monitor and control management, thereby decreasing earnings manipulation. Consequently, the null hypothesis is rejected.

Hypothesis 3: Board Equity Ownership and Earnings Management

Hypothesis: There is no significant relationship between board equity ownership and earnings management among Deposit Money Banks (DMBs) in Nigeria.

Result: The coefficient for Board Ownership (BOWNER) is 0.005923 with a p-value of 0.0085, which is statistically significant at the 5% level. This positive relationship indicates that higher board equity ownership is associated with increased earnings management. Board members with substantial ownership stakes may have stronger incentives to manipulate earnings to enhance their financial outcomes. Thus, the null hypothesis is rejected.

Hypothesis 4: CEO Equity Ownership and Earnings Management

Hypothesis: There is no significant relationship between CEO equity ownership and earnings management among Deposit Money Banks (DMBs) in Nigeria.

Result: The coefficient for CEO Ownership (CEOOWNER) is 0.033580 with a p-value of 0.0043, indicating a significant positive relationship. As CEO equity ownership increases, so does the tendency for earnings management. This result highlights the potential for CEOs to manipulate earnings to achieve personal financial goals. Therefore, the null hypothesis is rejected.

Hypothesis 5: Board Independence and Earnings Management

Hypothesis: There is no significant relationship between board independence and earnings management among Deposit Money Banks (DMBs) in Nigeria.

Result: The coefficient for Board Independence (BND) is -0.717422 with a p-value of 0.0059, which is statistically significant at the 5% level. This negative relationship suggests that a higher proportion of independent directors is associated with lower earnings management. Independent directors enhance oversight and accountability, thus reducing earnings manipulation. Consequently, the null hypothesis is rejected.

Hypothesis 6: Board Size and Earnings Management

Hypothesis**: There is no significant relationship between board size and earnings management among Deposit Money Banks (DMBs) in Nigeria.**

Result: The coefficient for Board Size (BS) is 0.069498 with a p-value of 0.0079, which is statistically significant at the 5% level. The positive relationship indicates that larger boards are associated with higher levels of earnings management. This could be due to challenges in coordination and accountability within larger boards. Thus, the null hypothesis is rejected.

Hypothesis 7: Board Financial Expertise and Earnings Management

Hypothesis: There is no significant relationship between board financial expertise and earnings management among Deposit Money Banks (DMBs) in Nigeria.

Result: The coefficient for Board Financial Expertise (BFEXP) is 0.840250 with a p-value of 0.0011, which is highly significant. This positive relationship indicates that a higher proportion of financially knowledgeable directors is associated with increased earnings management. Financially astute directors might be more adept at exploiting accounting flexibility. Therefore, the null hypothesis is rejected.

Discussion of Findings

Ownership Structure and Earnings Management among Deposit Money Banks (DMBs) in Nigeria:

The results from the Panel Random Effects Model (REM) on ownership structure reveal a significant negative relationship between institutional ownership and earnings management. The coefficient for Institutional Ownership (INST) is -0.003993, which is statistically significant at the 5% level (p = 0.0007). This indicates that higher institutional ownership is associated with reduced earnings manipulation, suggesting that institutional investors play a crucial role in improving corporate governance and curbing managerial opportunism. This finding is supported by existing literature that states the impact of institutional investors on corporate governance. For instance, Ghosh et al. (2022) demonstrate that institutional investors, due to their substantial stakes and resources, are effective in monitoring management and influencing board decisions. Their involvement helps mitigate earnings manipulation by providing rigorous oversight and reducing information asymmetry between management and shareholders. Chen and Lee (2021) also highlight that institutional investors' expertise allows them to detect and prevent unethical financial practices more effectively, leading to improved financial reporting accuracy. Furthermore, institutional investors' focus on long-term value creation rather than short-term gains contributes to more transparent financial reporting. Sullivan and Wang (2020) argue that this long-term perspective reduces the pressure on management to manipulate earnings for immediate results, aligning financial practices with sustainable growth objectives. Additionally, the advocacy of institutional investors for stronger board compositions, including independent directors with financial expertise, further enhances oversight and reduces earnings management. Lee et al. (2023) provide evidence that such board structures improve the quality of financial reporting by strengthening the board's ability to oversee financial practices. Institutional investors also impact executive compensation structures, aligning them with long-term performance goals rather than short-term targets. This alignment diminishes incentives for earnings manipulation. Jackson and Roberts (2021) find that performance-based compensation tied to long-term objectives, advocated by institutional investors, helps mitigate earnings management. However, there are considerations to be aware of regarding the potential limitations of institutional ownership. Nguyen and Zhang (2024) discuss potential conflicts of interest where institutional investors may prioritize their interests over those of minority shareholders, which could affect the effectiveness of their oversight. Additionally, Brown and Davidson (2023) highlight that the influence of institutional investors on controlling earnings management can vary based on their level of involvement and the regulatory environment, suggesting that in some cases, their impact may be less pronounced.

Theoretically, this aligns with Agency Theory, where institutional investors, acting as principals, are better equipped to monitor and control managers (agents), thus reducing agency costs and curbing opportunistic behavior. High institutional ownership also sends a positive signal to the market, indicating strong governance and lower risk, which can enhance the firm's market value. This, in turn, discourages management from engaging in earnings manipulation, as the potential loss of investor confidence could lead to significant declines in stock price and reputation. From a regulatory perspective, encouraging institutional investment in companies, especially in markets with weaker governance frameworks, could be an effective strategy to improve financial transparency and accountability.

Similarly, findings further emphasize a significant negative relationship between Ownership Concentration (OWNCON) and earnings management in Nigerian deposit money banks. The coefficient for OWNCON stands at -0.005712 with a p-value of 0.0044, highlighting that increased ownership concentration is linked to reduced earnings manipulation. Ownership concentration measures the degree to which a firm's shares are held by a few large shareholders, who typically wield substantial voting power and influence. The observed negative coefficient suggests that as ownership concentration increases, the tendency for earnings management decreases. This outcome supports the view that large shareholders are more effective in monitoring management, thereby ensuring more accurate financial reporting. Several recent studies corroborate this relationship. Ali et al. (2019) found that in emerging markets, higher ownership concentration correlates with reduced earnings manipulation. Osei-Tutu et al. (2020) observed similar results in Nigerian firms, confirming that concentrated ownership leads to less earnings management. Khan et al. (2021) reported that firms with concentrated ownership experience better governance and reduced earnings manipulation. Nguyen et al. (2022) also found that high ownership concentration enhances monitoring and decreases earnings management. Furthermore, Akinlo et al. (2023) demonstrated that concentrated ownership improves financial reporting quality by minimizing earnings management.

The relationship between ownership concentration and earnings management aligns with the Agency Theory, which highlights the potential conflicts of interest between managers (agents) and shareholders (principals). In a scenario where ownership is concentrated, large shareholders are in a better position to monitor and control management's actions, thereby reducing agency costs and the associated risks of earnings management. Furthermore, Signalling Theory supports the notion that concentrated ownership sends a strong signal to the market that the firm is under vigilant oversight, enhancing the credibility of its financial reports. This market perception can act as a deterrent to management, discouraging them from engaging in practices that could distort the financial statements. The practical implications of this finding suggest that encouraging higher ownership concentration could serve as an effective mechanism for improving the quality of financial reporting. For policymakers and regulators, promoting ownership structures that involve large, influential shareholders may contribute to better corporate governance and reduced earnings management. Investors might also perceive firms with higher ownership concentration as less risky in terms of financial statement reliability, influencing their investment decisions positively. In the context of emerging markets like Nigeria, where corporate governance practices are still developing, the role of large shareholders in enhancing financial transparency is particularly significant. The negative relationship between ownership concentration and earnings management states the importance of vigilant shareholders in ensuring that management acts in the best interests of the company, ultimately leading to more accurate and trustworthy financial reporting.

Thus, the positive coefficient for Board Ownership (BOWNER) of 0.005923, statistically significant at the 5% level ($p = 0.0085$), highlights a significant relationship between board members' ownership stakes and earnings management among listed deposit money banks in Nigeria. This finding suggests that increased board ownership is associated with a higher likelihood of earnings management practices. This result is consistent with prior research indicating that substantial ownership by board members may enhance their influence over financial reporting processes. For instance, Sutrisno et al. (2021) found that board ownership significantly affects earnings management, with higher stakes leading to increased opportunities for manipulation. Similarly, Omar et al. (2022) noted that substantial equity stakes might drive board members to engage in earnings management to improve their financial outcomes, such as boosting the value of their shares or securing performance-based bonuses. Adewale and Akinlo (2023) also observed a positive association between board ownership and earnings management in Nigerian banks, highlighting the risk of conflicts of interest where personal financial benefits may overshadow shareholder interests. The implications of these findings suggest potential vulnerabilities in corporate governance. The presence of substantial board ownership can create conflicts of interest that undermine financial reporting integrity. To address these risks, Ezeani et al. (2023) advocate for strengthening board independence and enhancing external oversight mechanisms. Their research suggests that improved governance structures could align board members' actions with the interests of all shareholders. Kola and Adedokun (2024) support this view, emphasizing that stronger board independence and stricter auditing practices can reduce the likelihood of earnings manipulation. Additionally, Onyeukwu and Ijeoma (2022) highlight the importance of external auditing and regulatory oversight in maintaining transparency and accuracy in financial reporting.

The positive and statistically significant coefficient for CEO Ownership (CEOOWNER) (0.033580, $p = 0.0043$) indicates a notable relationship between increased CEO ownership and the propensity for earnings management among listed deposit money banks in Nigeria. This finding suggests that as the proportion of ownership held by the CEO rises, so does the likelihood of earnings management. CEOs with substantial ownership have greater control and influence over company operations and financial reporting processes, which can lead to practices aimed at inflating earnings to meet performance targets or present a more favorable financial position.This relationship is supported by recent studies. For instance, Alves and Mendes (2022) highlight that significant CEO ownership often translates into increased leverage over financial decisions, which can result in earnings manipulation. Ofoegbu et al. (2021) further corroborate this by finding that CEOs with larger ownership stakes are more inclined to engage in earnings management to enhance short-term financial outcomes. Additionally, Tola et al. (2023) demonstrate that higher CEO ownership can lead to increased risk-taking, including earnings manipulation, as CEOs might prioritize immediate financial gains. The significant association between CEO ownership and earnings management states the necessity for strong corporate governance mechanisms. Effective internal controls, independent audit committees, and transparent financial reporting are crucial in mitigating the risks associated with high CEO ownership. Recent research by Ibrahim et al. (2023) and Oyebamiji et al. (2022) emphasizes the importance of robust governance structures in preventing the negative effects of concentrated CEO ownership on financial reporting.

Board Characteristics and Earnings Management among Deposit Money Banks (DMBs) in Nigeria:

The regression analysis reveals a significant negative relationship between Board Independence (BND) and earnings management, with a coefficient that is both negative and statistically significant at the 5% level ($p = 0.0059$). This indicates that an increase in the proportion of independent directors on the board is associated with a reduction in earnings management practices, as measured by abnormal loan loss provisions (ALLP) and general Earnings Management (EM). These findings are consistent with the expectations of Agency Theory, which argues that independent directors play a crucial role in monitoring management and reducing agency costs related to financial reporting discretion (Jensen & Meckling, 1976).

Independent directors are expected to provide impartial oversight, minimizing conflicts of interest that could influence financial reporting. The negative coefficient observed supports the notion that a higher proportion of independent directors enhances board oversight, leading to more accurate and transparent financial reports. Empirical evidence from recent studies aligns with these results. For example, Agyemang et al. (2020) found that independent directors significantly reduce earnings management practices in Ghanaian banks, while Okafor et al. (2021) observed a similar effect among Nigerian firms. These studies state the role of independent directors in improving the quality of financial reporting and reducing earnings manipulation. However, some research presents a more nuanced view. Ibrahim and Samad (2023) note that while independent directors generally improve financial reporting quality, their effectiveness can be influenced by other factors such as the overall composition of the board and the regulatory environment. This suggests that while independent directors are important, their impact on earnings management may be moderated by additional governance mechanisms and external factors.

Also, the empirical analysis reveals a positive and statistically significant relationship between Board Size (BS) and earnings management, with a p-value of 0.0079. This indicates that as board size increases, so does the extent of earnings management. This finding is consistent with several recent studies that address the complexities associated with larger boards and their impact on financial practices. Larger boards face significant coordination challenges, which can hinder effective monitoring of financial practices. Muneer et al. (2021) argue that the increased number of board members complicates communication and decision-making, making efficient oversight more difficult. Similarly, Sulaimon and Olayemi (2022) find that larger boards are less effective at scrutinizing financial reports due to the complexity of information and the need for specialized expertise. The dilution of accountability is another factor contributing to the positive relationship between board size and earnings management. With more members sharing responsibility, individual accountability may decrease, leading to weaker oversight. This is supported by Al-Khater and Naser (2020), who note that larger boards often have diminished oversight effectiveness due to the dispersion of responsibility. Additionally, the diversity of interests within larger boards can complicate consensus on financial management practices. Smith et al. (2023) highlight that the varied backgrounds and priorities of board members in larger boards make reaching an agreement on financial practices more challenging, potentially reducing the effectiveness of oversight. Inefficiencies in decision-making processes also play a role. Patel and Shah (2024) observe that larger boards often experience longer deliberations and slower responses to financial anomalies, which can hinder timely and effective actions to address earnings management issues. This inefficiency aligns with our finding that increased board size is associated with higher earnings management. Comparative studies reinforce the generalizability of our results. For example, Kumar and Singh (2019) find a similar positive relationship between board size and earnings management in Indian firms, suggesting that the challenges associated with larger boards are not unique to our sample but are a broader issue. Overall, while larger boards are often valued for their diverse expertise, the significant positive coefficient for board size suggests that these benefits may be offset by challenges in coordination, accountability, and decision-making. Addressing these challenges through improved governance practices could help mitigate the risks of earnings management associated with larger board sizes.

It shows a positive and highly significant relationship between Board Financial Expertise (BFEXP) and earnings management, with a coefficient of 0.0011 at the 5% level. This finding contradicts the conventional expectation that financial expertise would mitigate earnings manipulation. Instead, it suggests that boards with a higher proportion of financially knowledgeable members tend to engage in more extensive earnings management practices. The positive coefficient indicates that financially knowledgeable directors may use their understanding of financial reporting standards to facilitate or justify earnings management. This result aligns with research by Wang and Zhang (2020), who found that financial experts might exploit their knowledge to navigate accounting flexibilities, thereby increasing earnings management. Similarly, Zhang et al. (2022) observed that financial expertise could lead to sophisticated earnings management strategies, as experts can align financial reporting with organizational goals. Moreover, the presence of financially knowledgeable directors might reduce scrutiny from other board members or external auditors, under the assumption that these experts ensure the accuracy and integrity of financial reports. Patel et al. (2021) support this perspective, showing that high financial expertise on boards could result in decreased external scrutiny and a higher propensity for earnings management.

Additionally, financial experts on boards might have conflicts of interest or biases that align with earnings management strategies. Lee and Kim (2019) highlight that such biases could be driven by personal or organizational incentives, while Xu and Zhou (2023) found that financial expertise might bring conflicts of interest that influence financial reporting decisions. Overall, the finding that financial expertise correlates with higher earnings management practices states the need to reevaluate the role of financial experts on boards. Rather than merely reducing earnings manipulation, these experts might sometimes facilitate or justify such practices, influenced by their deep understanding of financial standards, reduced scrutiny, or potential conflicts of interest. This nuanced understanding highlights the importance of further examining how board financial expertise impacts corporate governance and financial reporting.

Effects of Ownership Structure and Board Characteristics on Earnings Management:

The analysis of board characteristics and ownership structure in relation to earnings management among listed deposit money banks in Nigeria reveals complex relationships. The coefficient for Audit Committee Size (ACS) is -0.037858, with a p-value of 0.7895, indicating that the size of the audit committee does not have a statistically significant effect on earnings management. This result suggests that while a larger audit committee might theoretically be associated with less earnings management, the relationship is not strong enough to be deemed significant. This finding aligns with some studies that argue the effectiveness of an audit committee relies more on the quality and expertise of its members rather than their number. For example, research by Choi et al. (2022) underscores that the impact of audit committee size on financial oversight is heavily influenced by the members' competence and independence, not just their quantity. Also, the coefficient for Audit Committee Independence (ACI) is positive (0.740082) and statistically significant at the 1% level ($p = 0.0094$). This suggests that a higher proportion of independent members on the audit committee is associated with increased earnings management, which contradicts the conventional expectation that greater independence should reduce earnings management. This unexpected result might reflect specific challenges within the Nigerian banking context, such as a lack of industry-specific expertise among independent members, as noted by Okafor and Akinlo (2020). Their findings suggest that independent members might lack the necessary financial knowledge to effectively oversee and challenge management practices, potentially creating an environment where earnings management is more prevalent. Additionally, this positive relationship may indicate that while independence is critical, it must be accompanied by relevant expertise and active engagement. Ali and Zhang (2023) found that greater independence did not always lead to better oversight if independent members lacked the requisite industry knowledge. Similarly, Gupta and Yadav (2024) highlighted that the effectiveness of independent audit committee members depends on their financial expertise and the strength of support structures, such as internal controls. Overall, while audit committee size and independence are important factors in financial oversight, their impact on earnings management is significantly influenced by other factors, such as member expertise and engagement. For listed deposit money banks in Nigeria, focusing on enhancing the qualitative aspects of audit committees, such as training and industry-specific knowledge, may be more effective in reducing earnings management than merely increasing committee size or independence.

Recommendations

Several key policy recommendations are proposed based on the findings of this research on the relationship between board composition, ownership structure, and earnings management among listed deposit money banks in Nigeria.

i. It is crucial to strengthen institutional ownership as a means of enhancing governance. The study indicates that higher levels of institutional ownership significantly reduce earnings management. Policymakers should therefore focus on creating an environment that encourages institutional investors, such as pension funds and mutual funds, to increase their stakes in the banking sector. This can be achieved through regulatory frameworks that not only attract institutional investors but also empower them to actively engage in corporate governance, thereby improving financial transparency and accountability.

i. One area requiring additional exploration is the dynamic interaction between different governance mechanisms and their combined impact on earnings management. While this study examined the individual effects of board composition and ownership structure, future research could delve deeper into how these factors interact with each other and with other governance variables, such as executive compensation, regulatory oversight, and market competition. Understanding these complex interactions could provide a more comprehensive view of how corporate governance structures influence financial reporting practices.

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