

**INFLUENCE OF CORPORATE GOVERNANCE  
PRACTICE ON EARNINGS QUALITY OF LISTED NON  
FINANCIAL COMPANIES IN THE NIGERIA STOCK  
EXCHANGE**

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## DECLARATION

This thesis is my original work and has not been presented for a degree in any other university.

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## **ABBREVIATIONS AND ACRONYMS**

|             |                                              |
|-------------|----------------------------------------------|
| <b>AC</b>   | Audit Committee                              |
| <b>AGM</b>  | Annual General Meeting (AGM)                 |
| <b>AGR</b>  | Accounting and Governance Risk               |
| <b>APC</b>  | Administrative Proceedings Committee of SEC  |
| <b>BOD</b>  | Board of Director (BOD),                     |
| <b>CAMA</b> | Companies and Allied Matters Act             |
| <b>CEO</b>  | Chief Executive Officer                      |
| <b>CFO</b>  | Chief Financial Officer                      |
| <b>CG</b>   | Corporate Governance                         |
| <b>CGQ</b>  | Corporate Governance Quotient                |
| <b>CGS</b>  | Standard & Poor’s Corporate Governance Score |
| <b>CMA</b>  | Capital Market Authority                     |
| <b>EPS</b>  | Earnings per Share                           |
| <b>EQ</b>   | Earning Quality                              |
| <b>FASB</b> | Financial Accounting Standards Board         |
| <b>FRCN</b> | Financial Reporting Council of Nigeria       |
| <b>GAAP</b> | Generally Accepted Accounting Practice       |



|             |                                                       |
|-------------|-------------------------------------------------------|
| <b>GCC</b>  | Gulf Co-Operation Council                             |
| <b>IASB</b> | International Accounting Standards Board              |
| <b>ID</b>   | Independent Director                                  |
| <b>ISA</b>  | Investments and Securities Act                        |
| <b>IPO</b>  | Initial Public Offering                               |
| <b>MD</b>   | Managing Director                                     |
| <b>NEDs</b> | Non Executive Directors                               |
| <b>NPV</b>  | Net Present Value                                     |
| <b>NSE</b>  | Nigeria Stock Exchange                                |
| <b>OC</b>   | Ownership Concentration                               |
| <b>OECD</b> | Organization for Economic Cooperation and Development |
| <b>SEC</b>  | Securities and Exchange Commission                    |
| <b>SOX</b>  | Sarbanes-Oxley ACT                                    |
| <b>TCL</b>  | The Corporate Library                                 |
| <b>TI</b>   | Transparency Index                                    |
| <b>TD</b>   | Transparency and Disclosure                           |
| <b>USA</b>  | United States of America                              |
| <b>UK</b>   | United Kingdom                                        |

## DEFINITION OF KEY TERMINOLOGIES

**Audit Assurance (AA):** Is the guarantee that the financial statement audited by any of the four largest accounting firms in the world as measured by revenue and clients is free from material misstatement (Uwuigbe, Peter & Oyeniya, 2014)

**Board Size (BS):** The total number of directors on the board of company at any given time (Uwuigbe, 2012).

**Corporate Governance (CG):** This is a system by which business corporations are directed and controlled (Cadbury Committee, 1992). Corporate governance provides the structure through which the company's objectives are set and the means of attaining those objectives and monitoring performance (OECD, 2004).

**Corporate Governance Practices (CGP):** These are a set of principles or norms that are related to the internal management of companies. The implementation of corporate governance practices seeks to address deficiencies in the corporate legal system of business management, ownership models or stakeholder rights (Aguilera & Cuervo-Cazurra, 2009).

**Earning Quality (EQ):** The ability of reported earnings (income) to predict a company's future earnings (Sepe, Nelson, Tan & Spiceland, 2012).

**Listed Company (LC):** A company whose shares are traded on an official stock exchange and adhere to the listing requirements of that exchange (Adegbite, 2015).

**Interlocking Directorship (ID):** These are directors that sit on several boards of companies, whose experience can add great value to boards where they are present (Solomon, 2013).

**Outside Directorship (OD):** The non-executive directors who do not own shares in the companies (SEC, 2003). Outside directorship is directors who are not affiliated with the top executives of the firm, with minimal or no business dealings with the company to avoid potential conflicts of interests (OECD, 2004).

**Ownership Concentration (OC):** The proportion or percentages of shares of companies held by a few shareholders who could be banks, individuals, family, and other companies. Ownership concentration as a system is perceived as an effective way of monitoring and influencing the management, thus leading to better performance (Liu, Saidi, & Bazaz, 2014).

## ABSTRACT

The issuance and application of corporate governance code by capital market authorities are to ensure that boards of directors and managers of companies discharge their responsibilities with utmost sincerity. Studies have reported confounding empirical submissions regarding corporate governance and earning quality via financial information presented to stakeholders. The effect of a big audit as it could modify corporate governance variables and earning quality narrative of listed companies. Thus, the proposition that companies exist to serve the interest of those with a stake in the future of a firm posit by stakeholders theory becomes blurred, especially from the Nigerian Stock Exchange (NSE) context where listed non financial firms are to apply the corporate governance code since 2000. The thrust of this study is thus to examine the influence of corporate governance practices on earning quality. This study uses quantitative research design to evaluate the influence of corporate governance on earning quality of non-financial public listed companies in Nigeria. It specifically tests the effects of outside director, ownership concentration, interlocking directorship, and board size on earning quality of non-financial companies quoted at the Nigeria Securities Exchange (NSE) and its various sectors. The study's size of 105 companies was obtained after missing data were deducted from a population of 130 non-financial companies quoted at the NSE over the period January 2002 through December 2016. It relies on earnings quality data from the financial statement and on secondary corporate governance data from annual financial statements the NSE. The influence of corporate governance and earnings quality was tested by a panel data linear regression to establish the statistical significance of the earnings quality coefficients at a 95% confidence interval. T-test and F- Statistic at 5% level of significant was used to examine the significance of coefficients of variables in the model. In addition, the study also employed fixed and random effects models for the purpose of addressing the heterogeneity of the sample data. The study rejects the three null hypotheses that corporate governance variables have no effect on earnings quality of non financial quoted public companies in Nigeria and finds out that there is no significant effect of ownership concentration on earnings quality of public companies in Nigeria. It further indicates that there exists a significant statistical effect of outside directors on the earnings quality of listed companies in Nigeria. Furthermore, board size significantly influence earnings quality of listed non financial companies in Nigeria Also, interlocking directorship significantly influences earnings quality in a negative way while audit assurance has a significant moderating negative effect on corporate governance variables and listed companies' earnings quality. The study recommends that strict regulations should also be put in place by the Nigeria Stock Exchange on the appointment of interlocking directorship and outside directors in Nigeria. Notwithstanding, this study is not exhaustive as it is constrained by fifteen years and above listing period examined; financial quoted companies were not included in the study and only four independent variables measure adopted. Hence, future studies should explore these areas.

## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.1 Background of the Study**

Corporate governance is a system by which agents of shareholders direct and run an organisation from day to day (Adegbite, 2015). According to the Organisation for Economic Cooperation and Development OECD (2015), corporate governance is a system by which business corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation such as the board, managers, shareholders and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs. Corporate governance code was issued to enhance the highest standards of transparency and accountability without undue inhibited enterprise and innovation (SEC, 2011). Corporate governance when effectively applied helps to enhance stakeholders' confidence, attract international investors, increase in share price and ensure long term growth in value of the organisation. Investors are critically looking at transparency, independent directors, and a separate audit committee before investing (Miko & Kamardin; 2015).

Earnings quality is a fundamental concept in accounting. Dechow and Schrand (2010) posit that earnings quality is a measure of how well reported earnings by companies reflect the actual performance of a firm. Earnings quality is used to measure decision usefulness from the Financial Accounting Standards Board's (FASB) conceptual framework perspective. FASB's conceptual framework posits that the underlining purpose of financial reporting by companies is to provide information that is useful and needful for stakeholders to informed business decisions. The conceptual framework considers decision usefulness as the overriding criterion for judging accounting choices (FASB 1978, concepts statement No. 1&2). Also, the Financial Accounting Standards

Board (FASB) and the International Accounting Standards Board (IASB) state jointly in the conceptual framework, the need for high-quality financial reporting (IASB, 2014).

Board of directors and management of quoted companies are required to fully comply with corporate governance code, capital market rules and regulations in managing and presentation of relevant information relating to company's earnings in financial statements (Sun, Salama, Hussaineyn & Habbaash,2010). Showing the true underlying economic performance and position of the companies at regular intervals to regulators, shareholders and other stakeholders outside the entity, quoted companies are also required to render financial reports quarterly, half yearly and yearly (SEC, 2003). All quoted companies' financial reports in Nigeria must comply fully with financial reporting standards issued by the Financial Reporting Council of Nigeria and International financial reporting standards issued by IASB. In September 2010, the Federal Government of Nigeria issued a roadmap for convergence to IFRS (Edogbanya & Kamardin, 2014). Obona and Ebimobowei (2012) in their study, opined that earnings reporting forms one of the key ingredients stakeholder use to make an informed economic decision and that the earnings reports produced by management should be based on certain fundamental qualities and be free from intentional misstatement.

Investors, stakeholders, and the general public have been inundated with regular international and local news of high profile international and local trends in corporate failures, persistent decline of share prices, loss of jobs, mass bailout plans and packages from many governments, overnight bankruptcies, financial scandals and loss of pension packages, all of which are the end results of weak corporate governance practises by board of directors and management of quoted companies, ineffective regulations and enforcement by the regulator (Adeyemi & Fagbemi, 2010).The rate of the corporate accounting scandals, public outcry and decline of public trust in financial reports of quoted companies have led to reactions by leading economies from the United state to the United Kingdom. The US had to pass the Sarbanes-Oxley Act of 2002 (also known

as the Public Company Accounting Reform and Investor Protection Act of 2002 and commonly called SOX) which imposed stricter regulations on governance. The United Kingdoms issued a revised corporate governance code in the year 2002 to regulate listed companies on the London Stock Exchange (Leventis & Dimitropoulos (2012).

To ensure proper governance of the corporation, nations around the world have issued a code of corporate governance. The United Kingdoms issued corporate governance code in the year 2002 to regulate listed companies on the London Stock Exchange. While Nigeria followed suit through the capital market regulator, Nigerian Security, and Exchange Commission (SEC), by issuing corporate governance code 2011 after a review of an earlier version issued in 2003 (Adegbite, 2015). The leading democratic countries of the world lead the way in addressing the issue of corporate governance (Leventis & Dimitropoulos, 2012). The United Kingdom (UK) issued principle-based Combined Code of corporate governance, while the USA introduced the Sarbanes-Oxley Act in 2002 and made major changes to the New York Stock Exchange Listing Rules (McCahery, Starks & Sautner, 2010).

The World Bank and the Organization for Economic Cooperation and Development (OECD) issued a revised principle code of corporate governance 2015 which outlines six important areas to deliver superior governance to quoted companies; disclosure and transparency; the rights of shareholders; the role of stakeholders in corporate governance; the equitable treatment of shareholders; and responsibilities of the board of directors especially in reference to the preparation of financial statement of the organizations they represent (Bajra & Cadez, 2017). Grove, Patelli, Victoravich and Xu (2011) examine the impact of corporate governance on earnings quality and company stability. The study suggests that companies that adhered to corporate governance practices enhance earnings quality and promote corporate stability, fairness, transparency, and accountability. Thus corporate governance ensures strong investor's confidence in quoted companies.

In 2003, Nigeria Security and Exchange Commission issued a code of corporate governance years after the passage of acts, codes and the introduction of principle based accounting standards all gear towards high quality earnings reports and corporate governance. There are still issues of poor and manipulated financial reports (Daodu, Nakpodia & Adegbite; 2017). Nigerian investors and stakeholders were presented with, inaccurate/poor reporting of the financial report, which has eroded the level of confidence of these stakeholders (Adegbite, 2015). The lack of proper accountability and transparency in the preparation and presentation has also eroded the confidence of investors and the public. By 2011 the Security and Exchange Commission issued a revised code of corporate governance to enhance high quality reporting. The code of corporate governance stipulate in section 4 that the Board should be of a sufficient size relative to the scale and complexity of the company's operations and be composed in such a way as to ensure diversity of experience without compromising independence, compatibility, integrity and availability of members to attend meetings.

Also, membership of the Board should not be less than five (5). The Board should comprise a mix of executive and non-executive directors, headed by a Chairman. The majority of Board members should be non-executive directors, at least one of whom should be independent director. The members of the Board should be individuals with, upright personal characteristics, relevant core competences and entrepreneurial spirit. They should have a record of tangible achievement and should be knowledgeable in Board matters. Members should possess a sense of accountability and integrity and be committed to the task of good corporate governance. The Board should be independent of Management to enable it carry out its oversight function in an objective and effective manner (SEC, 2011).

Section five of the Code of Corporate Governance states that non-executive directors should be key members of the Board. They should bring independent judgment as well as necessary scrutiny to the proposals and actions of the management and executive directors especially on issues of strategy, performance evaluation and key appointments.



Also, Non-executive directors should accordingly be persons of high calibre with broad experience, integrity and credibility. Non-executive directors should be provided with a conducive environment for the effective discharge of their duties. Adequate and comprehensive information on all Board matters should be provided in a timely manner. Board papers should be made available to them at least one week ahead of Board or committee meetings.

Furthermore, An independent director is a non-executive director who: is not a substantial shareholder of the company, that is one whose shareholding, directly or indirectly, does not exceed 0.1% of the company's paid up capital; is not a representative of a shareholder that has the ability to control or significantly influence management; has not been employed by the company or the group of which it currently forms part, or has served in any executive capacity in the company or group for the preceding three financial years; is not a member of the immediate family of an individual who is, or has been in any of the past three financial years, employed by the company or the group in an executive capacity; is not a professional advisor to the company or the group, other than in a capacity of a director; is not a significant supplier to or customer of the company or group; has no significant contractual relationship with the company or group and is free from any business or other relationship which could materially interfere with his/her capacity to act in an independent manner; and is not a partner or an executive of the company's statutory audit firm, internal audit firm, legal or other consulting firm that have material association with the company and has not been a partner or an executive of any such firm for three financial years preceding his/her appointment; an independent director should be free of any relationship with the company or its management that may impair, or appear to impair, the director's ability to make independent judgments; every public company should have a minimum of one independent director on its Board (Adeyemi & Fagbemi, 2010 and SEC, 2011).

The benefits of adopting good corporate governance practice and reporting earnings of quoted companies to reflect the true state of affairs are numerous according to Lambert,

Jones, Brazel and Showalter (2017) suggests that stakeholders can make informed decision based on quality earnings reports, reduction of risk, increase in investors' confidence, reduction in corporate financial scandals and stimulation of performance, improved access to capital markets, improved leadership, demonstration of transparency and social accountability. This study only covers quoted non financial companies because Corporate Governance Code is specifically targeted at quoted companies and the information relating to their activities are publicly available and not subject to falsification. Furthermore, only four variables were used as proxies for the independent variable and one for moderating variable in this study. Others variables were excluded due to non-availability of the data, such as directors' age and expertise, such information is not available through audited financial statements. Objectively quantifiable variables were selected, however, to avoid bias within the results, and the variables chosen have been shown as important ones within prior studies (Erkens, Hung & Matos, 2012; Brickley & Zimmerman, 2010).

The issuance of Code of Corporate Governance for publicly quoted companies became necessary after series of corporate failures and financial reporting scandals, due to poor corporate governance and manipulation of earnings in reported financial reports (Adeyemi & Fagbemi, 2010; Miko & Kamardin, 2015). Years after Corporate Governance Code was issued towards high-quality earnings reports to aid stakeholders to make informed decisions, there are still issues of inaccurate financial reports and Nigerian investors and stakeholders are presented with poor financial reports which have eroded the level of confidence of these stakeholders (Adegbite, 2015).

### **1.1.1 Global Perspective of Corporate Governance Practice and Earnings' Quality**

Globally, studies have been done to investigate the effect of corporate governance and earnings quality. For instance, Gordini (2012) carried out a study in Italy to evaluate the effect of ownership concentration on earnings quality. The result revealed differences in corporate governance practices of ownership concentration, shareholders voting pattern,

and influence on earnings quality of pension funds organisation affiliated with business and financial groups and other pension funds unaffiliated with businesses. Also, there was evidence of an increase in earnings quality among Italian firms.

On the contrary, McCahery, Starks and Sautner (2010) examine the effects of ownership concentration on earnings quality firms in the United States of America and the Netherlands. The findings show wide differences in preferences for activism between institutional investors in the US and the Netherlands. Also, between the two countries, they differ considerably in terms of ownership structures. Findings reveal that there have been reductions in earnings quality in the USA from 50% to 21%, while the Netherlands had a reduction from 21% to 8% as a result of good corporate governance practises. In addition, stakeholders considered companies with high earnings quality as less risky because their earnings can be predicted and they are more inclined to invest in companies with high earnings quality. Furthermore, companies with higher earnings quality are accorded a higher price-to-earnings multiple reflecting this lower risk and attracting greater proportions of investable funds. (Dechow, Ge & Schrand, 2010). Whereas it is theoretically possible to expect corporate governance practices to affect earnings quality positively and therefore influence companies' stakeholders to invest more in listed companies in line with Boulton, Smart and Zutter (2011), empirical evidence is confounding. It is therefore not clear if and how corporate governance practices affect earnings quality among listed companies in Nigeria. Nigeria capital market regulator the Security and Exchange Commission issued mandatory Code of Corporate Governance for publicly quoted companies in 2003 to guide the board of directors and management of quoted companies on Nigeria stock exchange.

Specifically, in Israel, Yafeh and Hamdani (2011) studied the voting behaviour of institutional shareholders in influencing earnings quality in Israel and they confirmed that institutional shareholders used their power and block vote to reduce earnings management practises in Israeli companies. Furthermore, Mergenthaler, Rajgopal and Srinivasan (2012) confirm that board of directors indirectly encourage management to

engage in earnings management, when the board discipline management of quoted companies when earnings target were not achieved by reducing bonuses and equity-based compensation. In addition, chief executive officers were relieved of their plum position, thus encouraging managers of listed companies to engage in earnings management to retain their jobs.

Armstrong, Guay and Weber (2010), observed that corporate governance practises contributed significantly to a reduction in earnings management practises from 15% to 6% among Austrian quoted companies. The study covers seven years from 2002 to 2009 and using simple regression to analyse the data of all listed companies in Austria. The objective of the study was to investigate the effect of corporate governance practices on earnings management. Furthermore, Black and Kim (2012) report that a worst-to-best change in their corporate governance index for Korean firms predicts a 0.47 increase in their *Tobin's q*, which corresponds to an almost 160% increase in the share price. Management of quoted companies prefers discretion in the reporting process, and auditors may go along with earnings management behaviour and the reporting of low quality earnings in order to avoid dismissal by clients.

Perotti and Wagenhofer (2014), examined the effects of auditor choice on earnings quality, covering 42 countries. The study covered a period of 11 years (1994 to 2004). They confirm that earnings quality is higher in a country that observed strong corporate governance practices. Furthermore, in an empirical study of the impact of corporate governance practices and firm characteristics on earnings quality, Dong and Wang (2017), suggest that corporate governance practises and firm characteristics have significant positive effects on earnings quality & earnings quality is reducing in the size of estimation of errors in accruals. In the similar study of quoted companies in Jordan, Egypt, Tunisia, Kuwait and Lebanon in cross country studies, it was discovered that corporate governance practises aided managers to surpass target earnings by using companies' opportunities, small negative errors in the forecast in unaudited quarterly results. It was also revealed that positive relations between the distribution of earnings

around the agreed analyst forecast in the last quarter of the year to practices, earnings management to the detriment of shareholders (Lambert, Jones, Brazel & Showalter, 2017; Ben-Nasr, Boubakri & Cosset, 2015).

Persakis and Iatridis (2015) examine the effect of interlocking directorship on earnings quality among listed companies in America, Euro zone and Asia. The study covers 10 years and data gathered were analysed using multiple regression. The finding revealed that the presence of interlocking directors on the board of quoted companies in America, Euro zone and Asian countries impacted positively on earnings quality and “expectations management” from using accrual mechanism in earnings reports after the enactment of SOX Act. Relating to corporate governance with institutional shareholders, Latif, Latif and Abdullah (2017), empirically examine the impact of institutional share ownership on earnings quality of quoted companies on Pakistan Stock Exchange (PSX). The study covered 12 years from 2002 to 2014, using data from non financial sectors for 200 companies. The findings reveal that there is a positive relationship between earnings quality and ownership concentration. Also, the presence of institutional shareholding and outside directors ensured that the activities of management were supervised more than when there was disperse shareholding and no outside directors on the board of the companies.

Black, De Carvalho and Gorga (2012) in a cross country study over six (6) years from 2005 to 2011, report different results for Brazil. Comparing effects in India, Korea, and Russia, they found that different corporate governance practices were applicable in different countries for different types of companies. Country characteristics thus influenced the aspects that affected the market value for different firms. Also, Lennox, Wu and Zhang (2016) examined how adjustments to earnings during the end of year audit affected measures of earnings quality in China. The study covered 2006 to 2012, using 11486 observations. The findings of the study are, first, audit adjustments cause earnings to become smoother and more persistent. Secondly, the adjustments result in higher accrual quality. Thirdly, audit adjustments have a larger negative effect on signed

accruals than absolute accruals. Fourthly, the adjustments do not reduce the discontinuity in the earnings distribution around zero. Nonetheless, the authors cautioned that findings from China may not be generalized when compared to other countries. Given the foregoing global assertion on corporate governance, there are several empirical efforts that have been directed towards the evaluation of corporate governance issues from emerging economies' perspective in general and the Nigerian angle in particular.

### **1.1.2 Corporate Governance Practice and Earnings' Quality in Emerging Economies**

From the emerging economies, Francis, Hasan, Song and Waisman (2012) studied the influence of corporate governance on financing constraints over fourteen emerging markets (South Africa, South Korea, Sri Lanka, Turkey and Thailand). It was discovered that company level corporate governance has more impact on nations with weaker nation-level governance. Also, that high corporate governance lowers the reliance of the emerging market company on internally generated cash flows, thus decreasing financial constraints that would otherwise alter the resourceful distribution of investment and obliterate company value.

Furthermore, research evidence in Black and Kim (2012) shows that there is a strong positive association between poor corporate governance on earnings quality and investment decision. South Africa corporate governance reform is unique from other countries in Africa due to her past history of Apartheid. Corporate governance focused on both shareholders and stakeholders. Also, ownership of firms is highly concentrated (Ntim, Opong, Danbolt & Thomas, 2011). In another study, Ntim, Opong and Danbolt (2012) studied the effect of the new shareholders and stakeholders corporate governance disclosure rules on earnings quality, using a sample of 169 South African listed firms from 2002 to 2007. The results show that companies that observed corporate governance practices on both shareholders and stakeholders impact positively on earnings quality.

Gaio and Raposo (2014) scrutinized the relationship between corporate governance and share ownership structure on earnings quality. The study sample was taken from companies on Portuguese stock exchange and the results show that higher earnings quality is strongly influenced by corporate governance based on solid legal systems. The farther the reported earnings of quoted companies from what it should be, the lower the quality of earnings (Jatiningrum, Abdul-Hamid & Popoola, 2016). Board of directors and management will be adjudged to have done well when the bottom line is high and the expectation of the market and forecast earnings are surpassed in a particular year and on a consistent basis. The spotlight on earnings is so extreme that Ikechukwu (2013) asserts that the market fixates on firms' bottom line income, to the exclusion of other indicators of operating performance. Such single-minded attention fails to recognize that reported net income is the result of an extended accounting process with considerable room for managerial discretion at every step.

Shubuta (2015) scrutinize the practice of corporate governance and earnings quality in the Gulf Cooperation Council (GCC) emerging markets consisting of Iraq, Iran, Syria, Jordan, Kuwait, and United Arab Emirate. The study used 55 companies over a ten-year period and the outcome revealed that income smoothing behaviour in the GCC markets has many variations in practice. Income smoothing, on the average, improves earnings quality in three countries out of four, but not significantly for the whole sample based on earnings level. Also, board independence has a negative influence on earnings quality among the Gulf Cooperation Council member countries.

In another study, Jatiningrum, Abdul-Hamid and Popoola (2016) investigated the relationship between corporate governance and earnings management with big audit as a moderating variable, the study covered a five-year period with 175 observations of listed companies on Indonesia Stock Exchange (IDX), in the scenario of a highly concentrated ownership and less protected investors. The findings revealed that disclosure quality and good corporate governance can reduce earnings quality and manipulation. Furthermore, Daodu, Nakpodia and Adegbite (2017) emphasize that organisations with stronger

internal corporate governance mechanism such as higher ownership concentration and smaller boards, do manage the quality of earnings more accurately, while firms with stronger external governance, such as higher institutional holdings and high takeover pressure, manage earnings less. Also, Yaghoobnezhad, Nikoomaram and Salteh (2011) examined the relationship between corporate governance mechanisms and earnings quality, using quoted companies at the Tehran Stock Exchange. The findings of the study emphasize that strong corporate governance mechanisms improve the informativeness of financial reports, reduce earnings quality and eliminate agency problems.

Contrarily, Prencipe and Bar-Yosef (2011) examined the influence of corporate governance mechanism on earnings quality in Turkey. The results show that combining two roles (chairperson and CEO) along with longer tenure exacerbates the potential for managing earnings of the organisation, thus resulted in a negative impact on reported earnings and leading to earnings with less predictive value. Additionally, Ararat, Orbay and Yurtoglu (2010), studied the relationship between outside directors and companies' earnings quality of organisations listed on the Istanbul Stock Exchange 100 index (ISE 100) Turkey from 2006 to 2008. The sample used for the study was 118 companies, results show that the outside director has a negative influence on earnings quality of Turkish companies listed on the Istanbul Stock Exchange.

In a different empirical test, there was high earnings quality in companies with higher audit fees (Kim, Li & Sun, 2013). Also, Engelen (2014) confirmed that earnings quality in companies diminishes along with increases in information disclosure, the number of auditors that perform the audit, and accounting standard adoption. There have been contradicting positions from empirical research. Outside directors positively influence the performance of organisations, shareholders nationality (foreign and domestic) affect earnings with foreign shareholders earnings higher. Board size and performance results show a significant and positive influence on board size and earnings quality (Nyarige, 2012; Kiruri, 2013; Mengoli & Pazzaglia, 2017). Srinidhi, Gul and Tsui (2011) findings



show that gender enhances outside directors monitoring which leads to an improvement in the quality of earnings.

### **1.1.3 Nigeria Perspective of Corporate Governance Practice and Earnings Quality**

The Nigerian capital market and financial reporting regulatory environment are monitored by relevant organisations that ensure smooth operations of the process. These organisations are the Securities and Exchange Commission (SEC), Nigerian Stock Exchange (NSE) and Financial Reporting Council of Nigeria (FRCN) (Osemeke & Adegbite, 2014). The financial reporting environment in Nigeria is regulated by Financial Reporting Council Act 2011, while the legal framework of quoted Nigerian companies is defined by the stipulations of the Companies and Allied Matters Act 1990 as amended in 2004 (CAMA), and primarily provides the legal framework for quoted companies in Nigeria. This legal framework follows the Anglo-Saxon model of corporate governance due to the country's history. Others are Securities and Exchange Corporate Governance Code 2011 and Investment and Securities Act 2007.

The financial reporting environment in Nigeria is regulated by Financial Reporting Council of Nigeria, initially known as Nigerian Accounting Standards Board and is responsible for the issuance of accounting standards in Nigeria (Adeyemo, Ajibolade, Uwuigbe & Uwuigbe, 2017). All quoted companies' financial reports in Nigeria must comply fully with financial reporting standards issued by FRCN and International financial reporting standards issued by IASB. In September 2010, the Federal Government of Nigeria issued a roadmap for convergence to IFRS (Edogbanya & Kamardin, 2014). All quoted companies' financial reports issued to the investing public and stakeholders must fully comply with IFRS, Corporate Governance Code and Companies and Allied Matters Act and such compliance should be disclosed in the audited financial reports presented to the public (FRC Act, 2011; CAMA, 2004; SEC,2011).

Companies and Allied Matters Act 2004, explicitly states the procedure for the formulation of the company, allotments of shares and managing the company by directors. Section 63 to Section 65 of the Act details the division of power between Annual General Meeting (AGM) and Board of Directors (BOD), Managing Directors (MD) and committee as well as acts of AGM, BOD and MD. Part IX of CAMA 2004, lays down the process of appointing directors, removal, reappointment and the duties of directors which are geared towards orderly management of companies. Part X deals with the protection of minority shareholders against illegal and oppressive conduct by or against the company. This becomes necessary because of the agency problem where the directors are not sharing holders or holding controlling share thereby engaging in business activities that benefit them but are detrimental to the interest of minority shareholders and other stakeholders. CAMA 2004 in part XI went further to list the financial records to be kept by companies, place, and duration of financial records. It is the duty of directors to prepare the financial statement in the form, procedure, and contents as prescribed by CAMA 2004. It also outlines the appropriate penalty for non-compliance with financial statement records.

Securities and Exchange Commission (SEC) is the apex regulatory body in the Nigerian capital market for all quoted companies in Nigeria (SEC Code, 2011). In order for SEC to discharge her responsibility effectively, it is backed up by Investments and Securities Act 2007 (ISA) and SEC code of corporate governance in 2003 and as revised in 2011. The ISA 2007 provides for an effective monitor of quoted Nigerian companies, Part VI to VII empower SEC to register and regulate all market operators after thorough scrutiny, inspections and investigating any capital market infraction by any registered player through routine and special examination and regulation of shares of quoted companies on Nigerian stock exchange. It further states the responsibilities of quoted companies which include filling of the annual return and periodic report of the company's activities in an honest manner. Quoted companies are to set up effective internal control to safeguard the company's assets at all times and are also to disclose

earnings forecast to SEC. The auditors of quoted companies are registered by the SEC and must report to SEC the effectiveness of internal control of quoted companies to the SEC. Part XI and XIV of ISA (2007) extensively prohibits quoted companies from reporting false and misleading financial reports, abuse of information obtained in an official capacity, insider person to deal in the security of the company. Also, Investor's protection is guaranteed in the Act through investor protection fund.

SEC Code of Corporate Governance 2003: the issuance of the Code of Corporate Governance in Nigeria was as a result of several global corporate failures and the enactment of the SOX ACT in 2002 in the United State of America in response to Enron collapse. Miko and Kamardin (2015) posit that the SEC Code of Corporate Governance was to ensure greater transparency and accountability in financial reports process and strengthening the Board of Directors and management of quoted companies' capacity in Nigeria. Also, international best practices as evidenced by a code of corporate governance issued by Organisation for Economic Cooperation and Development (OECD) on principles of corporate governance and the United Kingdom, combined code of corporate governance. Furthermore, the corporate governance code was revised in 2011. This revised code, according to Ofo (2011), was to incorporate most modern issues and developments in the global corporate world and to deal with governance issues still prevailing in the Nigerian business environment.

Distinctively, the code outlines separation of individuals functioning as Chief Executive Officer (CEO) and Chairman of the board, size of the board of directors, formulation of risk committees, corporate governance committee and other committees for a smooth running of the company. It also permits the inclusion of non-independent director and prohibition of many family members on the board, shareholders' rights and protection of minority interest and gears towards further strengthening the financial reporting, risk management and audit, accountability and reporting, internal control processes and communication overall (SEC Code, 2011). Patrick, Paulinus and Nympha (2015) investigated the impact of corporate governance on earnings management practices in

Nigerian quoted companies. The study covered four years from 2011 to 2014, it used purposive sampling technique and data collected were analysed using tables, and simple regression techniques. The findings show that corporate governance mechanisms (board size, board independence and audit committee) had a significant positive impact on earnings management.

Uwuigbe, Peter and Oyeniyi (2014) examined the effect of corporate governance mechanism on earnings management in Nigeria. The study used forty quoted companies on the Nigeria Stock Exchange and covers five years from 2007 to 2011. The study used a judgemental sampling technique and regression analysis was employed. The findings revealed that while board size and board independence have a significant negative effect on earnings management (proxied by discretionary accruals) on the one hand, on the other hand, CEO duality had a significant positive effect on earnings management for the sampled firms in Nigeria. Furthermore, Omoye and Eriki (2014) concluded that quoted Nigerian banks used higher earnings management practice to mask their performance. The code of corporate governance, stock exchange listing rules, and international financial reporting standards are all in place to ensure that manipulation of financial reports does not occur among quoted companies.

Also, board size creates opportunistic incentives for managers to time the release of good and bad news to the market, thus resulting in poor earnings quality (Beyer, Guttman & Marinovic, 2014). In another study by Kaden and Sanchez's (2014) results reveal that the sign on the CFO power index coefficient is negative and significant at 1% level, suggesting that when the CFO is powerful, income increasing earnings management decreases when the CFO has longer pay duration and vice versa. Thus, earnings quality is poor as a result of executive directors using abnormal accruals. Also, Schabus (2012) research outcome reveals that board sizes are negatively related to real earnings management, thus board size serves to prevent poor earnings quality. In addition, Beyer, Guttman and Marinovic (2014) study show a positive relationship between board size and earnings of companies. Ehikioya (2009) investigated the effect

of board size and composition on the earnings quality of listed companies in Nigeria. The findings revealed that board size and composition has no significant effect on earnings quality

Furthermore, Osemeke and Adegbite (2014) state that Federal Government of Nigeria passed into law the Financial Reporting Council of Nigeria (FRCN) Act to commence the processes of putting together a framework unifying existing codes into a single applicable corporate governance code for the corporate sector. Financial Reporting ACT (2011) empowers Financial Reporting Council of Nigeria to issue financial reporting standards and guideline for all companies in Nigeria, with quoted companies inclusively. Companies are expected to report based on format and the true state of economic affairs of the organisation and require the Managing director and finance director to personally sign the financial report, and take personal responsibility for any material mis-statements in the accounts. Omoye and Eriki (2014) concluded that quoted Nigerian banks used earnings management practice to mask their performance. In light of this, this study investigates further the influence of corporate governance practices on the earnings quality of quoted non-financial companies in Nigeria.

## **1.2 Statement of the Problem**

Companies have several stakeholders that must make investment and credit decisions which are based on companies' earnings quality. Earnings quality is the capability of reported earnings (income) to predict an organization's future earnings and it reveals a company's financial wellbeing, which improves capital market efficiency (Boulton, Smart & Zutter, 2011). Stakeholders such as long term lenders are mainly concerned with evaluating the ability of a company to service its debt and long-term solvency. While, short-term lenders are concerned with immediate liquidity, as they expect to be paid in a much shorter timeframe. Also, ordinary shareholders deal with the residual risk and ultimate value of the company (Osemeke and Adegbite (2014).

The first concern that necessitated this study is based on empirical evidence such as Gaio and Raposo (2014), and González and García-Meca (2014), it can be inferred that there is lack of clarity on the effects of corporate governance practices on earnings quality of financial reports and information presented to the stakeholders by management of quoted companies because of past corporate financial scandals (Adeyemi & Fagbemi, 2010). Studies on the effect of outside directors show contrary positions on the effect of earnings quality of quoted companies. Frankel, McVay and Soliman (2011) findings show that Outside directors are positively linked with non-GAAP earnings quality. The organisations with a board that are not independent are more likely to exclude recurring items from non-GAAP earnings. While other studies show contrary results, Ararat, Orbay and Yurtoglu (2010) results show that outside directors are ineffective, not capable of curbing the high scope of related party transactions and has a negative influence on firm performance in Turkish companies. Also, Gharezi and Abbaszadeh (2013) report a negative relationship between outside directors and earnings quality.

Furthermore, Ji, Ahmed and Lu (2015) show that ownership concentration affects earnings quality negatively where share ownership is widely dispersed. Abbadi, Hijazi, and Al-Rahahleh (2016) show information opacity and less desire to declare earnings forecast to predict bad news as a fallout of concentrated share ownership. Also, Kouaib and Jarboui (2014) show that audit quality and ownership concentration have a negative and significant effect on earnings management in industrial firms but they have a positive and non-significant effect in commercial firms. Additionally, studies, where board size was used as proxy for corporate governance, show contrary findings on the effect of board size on earnings quality. For example, Persakis and Iatridis (2015) findings show that relatively large board size is associated with income-decreasing accrual choices in periods leading up to option award dates.

The second concern that necessitated this study is that there are contradictory results about the level of corporate governance compliance and earnings quality among Nigerian quoted companies. Yet actual investors, potential investors, and other stakeholders rely

on financial information released by quoted companies for a crucial investment decision (Adeyemo, Ajibolade, Uwuigbe & Uwuigbe, 2017). Prior studies on interlocking directorship show divergent findings on the influence of corporate disclosure on earnings quality. Cassell, Myers and Seidel's (2015) findings show that there is well-built evidence that the level of accruals-based earnings management is lower among organisation with interlocking directorship than among organisations without interlocking directorship. Also, Yeh, Chen and Wu's (2014) findings show there is a strong significant association between interlocking directorship and each of these earnings attributes, implying that interlocking directorship mechanism can influence earnings quality of financial reporting. Studies relating to audit assurance reveal the effect of audit service by big four audit firm on earnings quality. Big audit four enhances the quality of the audit process thereby reducing management discretion and the opportunistic action due to insider information (Jaggi, Mitra & Hossain, 2015).

The third concern that necessitated this study according to extant literature such as Uwuigbe, Amiolemen, Uwuigbe, Asiriuwa, and Jafaru (2017), the influence of corporate governance practices as well as its effects on earnings quality, is still unclear and confounding from an African perspective and particularly on Nigeria environment. To this end, there is a need for further study to extend the literature on the influence of corporate governance practice on earnings quality in this regard. The influence of big audit on corporate governance and earnings quality when it is controlled also calls for more empirical evidence (Salau Abdulmalik, & Ahmad, 2016). These are motivations for further studies, especially in Nigeria where such studies could bridge the gap and also contribute to existing knowledge.

### **1.3 Research Objectives**

In order to provide direction for this study, its objective statement is categorised into two. That is general and specific objectives.

### **1.3.1 General Objective**

The general objective of this study is to investigate the effects of corporate governance practices on the earnings quality of listed non financial companies in the Nigeria Stock Exchange.

### **1.3.2 Specific Objectives**

The specific objectives of this study are to:

1. Determine the influence of outside directorship on earnings' quality of listed non financial companies in Nigeria stock exchange;
2. Establish the effects of share ownership concentration on earnings quality of listed non financial companies in Nigeria stock exchange;
3. Examine the influence of board size on earnings quality of listed non financial companies in Nigeria stock exchange;
4. Determine the effects of interlocking directorship on earnings quality of listed non financial companies in Nigeria stock exchange;
5. Evaluate the moderating effect of audit assurance big audit on corporate governance and earnings quality of listed non financial companies in Nigeria stock exchange;

### **1.4 Research Hypotheses**

To successfully proffer answers to the objectives of this study, the following hypotheses were stated in the null form and raised to guide the statistical analyses of the research data:

Ho<sub>1</sub> There is no significant effect of outside directorship on earnings quality of listed non financial companies in Nigeria stock exchange;



Ho<sub>2</sub> There is no significant effect of ownership concentration on earnings quality of listed non-financial companies in Nigeria stock exchange;

Ho<sub>3</sub> There is no significant effect of board size on earnings quality of listed non-financial companies in Nigeria stock exchange;

Ho<sub>4</sub> There is no significant effect of interlocking directorship on earnings quality of listed non-financial companies in Nigeria stock exchange;

Ho<sub>5</sub> There is no significant moderating effect of audit assurance on corporate governance and earnings quality of listed non-financial companies in Nigeria stock exchange;

### **1.5 Significance of the Study**

This study contributes to the existing body of knowledge and further extends current literature in corporate governance and earnings quality in some ways. Firstly, this study's findings offer results on the influence of corporate governance on the earnings quality of quoted companies in Nigeria based on the nation's distinctive legal, regulatory, economic and market operational idiosyncrasies. The results help regulators, investors, and stakeholders to be able to make new regulatory frameworks and better investment decisions by investors and stakeholders.

Secondly, the results most likely influence individual and corporate financial decisions among the players in the Nigerian capital market. The regulators of various Nigerian capital market players will also be able to have a deeper understanding of the politics and board room dynamics behind corporate governance of quoted companies. This assists regulators to improve on areas that negatively impact corporate governance through laws, regulations, and codes with a view of enhancing productivity and performance. A well-regulated Nigerian capital market drives growth and enhances the increase in the continuous flow of foreign investments into the market. Evidence shows that foreign private investment, domestic investment growth, and foreign portfolio

investment have a significant positive impact on Nigerian capital market and by extension Nigeria economic growth (Omokhudu & Ibadin, 2015; Ikechukwu, 2013).

Thirdly, this study offers measures for earnings quality that permitted a unique investigation of its individual and interactional effects. Fourthly, unlike previous researches that used residual-based measures of managerial discretion based on the Jones (1991) model, and the accruals quality measure in Francis *et al.* (2013), this study segregates noise in earnings that are unrelated to managerial incentives and often reduces the power of tests, thereby revealing the depth and nature of earnings quality practise in quoted Nigerian companies.

Last but not the least; it helps to evaluate the determinants of earnings quality in the context of financial reporting in a developing country. The importance of this study relates to researchers, regulators, management, and analysts. Future capital market researchers, financial analysts and academic institutions of higher learning, find this research as a source for future reference. Thus, the study serves as a data base for further research. Also, management and regulators will find this study a vital tool to improve on the current practise of corporate governance in Nigeria. In addition, the recommendations for further study that are provided at the end of the study are likely to provide a further momentum into the academic inquiry of other aspects of corporate governance and earnings quality, and possibly bridge the existing gaps in corporate governance and earnings quality literature.

## **1.6 Scope of Study**

This study investigates the influence of corporate governance practices on earnings quality of quoted companies on Nigeria Stock exchange over a fifteen-year period spanning January 2002 through to December 2016. This study focuses on all listed non-financial companies that meet the earnings quality data criteria from the 130 listed non-financial companies at the end of December 31, 2016. Quoted companies operating in

the financial service sector (banks and insurance companies) are excluded due to the fact that they are specially regulated as a result of the nature of services rendered by Central Bank of Nigeria and Nigerian Insurance Commission. The financial service sector also has a separate code of corporate governance unique to the industries.

The standard approach to such a study from extant literature is to identify the number of firm years for an evaluation. Accordingly, this study is done on 1,575 firm year observations for the one hundred and five (105) quoted companies on Nigerian stock exchange as at December 31, 2016, that meet the data criteria. Strict rules and regulation on disclosure are applicable to all quoted companies, thus provide needed data for this study. Also, the period of fifteen years is deemed sufficient to afford the researcher a wide range of observation that was required in making earnings quality estimation and the influence of corporate governance on earnings. Also, similar studies used ten to twenty years (Oluoch, 2015; Huang & Wang, 2015). Above all, the period 2002 to 2016 is that for which data on earnings quality and financial reports of quoted companies' data for investigation was obtained from the Nigerian Stock Exchange.

### **1.7 Limitations of the Study**

While the findings of this research are important, several limitations were encountered during the period of conducting this study. Firstly, there was the dearth of literature on the influence of corporate governance practices on earnings quality of non financial listed companies in Nigeria and Africa (Abed *et al.*, 2011). Secondly, some companies and segments of the NSE did not qualify for analysis due to unbalanced panel data and some had missing data or incomplete data, as such the companies were dropped from the data set. On the other hand, this is deemed not limiting enough because the companies listed recently are very few.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter presents a critical appraisal of the theories related to corporate governance and the influence of earnings quality. Thereafter, the Chapter appraises the conceptual framework, evaluates empirical literature along the lines of the research objectives presented in Chapter One, critiques existing literature relevant to the study and ended the Chapter with the identification of the research gap and summary.

#### **2.2 Theoretical Framework**

There are several theories that explain the influence of corporate governance practice on earnings quality. This study was anchored on agency theory, stake-holders theory, stewardship theory and Resource dependence theory.

##### **2.2.1 Agency Theory**

The agency theory was propounded by Mitnick (1973) and propagated by Jensen and Meckling (1976). The theory states that the agency relationship is a contractual agreement under which one or more persons (principal) engage another person (the agent) to perform certain service(s) on their behalf including delegation of some decision making authority to the agent (Jensen & Meckling, 1976). Furthermore, agency theory suggests that there is potential for “managerial mischief” when the interests of firms’ owners and managers (agents) diverged (Dalton, Hitt, Certo, & Dalton, 2007).

Jensen and Meckling (1976) identify three agency costs that the principal is likely to incur, and the agency costs are: the total of monitoring cost by the principal to limit the deviant activities of the agent; bonding cost by the agent which will give assurance that certain actions of the agent will not be harmful to the principal or to ensure the principal

is compensated if such actions occur; and the residual loss which is the dollar equivalent to the drop in welfare as a result of the discrepancy between the agent's decisions and those decisions that would maximize the welfare of the principal.

Agency theory postulates that because people have self-interest they will have thus have conflicts of interests over some issues any time they attempt to engage in any cooperative endeavours. The major concern of agency relationship is to align the interest of shareholders and managers with a view to resolving the inherent conflict between the agent and the principal (Meckling, 1976; Fama & Jensen, 1983). Mitnick (1973) states that agency problems occur in three ways and these are the principal's problem, the agent's problem, and policing instruments and incentives. The principal's problem helps to motivate the agent to act in a manner that will achieve the principal's goals. The principal, through audit supervision, ensures that the agent acts in a manner beneficial to the principal's interest and report the true state of the company's affairs. Supervision of audit committee over internal and external audit function has enhanced the quality of audited financial report of quoted companies (Aldamen *et al.*, 2012).

The agent problem has to do with decisions to act either in the principal's interest, his own interest, or compromise between the two when they do not coincide (Delves & Patrick, 2010). Policing instruments are instruments and incentives intended to limit the agent's discretion, such as the board of director's surveillance on management activities and mandatory compliance to the code of corporate governance covering all key areas of a company's operation. Incentive systems are mechanisms that offer rewards to the agent for acting in accordance with the principal's wishes, such as executive compensation, bonuses and increased pay (positive incentives) or fear of punishment (negative incentives). Schabus (2012) specifically investigated whether equity compensation incentivizes CEOs to engage in opportunistic real earnings management, in the post-SOX period. The major drawback of policing and incentives is that they create costs for the principal. This is always aggravated towards the exit or retirement of the management and board of directors.

Results from studies such as Dechow and Sloan (2010) and Nikolov and Whited (2014), show a decline in Research and Development (R&D) expenditures, increase in manipulating earnings tied to performance-based bonuses and abnormal growth in earnings prior to a Chief Executive Officer (CEO) leaving his position and a top executive's approach retirement (Krause & Semadeni, 2013; Harris, Johnson & Souder, 2013). Shareholders and other investors can freely sell, buy and diversify their portfolio with ease or as the need arises and can concentrate on the shares of the companies in order to influence the strategic vision, financial policy, investment options and management of the companies (Gormley & Matsa, 2014). This is because risky investments also increase the event of bankruptcy. The financial policy of the company will greatly be influenced by the risk tolerant level of management to avoid bankruptcy (Billett, Hribar & Liu, 2015).

Chen, Lu and Sougiannis (2012) investigated the influence of managers on the value of company stocks, using data from China. The findings show that managers combine their interest to that of the principal to create value for the shareholders, increasing the value of the companies by 200% in two years. Barnea and Rubin (2010) examined how managers used CSR engagement as a tool to enhance the principal-agent relation between managers and shareholders. They argue that affiliated insider-managers have an interest in investing in value creation for stakeholders via CSR and that this leads to private benefits of reputation building for the companies as good social citizens, at a minimal cost to shareholders and more additional value to the companies.

To Scott (2009), agency theory is a branch of game theory that studies the design of contracts by the principal to motivate a rational agent to act in the best interest of the principal. There are other critics of agency theory such as Segrestin and Hatchuel (2011), who posit that the "agency theory and its applications to the issues of corporate governance focus on such problems as unrealistic premises concerning managers' motivations and actions, ineffective recommendations inferred from the theory and

dubious legal interpretations of corporate governance being made on its basis” (Segrestin & Hatchuel, 2011, pp. 487-488).

Homayoun and Homayoun (2015) posit that agency theory can support corporate governance to reduce agency costs which in turn leads to improved earnings quality. Also, Osemeke and Adegbite (2014) state that after the corporate collapse of major companies, the application of corporate governance through agent-principal relationship incidents of earnings management is on the decline, thus enhancing earnings quality. Furthermore, agency theory relative to corporate governance assumes two levels of control, manager control-agent and owner’s control- principal to reveal actual earnings quality to shareholders (Omoye & Eriki, 2014).

Furthermore, agency theory is the connecting point between principal’s instituted corporate governance practices such as the presence of interlocking directors, the appointment of one of the big four audit firm to audit the financial reports and the earnings reports prepared and presented to the principal. Corporate governance practices emerged to improve the quality of earnings that are made available publicly in order to support the decision-making power of shareholders and other stakeholders. It also strives to improve confidence and reliance on earnings reports. It can be deduced therefore that, well observed corporate governance practices should be able to improve the quality of earnings (Adegbite, 2015).

Notwithstanding, agency theory has inherent limitations. The agency theory is not able to sway so many of the complexities and difficulties that the agents face in their attempts to discharge their responsibilities and assignment of the principal. Also, the control mechanisms suggested on the basis of agency theory are not only expensive, but also economically ineffective, because mechanisms protecting shareholders’ interests may interfere with realization of strategic decisions, may restrict collective actions, distort investment plans and ignore interests of other stakeholders, which may lead to

decreasing their commitment to creation of economic value (Segrestin & Hatchuel, 2011).

Since corporate governance practices are concerned with agent managing the companies on behalf of the owners and the agents are required to prepare and present financial reporting and information (earning quality report ) which are central to business operations, agent decision – making , managerial decision-making, and the nature and efficiency of capital markets (Osemeke & Adegbite (2014). Thus, it would be expected that there is a link between corporate governance practices and earnings quality financial reports and information prepared and presented by the ‘agent’. As an agent and steward, the interest of the ‘principal’ is expected to be prioritised through adequate compliance with corporate governance codes requirements capable of ensuring improved earnings quality reporting to the stock and capital market. This also explains the bonding connection between management and shareholders.

In summary, the relevance of this theory to this study is that it helped to explain how management as the agent was expected to perform their ideal fiduciary duty of acting in the best interest of the agents and to prepare and present earnings reports to the principal. Thus, agency theory is believed to offer a solid theoretical foundation for the primary objective as well as specific objectives one to five of this study.

### **2.2.2 Stakeholder Theory**

The stakeholder theory was propounded by Freeman (1984) asserting that stakeholder theory focuses on the idea that companies exist to serve the interest of those with a stake in the future of a firm and not the interest of the shareholder. Phillips, Freeman and Wicks (2003) posit that stakeholder theory addresses morals and values explicitly as a central feature of managing organizations, and that attention to the interests and well-being of those who can assist or hinder the achievement of the organization’s objectives is the central admonition of the theory (Phillips *et al.*, 2003). Consequently, the



stakeholder theory is an organizational management's theory that emphasizes the morals and values in the business organization, as well as the responsibilities of company management to balance the shareholders financial interest against the interest of stakeholders. Post, Preston and Sachs (2002), state that a stakeholder is any person, group or organization that has interest or concern in an organization and can be, or is affected by the organization's actions, objectives and policies. Stakeholders include creditors, directors, employees, government (and its agencies), owners (shareholders), suppliers, unions, and the community from which the business draws its resources. Also, there are other perspectives on stakeholder's theory. Firstly, the descriptive stakeholder approach identifies and classifies the different constituents of an organization without assigning any value statements regarding the legitimacy of their claims or their power (Kaczmarek, Kimino & Pye, 2014).

Secondly, normative stakeholder theory goes further to grant stakeholders, intrinsic value claims due to the moral rights of any individual affected by corporate conduct. Central questions of normative stakeholder theory consider the rights and duties of the actors involved and how a just balance of concerns of different stakeholders can be achieved (DeFond & Lennox, 2011). Stakeholder theory arises out of a combination of four ideas: the separation fallacy - this is the fallacious belief that business and ethics are separate realms; the open-question argument - this claims that it always makes sense to ask whose interests, values, and rights are enhanced or undermined by any business decision; the integration thesis – this claims that it makes no sense to talk about either business or ethics without talking about the other as well; and finally the responsibility principle – this is the claim that people usually want to accept responsibility for the effects of their actions on others (Freeman *et al.*, 2010).

Quoted companies are owned by shareholders who are either majority or minority shareholders. Furthermore, quoted companies are responsible to stakeholders. Board of directors is appointed by the shareholders due to the agency cost to monitor and supervise the management who is the agent. The executive is compensated for the task

of managing the companies and are required to comply with corporate governance code and any regulatory directives (Cowen, King & Marcel, 2015). Also, a report in a transparent manner ensures that earnings disclosed to stakeholders reflect the true economic situation of the companies (Bartram *et al.*, 2012; Saltaji, 2013). Nonetheless, stakeholder's theory has been criticised by Blattberg (2004), on the grounds that in reality, it is not possible to meet the needs and interests of all stakeholders without prejudice. Also, Mansell (2013) posits that under capitalism, the stakeholder's theory undermines principles of the free market and that stakeholder's theory is akin to applying the political concept of a social contract to companies. Stakeholder's theory has three aspects that are equally supportive. These are normative, descriptive and instrumental. The normative aspect deals with the acceptable behaviour of quoted company's management attitudes to fiduciary relationships between management and other stakeholders. The descriptive aspect describes how organizations manage or interact with stakeholders and the instrumental aspect says that if you want to maximize shareholder's wealth, you should pay attention to key stakeholders (Donaldson & Preston, 1995; Freeman, 1999).

Since managers are part of stakeholders, they are required to comply with the corporate governance practices as instituted in the organisation. Thus, it would be expected that the link between internal stakeholders and external stakeholders is earnings reports contained in the financial reports prepared and presented by the managers having observed the corporate governance practices by reporting the true state of affairs of the organisation to other stakeholders who are not part of management (Omoye & Eriki, 2014). This also explains the bonding relationship between internal stakeholders and external stakeholders. In a nut shell, Stakeholder's theory is constricted when an organisation with divergent stakeholders who do not share common commercial purposes with some who want company growth, some others want the distribution of profit immediately while others want it to remain at the same level. In order to satisfy all these competing and sometimes divergent needs, the organisation will require multi-

fiduciary policies that may lead to the purpose of the organisation not being fulfilled or may lead to confused and sometimes frustrated outcomes (Bridoux & Stoelhorst, 2014). Furthermore, Freeman (1983) the proponent of Stakeholder's theory, posits that a company's competitors should be stakeholders since they are affected by the achievement of the company's objectives. But it is difficult to see what practical meaning this can have between competitors who are presumably stakeholders of each other (Osemeke & Adegbite, 2014).

In summary, the normative and instrumental aspects of the Stakeholder's theory are found relevant to this study as it offer support for agency theory since the latter could not capture all other vital stakeholders such as regulators, creditors, employees, financial analysts, and potential investors, etc, who rely on earnings reports to make economic decisions. It provides a theoretical foundation for explaining how different individuals and institutions within and outside the quoted companies require correct earnings information, could be assured through strict adherence to mandatory compliance with Corporate Governance Code and other regulatory directives. Thus, the theory is foreseen to provide theoretical explanation for all the specific objectives in that, if the board of directors and management have the interests of all stakeholders at heart, they will fully comply with corporate governance code and ensure that audited financial reports presented to stakeholders are accurate, relevant and reflect the true economic situation of the quoted companies without putting any stakeholder at a disadvantage. The Board of Directors and Management must be able to take into account the divergent needs of the various stakeholders and maintain a balance so that one group does not feel neglected (Choi, Lee & Williams, 2011).

### **2.2.3 Stewardship Theory**

Stewardship theory was propounded by Donaldson and Davis (1991). It arises as an important counterweight to agency theory. Stewardship theory holds that the manager's objective is primarily to maximize the firm's performance because a manager's need for

achievement and success are satisfied when the firm is performing well. This theory argues against the agency theory and states that managerial opportunism is not relevant (Davis, Schoorman & Donaldson, 1997; Muth & Donaldson, 1998).

Furthermore, stewardship theory emphasises that the member of staff attaches greater value to collectivist behaviours centred on the organisation rather than personal-interest (Kluvers & Tippett, 2011). Van Slyka (2007) posits that stewardship theory examines individual behaviours and relationships ignored by the economic theories. The behaviour on which stewardship theory is predicated includes collective, pro-organisational behaviour that emphasizes goal convergence rather than personal-interest. Stewardship theory assumes that long-term relationships are based on trust, collective goals, and involvement where the goal alignment between management and staff is developed by relational reciprocity (Kluvers & Tippett, 2011).

The major distinguishing feature of stewardship theory from the agency theory is that it replaces the lack of trust to which agency theory refers, with respect for authority and inclination of managers to act ethically. Stewardship theory posits that concern for their own reputations and career progression inhibits managers of quoted companies from acting against the interests of shareholders, thus agency costs should be inherently minimised (Donaldson & Davis, 1991). According to Muth and Donaldson (1998), an insider-dominated board is more effective due to the more in-depth knowledge of organisational operations, such as access to data and technical expertise because of Stewardship theory. Compensation motivates agent of shareholders to work for the benefit of stakeholders. Executives and true stewards follow a code of corporate governance, regulatory directive and disclose the true earnings quality to stakeholders (Chen *et al.*, 2016). Earnings' reporting is all about communication of the activities of the quoted companies by stewards. The content of what is communicated by stewards must be accurate and show the correct economic position of the entity at a particular time without the intention to misrepresent and misinform the stakeholders. The written rules,

laws, regulations, guidelines, and contracts are for smooth communication externally and internally (Claessens & Yurtoglu, 2013; Phillips *et al.*, 2003).

Fulop (2013) states that audit supervision by the audit committee of audited financial reports prepared by stewards will enhance public and stakeholders' confidence in the earnings reports. Also, audited financial information and mandatory disclosure under the code of corporate governance and accounting standards do reassure key stakeholders that the quality of earnings is reliable. Donaldson and David (1991) through stewardship theory, address some of the reductionist assumptions of agency theory it suffers from being static as it considers the relationship of shareholders and managers at a single point in time and assumes no learning of individuals as a result of their interactions. Stewardship Theory places greater importance on goal convergence among the parties involved in corporate governance than on the agent's self-interest and focuses on intrinsic rewards that are not easily quantified, such as growth, achievement, and duty (Van Slyke, 2007). Executives of quoted companies are aware and recognise that applying corporate governance practices influence the company's performance and truthful disclosure of earnings reports. Also, the financial performance to members of the public directly impacts the perceptions of their individual performance. Hence, in being effective stewards of quoted companies, executives also manage their own careers (Daily, Dalton & Cannella, 2003).

Critics of stewardship theory such as Pastoriza and Ariño (2008), posit that stewardship theory is over-simplified and unrealistic because there are situational and psychological factors that predispose individuals to become stewards. These factors do not affect all managers as the question arises: where there is a mismatch between the management philosophy of the company and the psychological characteristics of the manager, what then happens to the organisational pursuit? Furthermore, stewardship theory asserts that becoming a steward results merely from a rational process, but it is not evident which underlying mechanisms make an individual opt for stewardship. The question is how an

individual can rationally decide whether his nature is that of a steward. It is necessary to understand what kind of inner force drives the person to transcend his own self-interest and resolve his internal inter-motivational conflict (Daodu, Nakpodia & Adegbite; 2017).

In summary, stewardship theory is found relevant to this study as it offers a compliment for stakeholder's theory since the latter captures all other vital stakeholders apart from management such as shareholders, regulators, creditors, employees, financial analysts, and potential investors, etc, who rely on earnings reports to make economic decisions. It provides a theoretical foundation for explaining how effective stewards who are managers of quoted companies, also manage their own careers by discharging their responsibility with utmost integrity, mandatory compliance with corporate governance code and discloses report at given intervals that are accurate, relevant and useful to all stakeholders without putting any stakeholder at a disadvantage.

#### **2.2.4 Resource Dependence Theory**

Resource dependence theory was propounded by Jeff Pfeffer and Gerald Salancik in 1978. It arises as an important interconnects to agency theory, stakeholder and stewardship theories. Resource dependence theory holds that companies are not self-sufficient: they do not control all the resources they need to survive. The companies through their stakeholders need to interact with their environment in order to acquire various resources that are necessary for their survival: financial resources, physical resources, human resources, access to information and social legitimacy (Pfeffer & Salancik, 1978).

Furthermore, listed companies needs external resources to be productive and dependence on external resources is a source of power for organizations that hold those resources, that have access to those resources and/or that can regulate access to those resources. They have the power to demand certain actions from the companies that depends on the resources and the latter has to deal with those external demands. For the companies to

survive they must respond to the demands of the environment. In this sense, dependence creates 'control situations'. If A needs resources from B, A is dependent of B and, in return, B can express demands on A. To a certain extent, B controls A (Hillman & Dalziel, 2003; Pfeffer & Salancik, 1978). More importantly, the service roles of the board of directors are specifically recognized by the resource dependence theory in which corporate boards are requested to perform service functions such as co-opting of external influencers, establishment of contracts and the raising of funds, enhancement of the organization's reputation and giving of advice to the organization (Pfeffer & Salancik, 1978; Hillman & Dalziel, 2003; Davis & Cobb, 2010). Also, the goal of resource dependency theory according to Hillman, Withers and Collin (2009) is to determine the best way to utilize organization resources towards actualization of the organizations' goals and objectives.

Critics of resource dependency theory such as Casciaro and Piskorski's (2005) posit that resource dependency theory lacks discrimination between power imbalance and mutual dependence and confounding normative prescriptions and theoretical predictions. Furthermore, resource dependency theory is ambiguous around its boundary conditions; and most empirical work focusing on dependence of one actor on another rather than on reciprocal interdependence.

In summary, resource dependency theory is relevant to this study as it provides insight into the most effective and efficient use of resources by listed companies which is perceived crucial to the earnings quality of the companies. The pivotal factor for any board of director of listed companies is how to manage organization resources, cost, quality, and earnings (Hillman, Withers & Collins, 2009). Also, the shareholders and other stakeholders are continuously demanding high earnings and returns, quality and better products/services and at the same time, they want the price to be reasonably low (Davis & Cobb, 2010). The challenge is being able to engage the corporate governance practices to utilize the resources from the environment to enhance earnings return to the investors who have committed their resources to listed companies.

The distinctions, convergences, and relevance in the main theories that have shaped the development of corporate governance are as summarized in Table 2.1:

**Table 2.1: Summary and Comparisons of Corporate Governance Theories**

| <b>Basis</b>                                   | <b>Agency Theory</b>          | <b>Stakeholders Theory</b> | <b>Stewardship Theory</b>                                         | <b>Resource Dependence Theory</b>             |
|------------------------------------------------|-------------------------------|----------------------------|-------------------------------------------------------------------|-----------------------------------------------|
| <b>Focus</b>                                   | Self Interest                 | Stakeholders               | Principal Agent interest                                          | Environmental interdependence and uncertainty |
| <b>Objective</b>                               | Minimize agency cost          | Maximize productivity      | Report on the true state of the company                           | minimize dependence or gain resources         |
| <b>The expected effect on earnings quality</b> | Deteriorates earnings quality | Enhances earnings quality  | the Help to show the true state of organisations earnings quality | Help to enhance companies earnings quality    |

Source: Wepukhulu (2016)

From the three theories in Table 2.1, the attitude of management towards earnings quality is not the same. Under agency theory with the objective of maximizing shareholder's wealth, corporate governance practice is to aid the objective of wealth maximization thereby distorting the earnings quality to suit the desires of shareholders (Westphal & Zajac, 2013). While under stakeholder's theory, the attitude of management towards earnings quality is expected to improve the quality of earnings in line with the objective of this theory which is stakeholder's interest (Jensen, 2010). The objective of stewardship theory is to manage the organisation in accordance with best

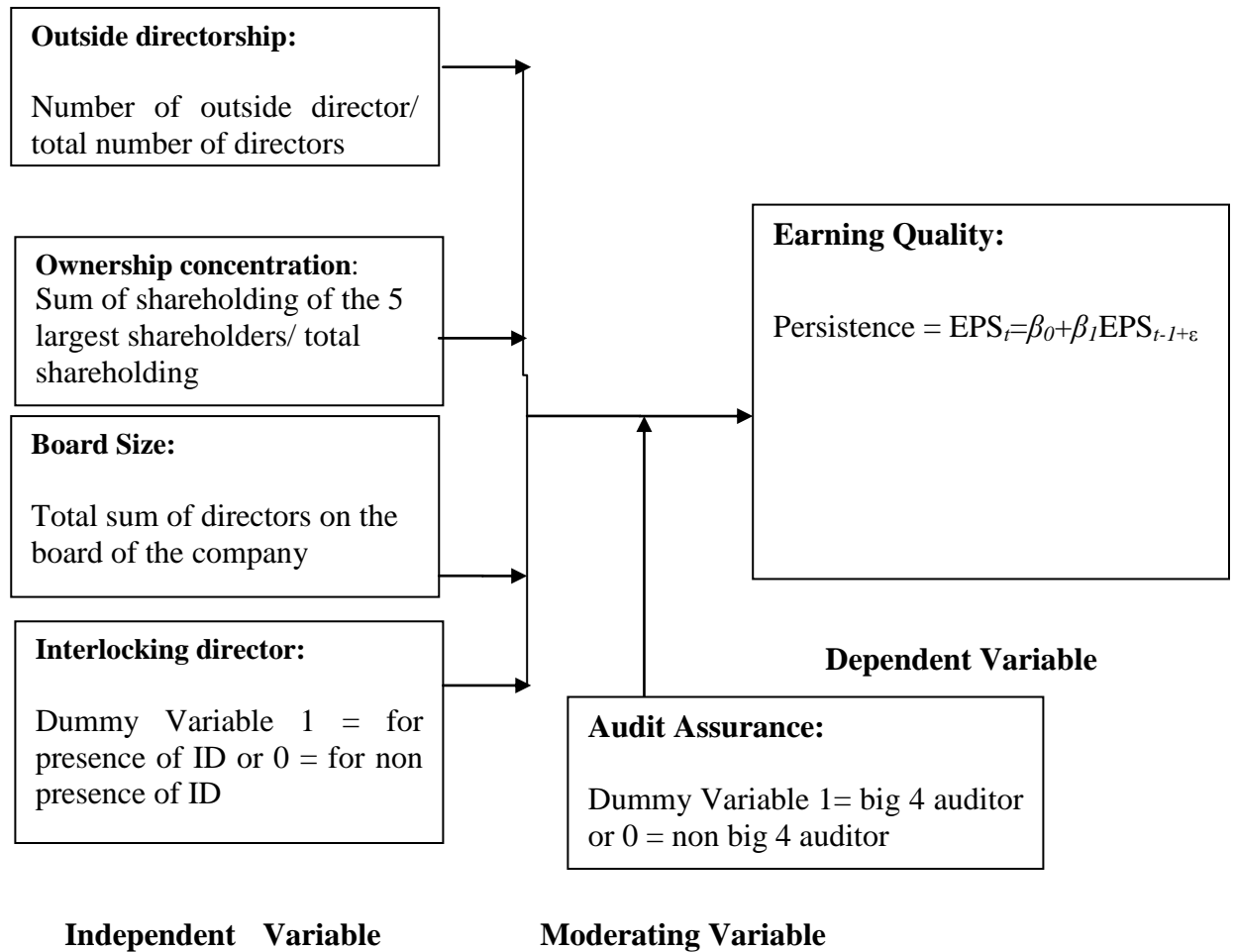


practises and report the true state of affairs to the owners, therefore, earnings quality will be reported as it is and could be low or high (Van Puyvelde *et al.*, 2012). Under resources dependency theory with the focus of recognising the influence of external factors on companies behaviour and, although constrained by their context, board of directors can act to reduce environmental uncertainty and dependence. Central to these actions is the concept of power, which is the control over vital resources (Hillman, Withers & Collins, 2009). Based on the objective of each of these theories, one can deduce that they are all relevant as they are all geared towards shareholders and stakeholders' wealth maximization and providing relevant information to stakeholders to enhance decision, a cardinal objective of corporate governance, earning quality and financial reporting on which this study is anchored.

### **2.3 Conceptual Framework**

For the purpose of this study, the corporate governance practice that is adopted in the study is geared towards understanding its influence on earnings quality of quoted companies in Nigeria. Since the general objective of the study is to evaluate the influence of corporate governance practice and earnings quality, the earnings quality measures to be adopted is earnings quality (EQ).

Furthermore, this study is conceptualised as depicted in figure 2.1



**Figure 2.1: Conceptual Framework**

The interrelationships between corporate governance and earnings quality have been derived from specific objectives of this study and form the basis for constructing a conceptual framework for the study. The conceptual framework was drawn from the literature review and it shed light on the methodology that was used in the study. This study was contextualized in the Nigerian capital market to appraise how corporate governance is practised and how it influences earnings quality.

Furthermore, by making an inference from specific objectives of this study, corporate governance practice, on the one hand, is the explanatory variable such as the number of outside directors to executive directors, the percentage of share ownership, board size, interlocking directorship, and audit assurance. Selection of these variables is based on the fact that they are capable of influencing the quality of earnings among quoted companies as a result of corporate governance practice used by the companies (Srinidhi, Gul & Tsui, 2011; Chen, Cheng & Wang, 2015). They have been used in earlier researches like Ogeno (2013) and Alves (2014). Extant literature shows that corporate governance affects earnings quality. Chen, Cheng and Wang (2015) posit that a significant inverse relationship exists between corporate governance and lower absolute discretionary accruals.

Earnings quality is the explained variable and measured by persistence. This measure of earnings quality will be adopted for three key reasons. First, it offers measures for earnings quality that permitted a unique investigation of its individual and interaction effects. Secondly, unlike previous research that used residual-based measures of managerial discretion based on the Jones (1991) model, and the accruals quality measure (cited in Francis et al., 2013), this measure set apart noise in earnings that is unrelated to managerial incentives and often reduces the power of tests, thereby revealing the depth and nature of earnings quality practised in quoted Nigerian companies. Thirdly, earnings quality in the extant literature is viewed as endogenous, so also corporate governance, discretionary earnings quality can be influenced by corporate governance variables (Athanasakou, 2015). Also, prior studies show that outside board negatively influences earnings quality while outside board and financial Sophistication of board members have enhanced the quality of earnings (Yaghoobnezhad, Nikoomaram & Salteh, 2013). In a different empirical test, Chu (2011) revealed that overall corporate governance has a negative relationship, abnormal accruals and positive relationship on return earnings.

The framework has been structured to allow for the testing of the five hypotheses stated in Section 1.4. The first step for the testing of the null hypotheses is to estimate both the

independent variable and the dependent. The second step was to regress the independent variables on the dependent so as to accomplish the objective of the study as outlined in Section 1.3. From the framework, all aspects of corporate governance (outside directorship, ownership concentration, board size, interlocking directorship, and audit assurance) are tested to check their effect on earnings quality. Since earnings quality in the extant literature is viewed as endogenous, so also corporate governance, discretionary earnings quality can be influenced by corporate governance variables (Athanasakou, 2015). The variables (proportion of executive director to non-executive, sum of shareholders with 5% holding, size of board of director, presence of interlocking director and big audit factor) are taken as independent variables to test on earnings quality (Bhattacharya, Desai & Venkataraman; 2013, Kim, Park & Wier; 2012, Fodio, Ibikunle & Oba; 2013). This resultant model allows the testing of the statistical significance of corporate governance on earnings quality.

### **2.3.1 Outside Directorship**

Outside directorship is non-executive director who sit on the board of public companies and do not own shares in the companies where they are serving in the capacity of outside directorship (SEC, 2003). According to Knyazeva, Knyazeva and Masulis (2013) an outside directorship enhances the quality of earnings of companies and operational performances. Furthermore, the outside director brings to bear on the companies his wealth of experience and an independent mind. This assertion concurs with the findings of Gordini (2012) who studied the relationship between outside directors and earnings quality of Italian firms. The findings indicate a positive and significant relationship between earnings quality and outsider directors. In like manner, Frankel, McVay and Soliman (2011) posit that outside directors have positively influenced earnings quality in the United State of America.

Fodio, Ibikunle and Oba (2013) concluded that outside directors are negatively and significantly associated with earnings management. Uwuigbe, Peter and Oyeniyi (2014)

their findings show that outside directors have a significant negative impact on earnings management (proxy by discretionary accruals). This is also collaborated by Ararat, Orbay and Yurtoglu (2010) who posit that the outside director is ineffective, not capable of curbing the high scope of related party transactions and has a negative influence on the firm performance in Turkish companies. Furthermore, Contessotto and Moroney (2014), appraise the relationship between the outsider directors and companies' earnings quality for 27 banks and reported a negative relationship between outside directors and earnings quality. Ogeno (2013) who investigated the effect of board characteristics on earnings quality posit that the outside director has a significant negative correlation with earnings quality.

Also, Terjesen, Couto and Francisco (2016) empirically study the impact of outside director and gender diversity on earnings quality. The study used data from 3,876 public firms in 47 countries and controlling for a wide set of corporate governance mechanisms. The finding shows that firms with more female outside directors have a higher earnings quality. In another study by Reddy, Locke and Scrimgeour (2010), they examined the effect of corporate governance practices such as outside director on the earnings quality of firms' quoted on New Zealand stock exchange, for a period of 10 years from 1999 to 2009. The study used multiple regressions and the findings show that outside director has positive influence on earnings and performance of the companies. In a similar study, Peasnell, Pope and Young (2005) investigated the influence of outside director on earnings quality of companies in the United Kingdom for five years using simple regression. The result shows that outside director have significant positive effects on earnings quality thereby improving the quality of audited accounts.

In a different result by Feldman and Montgomery (2015) they investigate the effect of outside director on earnings and performance, using Fortune 500 companies boards as a sample, this finding shows that the presence of outside directors has a negative impact on earnings quality and firm value. Furthermore, Abels and Martelli (2012) interrogate the effect of outside directorship on earnings quality of selected top five hundred

companies in the United State of America. The study employ simple regression model and purposive sampling to select the sampled companies based on annual turnover. The finding revealed that outside directorship does not have significant effect on earnings quality of selected top five hundred companies in the United State of America. In a similar study, Ghazali (2010) examined several corporate governance variables such as outside directors, ownership concentration, board size, interlocking directorship and audit assurance on earnings quality of companies quoted on Malaysia Stock Exchange. The study used data relating to non-financial companies on Malaysia Stock Exchange for one year and employ regression model. The finding shows that outside directorship does not have significant influence on earnings quality of sampled companies Malaysia Stock Exchange.

### **2.3.2 Ownership Concentration**

Ownership concentration is the proportion or percentages of shares of companies held by a few shareholders who could be banks, individuals, family, and other companies. Ownership concentration as a system is perceived as an effective way of monitoring and influencing the management, thus leading to better performance (Liu, Saidi, & Bazaz, 2014). Furthermore, Arouri, Hossain and Muttakin (2014) they opine that ownership concentration shows a significant positive effect on earnings quality of banks in Gulf Co-Operation Council (GCC) countries. This position has been corroborated by other authors, for example, Alves (2012) who appraised the relationship between corporate ownership structure and earnings quality of non-financial listed Portuguese companies, has his findings showing that earnings quality was significantly enhanced with both managerial ownership and ownership concentration. In a similar study, Kouaib and Jarbouï (2014) they focused on the industrial and commercial sectors of Tunis Stock Exchange. The results showed that audit quality and ownership concentration had a positive and significant effect on earnings management of listed companies on the Tunis Stock Exchange.

On the contrary Givoly, Hayn and Katz (2010) examined the effects of ownership concentration on earnings quality. Their findings revealed that concentration of ownership has a negative influence on earnings quality while the dispersion of shares ownership positively impacted on earnings quality. Also, Liu, Saidi, and Bazaz (2014) studied the effects of government (concentration) ownership and its associated institutional incentives on firms' earnings quality. It was discovered that state-owned firms demonstrated lower earnings quality tendencies than non-state-owned firms. Also, state-owned firms have significantly higher earnings current accruals than non-state-owned firms with the gross implication of ownership concentration having a negative impact on earnings quality.

Furthermore, Bouvatier, Lepetit and Strobel (2014) provide evidence that banks with concentrated ownership use discretionary loan loss provisions to smoothen their income. While Banks with dispersed and wide share ownership did not display such discretionary income smoothening behaviour. Wang and Shailer (2015) they examine the effect of ownership concentration on earnings quality and performance in emerging markets, the study used meta-analytical techniques to integrate the diverse empirical findings and investigate factors contribute to the inconsistencies in the empirical evidence, using 419 correlations collected from 42 primary studies of listed corporations in 18 emerging markets, the findings reveal that ownership concentration has a negative relation with firm earnings across countries. Furthermore, Ongore and Kobonyo (2011) investigated the influence of ownership concentration on earnings quality on companies quoted on Nairobi Stock Exchange (NSE). To proffer answers to the objective of the study, the study employs logistic and stepwise regression. The study used random sampling method and a total of fifty-four sampled companies were used for a period of five years. The result revealed that ownership concentration does not have significant influence on earnings quality of companies on Nairobi Stock Exchange (NSE).

Also, Mangunyi (2011) study the effect of ownership concentration on earnings quality of banks in Kenya. The study covers a period of one year and primary instrument was

used to solicit information from respondents within Nairobi central business district. The study sampled forty bank managers and used ordinary least square (OLS) regression analysis. The outcome of the study shows that ownership concentration has no significant influence on earnings quality of banks in Kenya. The similarity in findings could perhaps be attributed to the country stands on corporate governance. Also, Shah, Kouser, Aamir and Hussain (2012) explored the relationship between ownership concentration and earnings quality of companies. The study employs simple regression on the sampled data, the study cover five years. Thus the study concludes that ownership concentration has no significant positive relationship with earnings quality of companies.

In addition, Nguyen, Locke and Reddy (2015) revealed a divergent position from the effect of ownership concentration on earnings quality of companies in Singapore and Vietnam, using a dynamic framework by focusing on two different types of national governance systems. The findings show a positive effect of concentrated ownership on earnings was persists in these markets even after the dynamic nature of the ownership concentration–performance relationship is taken into consideration. Also, While Reyna (2012) examined the relationship between ownership concentration and earnings quality of companies quoted on the Mexican Stock Exchange. The study used random sampling and regression model. The study covers a period of five years from 2005 to 2009. The findings show that ownership concentration has significant positive relationship with earnings quality of companies quoted on the Mexican Stock Exchange.

In a similar study, Ehikioya (2009) investigated the effect of ownership concentration on earnings quality of listed companies in Nigeria. The study used a sample of 107 companies for a period of five years from 1998 to 2002. The study also used multiple regressions to analyze the data. The findings revealed that ownership concentration has significant positive effect on earnings quality. Also Claessens and Djankov (2014) the study looked at 96 companies over a period of five years in the Czech Republic, the findings show that ownership concentration has a positive effect on earnings quality of



companies in the Czech Republic. Furthermore, Tin-yan and Shu-kam (2012) examined the relationship between family ownership concentration and earnings quality of firms listed on Hong Kong Stock Exchange. The study covers 3 years and employs random sampling and a total of 346 firm-years were used. The findings show that ownership concentration has significant positive effect on earnings quality depending on the presence of interlocking directorship.

### **2.3.3 Board Size**

Board size is the total number of directors on the board of a company at any given time. It includes executive directors, outside directors and interlocking directors (Uwuigbe, 2012). Coles, Daniel, and Naveen (2014) provide evidence that large board size has a significant positive effect on the earnings quality of companies listed on the S&P 500 in the United States of America. In like manner, Nakano and Nguyen (2012) suggest that board sizes among Japanese companies listed on Tokyo Stock Exchange display income-decreasing discretionary accrual choices. Also, Kaden and Sanchez (2014) posit that when a company has a large board size and a powerful CFO, income increasing earnings management decreases. Also, Collins, Pungaliya and Vijh (2012) posit that stock option compensation creates opportunistic incentives for managers to time the release of good and bad news to the market thus resulting in poor earnings quality.

Furthermore, Kumar and Singh (2013) provide evidence that a negative relationship exists between board size and earnings quality. Schabus (2012) specifically investigated whether board size influences earnings management and suggested that board size and equity incentives are negatively related to real earnings management. Additionally, Chen, Cheng and Wang (2015) state that firms with large board size witness a significant decrease in the extent of earnings management while firms with small board size did not experience a significant decrease in the extent of earnings management. Also, Gill and Mathur (2011) investigated the impact of board size and the CEO (Chief Executive Officer) duality on earnings quality. The findings suggest that a

larger board size (a large number of directors) has a negative impact on earnings quality and value of Canadian manufacturing firms. Dimopoulos and Wagner (2012) suggest that large board size, staggered board, and board experience may not be effective in improving earnings quality.

Fodio, Ibikunle and Oba (2013), they investigate the effect of corporate governance mechanisms on reported earnings quality of listed Insurance companies in Nigeria. Using 25 listed insurance companies covering 4 years period and multiple regressions were adopted for the study. The finding shows that board size negatively and significantly associated with earnings management in listed insurance companies in Nigeria. Furthermore, Del Guercio, Dann and Partch (2003) examined the effect of board size and board structure on earnings quality of closed –end investment. The study used regression analysis on 506 closed-end investment for a period of ten years. The outcome shows that companies with small board size have significant effect on earnings quality of the companies. In another study in the financial sector Onakoya, Fasanya, and Ofoegbu (2014) examined the effect of board size on earnings quality of banks in Nigeria. The study covers 5 years from 2006 to 2010. It used ordinary least square (OLS) regression analysis to test the data collected from a sample of 9 banks using random sampling. The finding shows that board size on has significant positive influence on earnings quality of banks in Nigeria.

In addition, Wang (2012) studied 1618 companies for a period of twelve years, the study adopted unbalanced panel data to investigate the impact of board size on earnings quality and financial performance, the findings reveal that firms with smaller boards invest more heavily in risky assets which eventually led to loss of assets and reduction in profitability and poor earnings quality. While Huang and Wang (2015), a study on corporate governance in china, the findings show that board size has a positive impact on the earnings quality of the companies used in the study over a period of ten years. The convergence in this finding is intuitively attributable to the corporate governance systems in China.

In another study by Ozcan and Ince (2016) they examined the impact of board size on earnings quality and firm profit margin (PM), using a sample of 30 Pakistani listed firms for two years. The findings show that large board size does not have any significant influence over earnings quality. Also, finding shows that large board size among listed companies in the United State of America only adds to the cost of overheads without corresponding benefit to earnings quality companies (Coles *et al.*, 2014). In similar study, Aljifri and Moustafa (2007) examined the effect of board size on earnings quality of companies in the United Arab Emirate. The study employs simple linear regression to test the variables, also the study use random sampling to select fifty-one companies. The research outcome revealed that the null hypothesis was not rejected implying that board size do not have significant effect on earnings quality.

Also, Chaghadari (2011) investigated the influence of board size on earnings quality of firms quoted on Malaysia Stock Exchange for a period of 5 years. The study employs multiple linear regressions. The findings show that there is no significant effect of board size on earnings quality of firms in Malaysia. This findings is collaborated by Kajola (2008), the study examined the relationship between board size and earnings quality of twenty companies quoted on Nigeria Stock Exchange. The study employs random sampling and simple linear regression analysis to test the data, the study covers a period of seven years from 2000 to 2006. The result shows that board size do not have significant relationship with earnings quality.

### **2.3.4 Interlocking Directorship**

Interlocking directorship refers to directors who are serving as a director on several boards of public companies within a particular period, whose experience can add great value to boards where they are currently serving (Solomon, 2013). Cassell, Myers and Seidel (2015) suggested that the level of accruals-based earnings management is lower among organisation with interlocking directorship than among organisation without interlocking directorship. They further claim that the exclusion of interlocking directors

affects earnings management. Thus, the presence of interlocking directorship influences the quality of earnings positively. It has also been argued by Yeh, Chen and Wu (2014) that there is a strong significant association between the presence of interlocking directorship and each of earnings attributes. This implies that an interlocking directorship mechanism can influence earnings quality of financial reporting.

On the contrary, Nam and An (2017) suggest that the existence of interlocking directors affects firm earnings quality. Also, the interlocking director network has significant and negative effects on firm earnings quality and firm values. In a similar study, Rommens, Cuyers and Deloof (2008) posit that companies belonging to a group have much more interlocking directorates than stand-alone companies. Also, it was observed that interlocking directorates have negative effects on earnings quality of companies in Belgium. Furthermore, Drago, Millo, Ricciuti and Santella(2015) argued that negative correlation exists between the interlocking directors and earnings quality of Italian companies. Roudaki and Bhuiyan (2015) in agreement with Drago, Millo, Ricciuti and Santella(2015), posit that New Zealand firms are highly interlocked and that interlocking negatively impacted firm earnings quality in New Zealand and firms were significantly interlocked under two-fold approaches of board and company level, which resulted in negative firm's earnings quality.

Furthermore, De Toledo (2007) examined the effect of interlocking directorship as a component of corporate governance variable on earnings quality. The study employs random sampling method and multiple regressions, the study used a sample of 97 Spanish non-financial quoted firms. The results revealed that interlocking directorship has a significant positive effect on earnings quality of non financial quoted Spanish firms. Furthermore, Ur Rehman and Mangla (2012) examined the relationship between interlocking directorship and earnings quality of banks in Pakistan. The study used multiple regression models to test the data of sampled banks. The study employs random sampling and a total sampled size of 30 banks. The study covers a period of nine years from 2001 to 2009. The finding of the study shows that interlocking directorship has

significant positive relationship with earnings quality of banks in Pakistan. Also, in a similar study, Ivashkovskaya and Stepanova (2011) investigated the effect of interlocking directorship and earnings quality in European, Russian and other emerging market's firms. The study employs multiple regression model and purposive sampling. The covers ten years period from 2001 to 2010, the findings revealed interlocking directorship has a significant positive effect on earnings quality of the various markets.

In another study, Nuryanah and Islam (2011) examined the effect of interlocking directorship on corporate earnings quality of emerging market and Indonesia. The study employs multiple regression model and random sampling, the study covers ten years. The findings revealed that interlocking directorship has a significant positive effect on earnings quality of both emerging market and Indonesia. Also, Lama (2012) investigated the relationship between interlocking directorship and earnings quality of Mid-sized Australian companies. The study employs simple regressions and Pearson correlation to analyze the data. Also the study used purposive sampling of Mid-sized Australian companies, the study cover a period of 5 years. The result revealed that interlocking directorship has significant relationship with earnings quality of Mid-sized Australian companies.

Similarly, Moradi Aldin, Hevrani and Iranmahd (2012) examined the relationship between interlocking directorship and earnings quality of eighty- four companies quoted on Tehran Stock Exchange. The study employs random sampling and simple linear regression analysis to test the data, the study covers a period of five years from 2007 to 2011. The result shows that interlocking directorship has significant relationship with earnings quality of companies quoted on Tehran Stock Exchange. Increased monitoring through the presence of interlocking director is expected to result in a reduction of information asymmetry and reduction in agency costs, thereby causing an increase in earnings quality, market share and profitability (Nelson, Gallery & Percy, 2010).

In addition, De Nez and Da Cunha (2017) investigate the influence of interlocking directorship on firms in Brazil, using a sample of 235 companies. The findings reveal that interlocking directorship in Brazilian companies has an inverse influence on earnings quality. Furthermore, the findings were corroborated by Drago, Millo, Ricciuti and Santella (2015) they study the effect of interlocking directorship (ID) on company earnings for main Italian firms listed on the Italian stock exchange for 10 years. The study used a diff-in-diff approach, the results show a negative correlation between the presence of interlocking directors and earnings quality of Italian companies.

Furthermore, Siudak (2017) study the effect of interlocking directorship on corporate value and earnings of companies on Warsaw Stock Exchange, the findings reveal that presence of interlocking directorship leads to increase in earnings quality and by extension increase in corporate value. Also, Nam and An (2017) reported that interlocking directors have significant and negative effects on earnings quality and firm values. Furthermore, Vintila and Gherghina (2012) investigated the impact of interlocking directorship on earnings quality of firms in the United State of America. The study employ cross-section multiple linear regressions to test the data collected through random sampling of one hundred and fifty five companies. The outcome shows that interlocking directorship has no significant impact on earnings quality of firms in the United State of America. Accounting to Lamport, Seetanah and Sannasse (2011) they explored the relationship between interlocking directorship as a corporate governance variable and earnings quality of Mauritian firms. The study employs random sampling method to select One hundred firms. Also the study used multiple regressions to test the variables. The findings show that interlocking directorship does not have positive relationship with earnings quality.

Also, Ghazali (2010) examined several corporate governance variables such as outside directors, ownership concentration, board size, interlocking directorship and audit assurance on earnings quality of companies quoted on Malaysia Stock Exchange. The study used data relating to non financial companies on Malaysia Stock Exchange for one

year and employ regression model. The finding shows that interlocking directorship does not have significant influence on earnings quality of sampled companies Malaysia Stock Exchange. In addition, Lennox Wu and Zhang (2016) investigate big and small audit effect on earnings quality of companies in China; the finding shows a negative effect of big audit on the firm's earnings quality.

### **2.3.5 Audit Assurance**

Audit assurance is the guarantee that the financial statement audited by any of the four largest accounting firms in the world as measured by revenue and clients is free from material misstatement (Uwuigbe, Peter and Oyeniya (2014). Allegrini and Greco (2013) suggested that companies whose financial statements are audited by any of the Big Four audits show superior earnings quality. The submission by Allegrini and Greco (2013) was confirmed by Eshleman and Guo (2014) they argued that Big Four auditors do perform higher quality audits compare to smaller audit firms.

Furthermore, DeFond and Lennox (2011) posit that small audit firms exiting the audit market for publicly listed firms have lower audit quality than Big Four audit firms (measured by the propensity to issue going-concern opinions). Evidence shows that big four audited firms engender confidence and transparency in audited financial reports of listed companies (Turley & Zaman, 2014; Contessotto & Moroney, 2014). In addition Lawrence, Minutti-Meza and Zang (2011), posit that audit quality between Big Four and non-Big Four auditors shows that Big Four audit services enhanced earnings quality. These findings are also collaborated by Miko and Kamardin (2015) posit that big four audited firms reduce manipulation of accounts through discretionary accruals. Furthermore, Bistрова and Lace (2012) suggest that audit by Big Four significantly reduces intentional earnings management, which improves the earnings quality of quoted companies. Similarly, Badolato, Donelson, and Ege (2014) posit that more earnings quality released by quoted companies reflect the true state of the companies. This result speaks to the benefits of Big Four audit. Corbella, Florio, Gotti and Mastrolia

(2015) suggest that the association between Big Four audit and the quality of corporate internal control positively influence earnings quality.

In a different empirical test, Francis, Michas and Seavey (2013) argued that there is a significant negative association between the size of audits firm (Big Four) and the occurrence of earnings quality. Furthermore, Persakis and Iatridis (2015) conducted an investigation into the relationship between big audit and earnings quality, the study used sample of 3035 Greek manufacturing firms for the period 1995- 1999. The study applied regression analysis which revealed that firms' earnings quality was negatively influenced by big audit. Similarly, John and Adebayo (2013) examined the effects of audit size on the earnings quality of listed companies on the conglomerate sub-sector on the Nigeria Stock Exchange. The study covered a period of 8 years. The data analysis was carried out using multiple regression and Pearson Product Moment Correlation coefficient. The finding shows that audit size has a negative effect on the earnings quality of companies on conglomerate sub-sector.

### **2.3.6 Earnings Quality**

Earnings quality, the dependent variable in this study and evidence from the previous literature, shows that it can be segregated into innate earnings and discretionary earnings. It uses various metrics for earnings quality measurement. Dechow and Schrand (2010) posited that earnings quality is a measure of how well earnings reflect the actual performance of a firm. Yet, there are sharp disagreements about how to define earnings quality or how to measure it. There are a number of candid measures: earnings persistence, predictability, asymmetric loss recognition, various forms of benchmark beating, smooth earnings, magnitude of accruals, income-increasing accruals, absolute value of discretionary or abnormal accruals and the extent to which accruals map into past and future cash flows (Dechow, Ge & Schrand, 2010).



The time-series properties of earnings comprise of persistence, predictive ability, and variability. According to Perotti and Wagenhofer (2014), the three constructs are connected by the properties of the earnings innovation series, persistence captures the extent to which a certain innovation remains in future realizations. Predictive ability is a function of the distribution of the innovation series while variability measures the time-series variance of innovation straightforwardly. Athanasakou and Olsson (2012) posited that expanding the persistent components (of earnings) and plummeting the reversible components are generally desirable for valuation, but not for contracting. Eliminating transitory components of earnings is generally desirable for valuation, but not essentially for contracting.

In addition, Peterson, Schmardebeck and Wilks (2015) distinguish between the financial reports into short and long-term operating assets and liabilities and financial assets and liabilities. The study shows that short-term accrual components are less persistent than long-term components, and financial accruals are more persistent than operating accruals. Athanasakou and Olsson (2012) opined that stock accruals result in less persistent earnings because of measurement error related to the write-downs of stock. This suggests that measurement error plays a role in the lower persistence of the stock component. Srivastava (2014) shows that companies that have more readable financial reports have more persistent earnings and that companies with a less readable financial report are indicative of a Management that is engaging in earnings management through complex transactions or other accounting shenanigans.

Dechow, Ge and Schrand (2010) advocate that there is no one uniformly accepted proxy for earnings quality for all decision contexts. According to Boone, Khurana and Raman (2011), the large values of abnormal accruals indicate a poor accruals quality while a small value is indicative of high accruals quality. Furthermore, Dechow, Ge and Schrand (2010) posit that discretionary accruals are commonly less powerful than total accruals at detecting earnings management in SEC enforcement releases. This shows that the

application of the Jones model residuals as a proxy for poor quality accruals due to earnings management is subject to Type II errors.

## **2.4 Review of Empirical Literature**

Extant studies on corporate governance practice, their influences and the implications of the earnings quality phenomenon are appraised in the following subsections. They indicate the existing strengths, weaknesses and relevant literature gaps in the existing empirical research on corporate governance and earnings quality.

### **2.4.1 Corporate Governance and Earnings Quality**

Corporate governance is the independent variable in this study. It provides specific structure for the distribution of rights and responsibilities among different participants in the corporation such as, the board, managers, shareholders and other stakeholders, and spells out the rules and procedures for making decisions in corporate affairs (OECD, 2004). By doing this, it also provides the structure through which the company's objectives are set and the means of attaining those objectives and monitoring performance. Corporate governance that is applicable in Nigeria covers a broad area of corporate affairs and are outlined as follows: the board of directors, relationship with shareholders, relationship with other stakeholders, risk management and audit, accountability and reporting, communication and code of ethics (SEC, 2003).

Hence, this subsection presents some existing empirical studies on corporate governance and earnings quality. Uwuigbe, Peter and Oyeniyi (2014) investigated the effects of corporate governance mechanism on earnings management in Nigeria and the study covered five (5) years from 2007-2011. The study employed a regression analysis method to analyse the data set of forty listed companies. The result revealed that corporate governance has a significant negative impact on earnings quality. The results obtained by Kouaib and Jarboui (2014) corroborate the submission of Coles, Daniel, and

Naveen (2014) that examined the effect of corporate governance on earnings quality specifically focusing on the industrial and commercial sectors of Tunis Stock Exchange during the period 2007-2011. The sample comprises of both listed and unlisted sixty-one (61) Tunisian companies. The result suggests that corporate governance has a negative and significant effect on the earnings quality of industrial companies but it has a positive and non-significant effect in commercial companies.

In an effort to provide evidence about the corporate governance practice in Japan, Nakano and Nguyen (2012) examined Japanese companies listed on the Tokyo Stock Exchange. The study used 1,324 firm years and the study period is from 2003-2007. They used multiple regressions to analyse the data and they argued that corporate governance practices ensure reduction with income-decreasing discretionary accrual choices. Thus, Japanese companies exhibited low practice of earnings management. Furthermore, Chen, Cheng and Wang (2015) investigated the effect of corporate governance on earnings quality for 10 years and the total study samples were 1205 firms in the United States of America. After analysing the data using multiple regressions, the conclusion was that companies with strict adherence to the practise of corporate governance witness a significant decrease in the extent of earnings management while companies with flexible adherence to the practise of corporate governance did not experience a significant decrease in the extent of earnings management.

In findings related to Kumar and Singh (2013), Yeh, Chen and Wu (2014) investigated the association between corporate governance and earnings quality in Taiwanese companies. Samples of 502 companies were used in the study and it covered a period of 10 years. The findings show that there is a strong significant association between corporate governance practises and earnings quality of financial reporting. In addition, Taiwanese companies exhibit significant improvement on four accounting-based earnings quality attributes after strict adherence to corporate governance.

Gill and Mathur (2011) examined the impact of corporate governance, earnings quality and value of Canadian manufacturing firms. The study used non-relational and non-experimental research design on Canadian manufacturing firms listed on the Toronto Stock Exchange (TSX) for a period of 3 years (from 2008-2010). The study sample was ninety-one and using simple regressions to analyse the data, the results revealed that corporate governance practices have a negative impact on earnings quality and on the value of Canadian manufacturing firms.

#### **2.4.2 Outside Directorship and Earnings Quality**

Fodio, Ibikunle and Oba (2013) examined the effect of corporate governance mechanisms on reported earnings quality of Insurance companies quoted on the Nigerian stock Exchange. The study used 25 listed insurance companies as a sample and covered 4 years (from 2007-2010). The study used multiple regressions on five governance mechanisms on reported earnings quality which are by proxy. The results reveal that audit supervision, board size, and outside director are negatively and significantly associated with earnings management.

Furthermore, considering outside directors and earnings quality evidence from prior studies, Frankel, McVay and Soliman (2011) examined the association between the outside board and characteristic earnings quality. The study covered seven years (from 1998 to 2005). The study used 4,246 firm-quarter observations from companies in the United States of America. It employed multiple regression to analyse the data and the findings show that an outside board positively influenced earnings quality. In another study by Reddy, Locke and Scrimgeour (2010), they examined the effect of corporate governance practices such as outside director on the earnings quality of firms' quoted on New Zealand stock exchange, for a period of 10 years from 1999 to 2009. The study used multiple regressions and the findings show that outside director has a positive influence on earnings and performance of the companies.

In a similar study, Peasnell, Pope and Young (2005) investigated the influence of outside director on earnings quality of companies in the United Kingdom for five years using simple regression. The result shows that outside director has significant positive effects on earnings quality thereby improving the quality of audited accounts. According to Dunstan, Keeper, Truong and van Zijl (2011), they interrogate the impact of outside director on earnings quality of companies quoted on the New Zealand Stock Exchange board. The study extracted data using a random sample of 543 firm-year observations, using simple regressions. The findings show that outside directors' significantly impacted companies' earnings quality positively. While in Park and Shin (2004) who examined outside director influence on earnings quality of companies listed on the Toronto Stock Exchange. The study covers a period of ten years using regression to analyze the data the out revealed that the outside directors does not have a significant effect on earnings quality.

Srinidhi, Gul and Tsui (2011) examined whether companies listed on the New York Stock Exchange in the United States with female outside directors exhibiting higher earnings quality. The study data were extracted and analysed using multiple regression and the study period covered ten years. The findings show that gender enhances outside director's independence which leads to improvement in the quality of earnings. Also, Siagian and Tresnaningsih (2011) investigated whether outside directors and audit committees influence the earnings quality of companies listed on the Jakarta Stock Exchange (JSX) in Indonesia. The study used earnings response coefficient (ERC) and discretionary accruals (DA) as the proxies for earning quality. The study sample consisted of 80 firms that are listed in the JSX from December 31, 1999, to December 31, 2004. The data were analysed using multivariate regressions and the results show that total discretionary accruals (DA) and earnings response coefficient (ERC) had greatly improved after the appointment of outside directors and independent audit committees. In summary, outside directors do improve earnings quality.

Uadiale (2012) examines the role of the outside directors and audit committee in preventing earnings management in Nigeria. The study used listed companies in Nigeria. The study employed primary data using a questionnaire survey and data were analysed using simple regression. The findings revealed that companies with a higher proportion of outside directors help to curtail incident of earnings management in Nigeria and also audit committee members with deep financial knowledge and financial competencies aid the quality of monitoring and review of financial reports thus reduces the likelihood of earnings management. According to Nuryaman (2012) who investigated the impact of outside directorship on earnings quality of companies quoted on the Indonesia Stock Exchange. The study employs multiple linear regressions on the sampled data amounting to forty-three quoted companies. The study covers a period of three years from 2007 to 2009. The finding shows that companies quoted on the Indonesia Stock Exchange with outside directorship have a significant positive effect on the earnings quality of the companies.

In a similar study by Pelayo-Maciel et al. (2012) they investigated the influence of outside directorship a component of corporate governance on the earnings quality of firms in Colombia. The study also used multiple regressions to analyze the data. The findings revealed that outside directorship has a significant positive effect on the earnings quality of firms in Colombia. Furthermore, Stanwick and Stanwick (2010) explored the impact of outside directorship on the earnings quality of Canadian companies. The study used stratified sampling of top twenty-five best board of directors and top twenty-five worse board of directors. Also, the study adopts the regressions model and the period of study was 1 year. The findings show that the impact of outside directorship on the earnings quality of sampled companies is dependent on ownership concentration. In another study, Abels and Martelli (2012) interrogate the effect of outside directorship on earnings quality of selected top five hundred companies in the United State of America. The study employs a simple regression model and purposive sampling to select the sampled companies based on annual turnover. The finding

revealed that outside directorship does not have a significant effect on the earnings quality of selected top five hundred companies in the United State of America. Also, Ghazali (2010) examined several corporate governance variables such as outside directors, ownership concentration, the board size, interlocking directorship and audit assurance on earnings quality of companies quoted on the Malaysia Stock Exchange. The study used data relating to non financial companies on the Malaysia Stock Exchange for one year and employ regression model. The finding shows that outside directorship does not have a significant influence on the earnings quality of sampled companies Malaysia Stock Exchange.

Ahmed and Gabor (2011) examined the impact of outside directorship on the earnings quality of banks quoted on the Bangladesh Stock Exchange. The study employs purposive sampling and ordinary least square regression analysis to test the data, the study covers a period of five years from 2003 to 2008. The total sample used for the study was twenty-seven banks. The finding shows that outside directorship has an insignificant relationship with earnings quality of banks quoted on the Bangladesh Stock Exchange. Zerni, Kallunki and Nilsson (2010) investigated the effect of outside directorship on the earnings quality of companies on SSE Swiss Stock Exchange. The study used simple regressions and random sampling, the total sample size employ of this study comprise of 1,171 firm-year observations for seven years period from 2000-2006. The findings show that outside directorship has a positive effect on the earnings quality of companies on SSE Swiss Stock Exchange.

Uwuijibe, Peter and Oyeniya (2014) investigated the effects of corporate governance mechanism on earnings management in Nigeria for 5 years from 2007-2011. The study employed a regression analysis method to analyse a total of 40 quoted companies on Nigerian stock exchange using judgmental sampling technique this represents 20.5% of the total population. The result shows that while outside directors and board size have a significant negative impact on earnings management (proxy by discretionary accruals), however, CEO duality had a significant positive impact on earnings management.

While other studies show contrary results, Ararat, Orbay and Yurtoglu (2010) showed the relationship between outside directors and earnings quality of organisations listed on the Istanbul Stock Exchange 100 index (ISE 100), Turkey, from 2006 to 2008. The sample used for the study was 118 companies, results show that outside director is ineffective, not capable of curbing the high scope of related party transactions and has a negative influence on earnings quality in Turkish companies. Also, Contessotto and Moroney (2014) appraised the relationship between the outsider directors on the board and companies' earnings quality for 27 banks over ten years period from 2002-2012 and report a negative relationship between a board's independence and earnings quality.

In addition, Chen, Cheng and Wang (2015) examined the influence of new regulatory reforms requiring majority board independence on earnings quality. Information was extracted from BoardEx in the United Kingdom covering a period from 2002 to 2005. Analysing 1587 firms, it was discovered that firms that do not comply on the average experienced a significant reduction in earnings management while firms that do not comply with low information acquisition cost experienced a significant reduction in earnings management. Ogeno (2013) investigated the effects of board characteristics on the earnings of firms listed in the manufacturing and allied sector of the Nairobi securities exchange for the period 2009 to 2012. The findings reveal that board independence has a significant negative correlation with the earnings. Also, Alves (2014) examined the influence of outside directors on earnings quality in Portuguese listed firms using ordinary least square (OLS) and a two-stage least squares' (2SLS) techniques to control potential simultaneity problems between board independence and earnings quality. It was discovered that Portuguese listed companies with outside directors increase monitoring of management work thereby leading to better earnings quality. As a result, appointing more outside directors enhances the earnings quality of Portuguese listed firms.

Also, Khalil and Ozkan (2016) investigated the relationship between outside directors, audit quality and earnings management of Egyptian non-financial publicly listed



companies from 2005 -2012. The sample used was 1,005 firm-year observations, representing about 125 firms over 8 years, extracted from EGX and the Capital Market Authority (CMA). The findings cast doubts on the notion that outside director is associated with lower earnings quality. Impact of outside director on earnings quality is dependent on the levels of ownership held by executive directors and large shareholders.

### **2.4.3 Ownership Concentration and Earnings Quality**

Givoly, Hayn and Katz (2010) examined the effect of ownership concentration on earnings quality. The study covered 26 years from 1978 to 2003 and the sample used 2519 firm years observations of private equity and 30,696 firm years of public companies in the United States of America. The study applies multiple regression on the dataset, the findings revealed that the concentration of ownership has a negative influence on earnings quality while the dispersion of shares ownership positively earnings quality.

This position has been corroborated by other authors. Alves (2012) appraised the relationship between corporate ownership structure and earnings quality of non-financial listed Portuguese companies for a period of six years (2002 to 2007). The study used a sample size of 34 non-financial companies and the findings show that earnings quality was significantly enhanced with both managerial ownership and ownership concentration. Shah, Kouser, Aamir and Hussain (2012) explored the relationship between ownership concentration and earnings quality of companies. The study employs simple regression on the sampled data, the study covers five years. Thus the study concludes that ownership concentration has no significant positive relationship with earnings quality of companies. While Reyna (2012) examined the relationship between ownership concentration and earnings quality of companies quoted on the Mexican Stock Exchange. The study used random sampling and regression model. The study covers a period of five years from 2005 to 2009. The findings show that ownership

concentration has a significant positive relationship with earnings quality of companies quoted on the Mexican Stock Exchange.

In a similar study, Ehikioya (2009) investigated the effect of ownership concentration on the earnings quality of listed companies in Nigeria. The study used a sample of 107 companies for a period of five years from 1998 to 2002. The study also used multiple regressions to analyze the data. The findings revealed that ownership concentration has a significant positive effect on earnings quality. Furthermore, Tin-yan and Shu-kam (2012) examined the relationship between family ownership concentration and earnings quality of firms listed on the Hong Kong Stock Exchange. The study covers 3 years and employs random sampling and a total of 346 firm-years were used. The findings show that ownership concentration has a significant positive effect on earnings quality depending on the presence of interlocking directorship. Also in the same country, Leung and Horwitz (2010) explored the influence of ownership concentration by top management of the companies quoted on the Hong Kong Stock Exchange. The study covers 2 years and simple regression was employed. The findings show that ownership concentration by management has a significant positive effect on earnings quality depending on the presence of board size.

Ivashkovskaya and Stepanova (2011) investigated the effect of ownership concentration and earnings quality in European, Russian and other emerging market's firms. The study employs a multiple regression model and purposive sampling. The covers ten years period from 2001 to 2010, the findings revealed a mixed result on the effect of ownership concentration on earnings quality, its effect depends on the country corporate governance code relating to share ownership. Zerni et al. (2010) investigated the effect of ownership concentration on the earnings quality of companies on SSE Swiss Stock Exchange. The study used simple regressions and random sampling, the total sample size employ of this study comprise of 1,171 firm-year observations for seven years period from 2000-2006. The findings show that ownership concentration has a positive effect on the earnings quality of companies on SSE Swiss Stock Exchange.

Ongore and Kobonyo (2011) investigated the influence of ownership concentration on earnings quality on companies quoted on the Nairobi Stock Exchange (NSE). To proffer answers to the objective of the study, the study employs logistic and stepwise regression. The study used a random sampling method and a total of fifty-four sampled companies were used for a period of five years. The result revealed that ownership concentration does not have a significant influence on the earnings quality of companies on the Nairobi Stock Exchange (NSE). Also, Ghazali (2010) examined several corporate governance variables such as outside directors, ownership concentration, the board size, interlocking directorship and audit assurance on earnings quality of companies quoted on the Malaysia Stock Exchange. The study used data relating to non-financial companies on the Malaysia Stock Exchange for one year and employ regression model. The finding shows that ownership concentration has a significant influence on the earnings quality of sampled companies Malaysia Stock Exchange.

Garcia-Meca and Juan Pedro (2011) investigated the influence of ownership concentration on the earnings quality of companies quoted on the Madrid Stock Exchange. The study covers a period of four years from 1999 to 2002. The study employs a regression model and purposive sampling to select the non-financial companies quoted on the Madrid Stock Exchange. The outcome shows that ownership concentration has a significant influence on the earnings quality of sampled companies Madrid Stock Exchange. Mangunyi (2011) study the effect of ownership concentration on the earnings quality of banks in Kenya. The study covers a period of one year and the primary instrument was used to solicit information from respondents within Nairobi central business district. The study sampled forty bank managers and used ordinary least square (OLS) regression analysis. The outcome of the study shows that ownership concentration has no significant influence on the earnings quality of banks in Kenya. In another study in the financial sector Onakoya, Fasanya, and Ofoegbu (2014) examined the effect of ownership concentration on the earnings quality of banks in Nigeria. The study covers 5 years from 2006 to 2010. It used ordinary least square (OLS) regression

analysis to test the data collected from a sample of 9 banks using random sampling. The finding shows that ownership concentration has a significant positive influence on earnings quality of banks in Nigeria. Vintila and Gherghina (2012) investigated the impact of ownership concentration on the earnings quality of firms in the United State of America. The study employ cross-section multiple linear regressions to test the data collected through random sampling of one hundred and fifty five companies. The outcome shows that ownership concentration has a significant positive impact on the earnings quality of firms in the United State of America.

Gill and Obradovich (2012) investigated the influence of ownership concentration on the earnings quality of companies quoted on the New York Stock Exchange in the United State of America. The study used east square (OLS) regression analysis to test the data collected through random sampling and a total of three hundred and thirty-three quoted companies were samples used for the study. The study covers 2009 to 2011 and the findings show that ownership concentration has a significant positive influence on earnings quality of companies quoted on the New York Stock Exchange.

Divergent results came from Arouri, Hossain and Muttakin (2014) who examined the effect of ownership structure and board composition on bank earnings quality in Gulf Co-Operation Council (GCC) countries. A sample of 58 quoted banks cut across Gulf Co-Operation Council (GCC) countries and multivariate regression analysis was used for the period 2010. The finding shows a significant positive association between ownership concentration and bank earnings quality. Kouaib and Jarboui (2014) investigated the effect of jointly external audit quality and ownership structure on earnings management, specifically focusing on the industrial and commercial sectors of the Tunis Stock Exchange during the period 2007-2011. The sample of 61 Tunisian firms listed and unlisted was used. The result shows audit quality and ownership concentration have a negative and significant effect on earnings management in industrial firms but it has a positive and non-significant effect in commercial firms. Also, ownership concentration has a positive and significant effect on earnings

management. Liu, Saidi, and Bazaz (2014) studied the effects of government (concentration) ownership and its associated institutional incentives on firms' earnings quality. The study spans 8 years from 1998 and 2005, the organisations were listed on Chinese Stock Exchanges. The results show that state-owned firms demonstrated lower earnings quality tendencies than non-state-owned firms. Also, state-owned firms have significantly higher discretionary current accruals than non-state-owned firms with the gross implication of ownership concentration having a negative impact on earnings quality.

Bouvatier, Lepetit and Strobel (2014) investigated the influence of ownership concentration and the regulatory environment on the way a bank might use loan loss provisions to manage its earnings. A panel of commercial banks in Europe was used and the results show that banks with concentrated ownership use discretionary loan loss provisions to smoothen their income while Banks with low levels of ownership concentration do not display such discretionary income smoothening behaviour. The summary reveals that high level ownership concentration encourages discretionary income smoothening behaviour. There are various indices to measure ownership concentration, the general rule to know large shareholder is any shareholder owning a minimum of 5% of the total share capital in the issue.

#### **2.4.4 Board Size and Earnings Quality**

There have been a number of empirical studies on the relationship between board size and earnings quality. Coles, Daniel, and Naveen (2014) examined the effect of board size on earnings quality of companies listed on the S&P 500 in the United States of America. The study covers 1996-2010 and data were analysed using multivariate regression. The outcome shows that large boards have a significant positive effect on earnings quality. Nakano and Nguyen (2012) examined the impact of board size on earnings quality and corporate risk among Japanese companies listed on Tokyo Stock Exchange; the study used 1,324 firm years and the study period is from 2003-2007.

They used multiple regression to analyse the data and the result revealed that companies with relatively large board size were associated with income-decreasing discretionary accrual choices and exhibit lower performance volatility as well as a lower bankruptcy risk. In addition, the study shows that the effect of board size is less significant when firms have plenty of investment opportunities, but much stronger when firms have fewer growth options. Ehikioya (2009) investigated the effect of board size and composition on the earnings quality of listed companies in Nigeria. The study used a sample of 107 companies for a period of five years from 1998 to 2002. The study also used multiple regressions to analyze the data. The findings revealed that board size and composition has no significant effect on earnings quality.

Furthermore, Del Guercio, Dann and Partch (2003) examined the effect of board size and board structure on earnings quality of closed –end investment. The study used regression analysis on 506 closed-end investment for a period of ten years. The outcome shows that companies with small board size have a significant effect on the earnings quality of the companies. Ghazali (2010) examined several corporate governance variables such as outside directors, ownership concentration, the board size, interlocking directorship and audit assurance on earnings quality of companies quoted on the Malaysia Stock Exchange. The study used data relating to non-financial companies on the Malaysia Stock Exchange for one year and employ regression model. The finding shows that board size does not have a significant influence on the earnings quality of sampled companies Malaysia Stock Exchange. In another study in the financial sector Onakoya, Fasanya, and Ofoegbu (2014) examined the effect of board size on earnings quality of banks in Nigeria. The study covers 5 years from 2006 to 2010. It used ordinary least square (OLS) regression analysis to test the data collected from a sample of 9 banks using random sampling. The finding shows that board size has a significant positive influence on earnings quality of banks in Nigeria.

Aljifri and Moustafa (2007) examined the effect of board size on earnings quality of companies in the United Arab Emirate. The study employs simple linear regression to

test the variables, also the study uses random sampling to select fifty-one companies. The research outcome revealed that the null hypothesis was not rejected implying that board size do not have a significant effect on earnings quality. Chaghadari (2011) investigated the influence of board size on earnings quality of firms quoted on the Malaysia Stock Exchange for a period of 5 years. The study employs multiple linear regressions. The findings show that there is no significant effect of board size on earnings quality of firms in Malaysia. These findings are collaborated by Kajola (2008), the study examined the relationship between board size and earnings quality of twenty companies quoted on the Nigeria Stock Exchange. The study employs random sampling and simple linear regression analysis to test the data, the study covers a period of seven years from 2000 to 2006. The result shows that board size does not have a significant relationship with earnings quality.

Furthermore, Kiel and Nicholson (2003) examined the relationships between board size and earnings quality of quoted firms on the Australia Stock Exchange. The study employs a random sampling technique to select three hundred and forty-eight firms on the Stock Exchange, the study covers a period of ten years. The findings revealed that the null hypothesis was rejected which states that board size do not have a significant relationship with earnings quality, thus the study concludes that board size has a significant positive relationship with earnings quality of quoted firms on Australia Stock Exchange. In a similar position, Latif, Shahid, Haq, MZU, Waqas, and Arshad (2013) investigated the impact of board size on earnings quality of sugar mills companies in Pakistan. The study employs a simple regression and purposive sampling method. The study covers a period of six years from 2005 to 2010. The outcome revealed that board size has a significant positive impact on the earnings quality of sugar mills companies in Pakistan.

Also, Chahine and Safieddine (2011) examined the relationship between board size and earnings quality of companies listed on the Lebanon Stock Exchange. The study used random sampling and a total of 50 sampled listed companies. To analyze the data,

multiple regressions and fixed effect models were used. The study covers a period of fifteen years. The findings revealed that board size has a significant positive impact on the earnings quality of the sampled companies in Lebanon. Rambo (2013) investigated the impact of board size on earnings quality of banks in Kenya. The study employs multiple regressions, Pearson's correlation coefficients, and ANOVA. The study also adopted a purposive sampling method. The study covers a period of six years from 2005 to 2010. The outcome revealed that board size has a significant positive impact on the earnings quality of banks in Kenya. However, the impact varies from quoted banks on the Nairobi Stock Exchange and unquoted banks.

Pandya (2011) explored the influence of board size on earnings quality of banks in India. The study used ordinary least square (OLS) regression analysis to test the data collected from a secondary source for a sample of 12 banks, 8 listed banks and 4 unlisted banks using random sampling. The study covers a period of four years broken into a different period (2005 to 2006) and (2008 to 2009). The findings show board size has no significant positive influence on earnings quality of banks in India. Vintila and Gherghina (2012) investigated the impact of board size on earnings quality of firms in the United State of America. The study employ cross-section multiple linear regressions to test the data collected through random sampling of one hundred and fifty five companies. The outcome shows that board size does not have a significant impact on the earnings quality of firms in the United State of America. Ur Rehman and Mangla (2012) examined the relationship between board size and earnings quality of banks in Pakistan. The study used multiple regression models to test the data of sampled banks. The study employs random sampling and a total sampled size of 30 banks. The study covers a period of nine years from 2001 to 2009. The findings of the study show that board size has a significant positive relationship with earnings quality of banks in Pakistan.

Gill and Obradovich (2012) investigated the influence of board size on earnings quality of companies quoted on the New York Stock Exchange in the United State of America. The study used east square (OLS) regression analysis to test the data collected through



random sampling and a total of three hundred and thirty-three quoted companies were samples used for the study. The study covers 2009 to 2011 and the findings show that board size has a negative influence on the earnings quality of companies quoted on the New York Stock Exchange. Collins, Pungaliya and Vijh (2012) investigated the effect of board size, stock options relative to other forms of pay on discretionary accrual choices made by executive directors around option award dates. Using the modified Jones model on cross-sectional data, earnings management was modelled as a function of relative option pay and several control variables. A sample of details pays packages of CEOs of 350 companies were extracted from the Wall Street Journal annual compensation survey. After eliminating some companies based on missing, unavailable data and financial sector, the final sample consisted of 168 firms, yielding 1,100 firm-year observations. The findings show that stock option compensation creates opportunistic incentives for managers to time the release of good and bad news to the market thus resulting in poor earnings quality.

Kaden and Sanchez (2014) investigated whether relatively more powerful CFOs and board size affect the earnings quality of the companies they direct with regards to pay incentives. Two data bases were used by Standard and Poor's ExecuComp and Equilar Consultant for a period of 4 years (2006 through 2009). To ensure comparable data, observations confined to where stock option and restricted stock grants are equal between ExecuComp and Equilar were used, the initial sample where the initial restrictions are satisfied is 4,836 observations, representing 1,303 firms and 1,585 CFOs. After elimination of missing data for control variables, the final sample was a sample of 3,352 observations. The results reveal the sign on the CFO power index and large board size coefficient is negative and significant at the 1% level. Suggesting that when the CFO is powerful and board size is large, income increasing earnings management decreases when the CFO has longer pay duration and vice versa. Thus, earnings quality is poor as a result of the board of directors using abnormal accruals.

Kumar and Singh (2013) examined the effects of corporate board size on earnings quality and promoter ownership for selected Indian companies. Using linear regression on 176 companies listed on Bombay Stock exchange, the study period covers 2007 to 2008 and the findings show a negative relationship between board size and earnings quality, while it shows positive significant influence on ownership concentration. Schabus (2012) specifically investigated whether board size incentivizes companies to engage in opportunistic real earnings management, in the post-SOX period. Data required were sourced from Standard & Poor's 1500 Compustat at Fundamentals Annual database, Compustat executive compensation annual compensation database, and Thomson Reuters Insider Data Filings in the United States of America. The Final sample of 4,300 firm years and 1,590 firm years were used for the first and second tests respectively. The study covered a ten-year period from 2001 to 2011. Research outcome reveals that board size and equity incentives are negatively related to real earnings management, thus board size and executive compensation does not relate to poor earnings quality. While the second test shows that highly incentivized CEOs dispose of more shares after conducting earnings management than when they conducted earnings management after.

Chen, Cheng and Wang (2015) examined the effect of board size on earnings quality from 2000 to 2010. The study used samples of 1205 firms in the United States of America. The study adopted multiple regressions. The findings indicate that firms with large board size witnessed a significant decrease in the extent of earnings management while firms with small board size did not experience a significant decrease in the extent of earnings management. Also, Gill and Mathur (2011) investigate the impact of board size and the CEO (Chief Executive Officer) duality on earnings quality and value of Canadian manufacturing firms. The study used non-relational and non-experimental research design on a sample of 91 Canadian manufacturing firms listed on the Toronto Stock Exchange (TSX) for a period of 3 years from 2008-2010. The findings revealed

that a larger board size (a large number of directors) has a negative impact on earnings quality and on the value of Canadian manufacturing firms.

#### **2.4.5 Interlocking Directorship and Earnings Quality**

There have been a number of empirical studies on interlocking directorship and earnings quality. Cassell, Myers and Seidel (2015) investigated the relation between the interlocking directorship and valuation allowance and reserve accounts and accruals-based earnings management. The study period covers 15 years from 2000 to 2014 and the data was extracted from the Compustat Fundamentals Annual and Compustat Segments databases. A total of 76,430 company year observations were used for the study and the findings show that there is well-built evidence that the level of accruals-based earnings management is lower among organisations with interlocking directorship than among organisation without interlocking directorship. It was also revealed that the exclusion of interlocking directorship rather than the exclusion of a comprehensive schedule outlining activity in the allowance and reserve accounts that affect earnings management. Thus, the presence of interlocking directorship influences the quality of earnings positively.

Also, Yeh, Chen and Wu (2014) examined the association between interlocking directorship and earnings quality, using a sample from quoted companies in Taiwan. Financial-related data were extracted from the Taiwan Economic database. The study covered a period of 10 years, the final sample was 502 companies from an initial 958 companies. The variables were operationalized, earnings quality along with four accounting-based attributes. The findings show that there is a strong significant association between the presence of interlocking directorship and each of these earnings attributes, implying that an interlocking directorship mechanism can influence earnings quality of financial reporting. In addition, Taiwanese companies show significant improvement on four accounting-based earnings-quality attributes. Also, more transparent firms indeed conveyed a higher quality of earnings attributes.

Furthermore, Rommens, Cuyers and Deloof (2008) examined the determinants of interlocking directorates and their impact on company earnings quality in Belgium. The study sample consists of 286 companies affiliated with a business group and 2,136 stand-alone companies. The study used multiple regressions to analyse the data and the findings suggest that companies belonging to a group have much more interlocking directorates than stand-alone companies. Also, it was observed that interlocking directorates have a negative effect on the earnings quality of companies in Belgium.

On the contrary, Nam and An (2017) investigated the impact of the network of interlocking directors' network on Korean-listed firms' earnings quality and value using panel dataset drawn from 7307 firm-year observations during the period 2000–2014. The data were analysed using multiple regression and the results revealed that the existence of interlocking directors affects firm earnings quality. Also, the interlocking director network has significant and negative effects on firm earnings quality and firm values measured as Tobin's  $Q$  and performance measured as the return of assets and total factor productivity. Accounting to Lamport, Seetanah and Sannasse (2011) they explored the relationship between interlocking directorship as a corporate governance variable and earnings quality of Mauritian firms. The study employs a random sampling method to select One hundred firms. Also, the study used multiple regressions to test the variables. The findings show that interlocking directorship does not have a positive relationship with earnings quality.

Furthermore, De Toledo (2007) examined the effect of interlocking directorship as a component of corporate governance variable on earnings quality. The study employs a random sampling method and multiple regressions, the study used a sample of 97 Spanish non-financial quoted firms. The results revealed that interlocking directorship has a significant positive effect on the earnings quality of non-financial quoted Spanish firms. Ghazali (2010) examined several corporate governance variables such as outside directors, ownership concentration, the board size, interlocking directorship and audit assurance on earnings quality of companies quoted on the Malaysia Stock

Exchange. The study used data relating to non-financial companies on the Malaysia Stock Exchange for one year and employ regression model. The finding shows that interlocking directorship does not have a significant influence on the earnings quality of sampled companies Malaysia Stock Exchange. Ur Rehman and Mangla (2012) examined the relationship between interlocking directorship and earnings quality of banks in Pakistan. The study used multiple regression models to test the data of sampled banks. The study employs random sampling and a total sampled size of 30 banks. The study covers a period of nine years from 2001 to 2009. The finding of the study shows that interlocking directorship has a significant positive relationship with earnings quality of banks in Pakistan.

Ivashkovskaya and Stepanova (2011) investigated the effect of interlocking directorship and earnings quality in European, Russian and other emerging market's firms. The study employs a multiple regression model and purposive sampling. The covers ten years period from 2001 to 2010, the findings revealed interlocking directorship has a significant positive effect on the earnings quality of the various markets. Vintila and Gherghina (2012) investigated the impact of interlocking directorship on the earnings quality of firms in the United State of America. The study employ cross-section multiple linear regressions to test the data collected through random sampling of one hundred and fifty five companies. The outcome shows that interlocking directorship has no significant impact on the earnings quality of firms in the United State of America.

Nuryanah and Islam (2011) examined the effect of interlocking directorship on corporate earnings quality of the emerging market and Indonesia. The study employs a multiple regression model and random sampling, the study covers ten years. The findings revealed that interlocking directorship has a significant positive effect on the earnings quality of both emerging market and Indonesia. Lama (2012) investigated the relationship between interlocking directorship and earnings quality of Mid-sized Australian companies. The study employs simple regressions and Pearson correlation to analyze the data. Also, the study used purposive sampling of Mid-sized Australian

companies, the study covers a period of 5 years. The result revealed that interlocking directorship has a significant relationship with earnings quality of Mid-sized Australian companies. Moradi Aldin, Hevrani and Iranmahd (2012) examined the relationship between interlocking directorship and earnings quality of eighty- four companies quoted on the Tehran Stock Exchange. The study employs random sampling and simple linear regression analysis to test the data, the study covers a period of five years from 2007 to 2011. The result shows that interlocking directorship has a significant relationship with earnings quality of companies quoted on the Tehran Stock Exchange.

Coskun and Sayilir (2012) investigated the relationship between interlocking directorship and earnings quality of Turkish companies. The study employs random sampling and simple linear regression analysis to test the data, the study covers a period of five years from 2006 to 2010. The total sample used for the study was thirty-one companies. The finding shows that interlocking directorship has no significant relationship with earnings quality of Turkish companies. Ahmed and Gabor (2011) examined the impact of interlocking directorship on the earnings quality of banks quoted on the Bangladesh Stock Exchange. The study employs purposive sampling and ordinary least square regression analysis to test the data, the study covers a period of five years from 2003 to 2008. The total sample used for the study was twenty-seven banks. The finding shows that interlocking directorship has an insignificant relationship with earnings quality of banks quoted on the Bangladesh Stock Exchange. Peni and Vahamaa (2012) examined the effect of interlocking directorship on the earnings quality of companies in the United State of America. The study employs random sampling and simple linear regression analysis to test the data, the study covers a period of four years from 2005 to 2008. The total sample comprises of sixty-two quoted banks. The outcome revealed that interlocking directorship has a significant positive effect on the earnings quality of companies in the United State of America.

Furthermore, Drago, Millo, Ricciuti and Santella(2015) studied the effect of interlocking directorship (ID) on company earnings for all main Italian firms listed on the Italian stock exchange for 10 years from 1998 to 2007. The study used a diff-in-diff approach, the results show a negative correlation between the presence of interlocking directors and earnings performance of Italian companies. Roudaki and Bhuiyan (2015) examined the determinants and consequences of interlocking board membership in New Zealand on firms' earnings quality. The study period covered 1999 to 2011 and the study used a sample of 276 firm years and 1,783 directors from New Zealand listed companies. A two-fold approach analysing the overlap of directors' names, boards, and company levels was used. The findings show that New Zealand firms are highly interlocked and that interlocking is negatively impacting the firm's earnings quality in New Zealand. Also, further findings revealed that New Zealand firms were significantly interlocked under both approaches, which resulted in negative firms' earnings quality.

#### **2.4.6 Audit Assurance and Earnings Quality**

The audit of quoted companies by any of the Big Four audit firm enhances stakeholder's confidence and assurance in the reports and reduces practices of earnings quality. This audit function is designed to enhance the quality of earnings released to the investing public and to assure the stakeholders that corporate governance instituted by stakeholders are working well. Eshleman and Guo (2014) examined the effect of the Big Four auditors and audit quality of other auditors, after controlling the endogenous choice of auditors. The study covered a period of 5 years from 2008 to 2012 and used a propensity-score matching procedure to control for clients' endogenous choice of auditor. The findings show that Big Four auditors do perform higher quality audits and improve earnings quality significantly.

Additionally, DeFond and Lennox (2011) investigated the effects of SOX on small auditors' exits and audit quality in the United State of America. The study covered a period of 9 years from 2001 to 2008 and the sample used a total of one hundred and

sixty-four firms. The findings show that small audit firms exiting the audit market for publicly listed firms have lower audit quality and poor earnings quality than Big Four audit firms (measured by the propensity to issue going-concern opinions). Also, Lawrence, Minutti-Meza and Zang (2011) examined the impact of Big Four audit on earnings quality of clients and clients' characteristics. The sample for the study was obtained from Thompson Reuters and covers ten years from 2000 to 2010. The data were analysed using simple regression and findings show that earnings quality was enhanced by Big Four firm.

Furthermore, Miko and Kamardin (2015) appraise the effectiveness of the two corporate governance codes and make comparisons using audit committee and audit quality by Big Four audit firm against earnings management in the pre - and post -code 2011 in Nigeria. The study adopted multiple regressions to measure the association between audit supervision, audit quality and discretionary accruals in both periods of 2003 and 2011. Discretionary accrual variables measured used modified Jones model, the findings show how audit committee and audit quality by Big Four audit firm will reduce manipulation of accounts through discretionary accruals in the pre- and post- code 2011 and compare the outcomes of the two periods (pre- and post- code 2011) for the performance measurement of the codes.

Kajola (2008), the study examined the relationship between audit assurance and earnings quality of twenty companies quoted on the Nigeria Stock Exchange. The study employs random sampling and simple linear regression analysis to test the data, the study covers a period of seven years from 2000 to 2006. Thus the study concludes that audit assurance has no significant positive relationship with earnings quality of quoted firms on Nigeria Stock Exchange. Also, Nuryanah and Islam (2011) examined the effect of audit assurance on corporate earnings quality of companies in Indonesia. The study employs a multiple regression model and random sampling, the study covers ten years. The findings revealed that audit assurance has a significant positive effect on the earnings quality of companies in Indonesia.



Additionally, Kabir, Sharma, Islam and Salat (2011) examined the influence of affiliation with big audit firms and earnings quality among companies in Bangladesh. The study covers five years and data collected were analysed with simple regression. The findings revealed that those Big 4 affiliates do not have a positive impact on the earnings quality of their clients. Also, Chi, Lisic and Pevzner (2010) investigated whether companies auditor quality (big 4) influence earnings quality of the companies. The study used a sample of 925 firm-year observations covering a period of eight years from 2001 to 2008 of companies in the United State of America. The study also used multiple regressions to analyze the data. The findings revealed that the big 4 auditing firm has a positive influence on the quality of earnings and the longer the tenure of the audit firm, the greater the level of earnings quality.

Ghazali (2010) examined several corporate governance variables such as outside directors, ownership concentration, the board size, interlocking directorship and audit assurance on earnings quality of companies quoted on the Malaysia Stock Exchange. The study used data relating to non financial companies on the Malaysia Stock Exchange for one year and employ regression model. The finding shows that audit assurance does not have a significant influence on the earnings quality of sampled companies Malaysia Stock Exchange. Hamdan, Sarea and Reyad (2013) investigated the relationship between audit assurance and earnings quality of companies on the Amman Stock Exchange. The study employs multiple regressions and purposive sampling of financial companies, the study covers a period of 2 years from 2008 to 2009. The study used a sample of one hundred and six companies quoted on the Amman Stock Exchange. The result revealed that audit assurance has a significant relationship with earnings quality of companies on the Amman Stock Exchange.

Triki and Bouaziz (2012) examined the influence of the audit quality and assurance on earnings quality of quoted companies on the Tunis Stock Exchange. The data were analyzed using simple regression after extraction using random sampling, a total of twenty-six companies were sampled. The study covers a period of four years from 2007

to 2010. The findings revealed that audit quality and assurance improve the earnings quality of quoted companies on the Tunis Stock Exchange. A similar study in Ghana by Tornyeva and Wereko (2012) examined the relationship between audit quality and assurance and earnings quality of firms in Ghana. The study employs simple regressions and purposive sampling of insurance companies, the study covers a period of five years from 2005 to 2009. The findings revealed that audit quality and assurance improve earnings quality of insurance companies in Ghana.

Al-Matari, Al-the Swidi, Fadzil, Fhbfh & Al-Matari (2012) examined the relationship between audit assurance and earnings quality of companies quoted on the Saudi Arabia Stock Exchange. The data were analyzed using simple regression and random sampling method. The findings revealed that the null hypothesis was not rejected which states that audit assurance does not have a significant relationship with earnings quality, thus the study concludes that audit assurance has no significant positive relationship with earnings quality of quoted firms on Saudi Arabia Stock Exchange. In similar findings, Ghabayen (2012) examined the relationship between audit assurance and earnings quality of non-financial companies on Saudi Arabia Stock Exchange. The study employs simple regressions and random sampling of non-financial companies, a total of one hundred and two companies was sampled and the study covers 2011 financial year. The findings show that audit assurance has no significant positive relationship with earnings quality of quoted sampled companies on Saudi Arabia Stock Exchange.

Zerni et al. (2010) investigated the effect of audit assurance on the earnings quality of companies on SSE Swiss Stock Exchange. The study used simple regressions and random sampling, the total sample size employ of this study comprise of 1,171 firm-year observations for seven years period from 2000-2006. The findings show that audit assurance has a positive effect on the earnings quality of companies on SSE Swiss Stock Exchange.

Gill and Obradovich (2012) investigated the influence of audit assurance on the earnings quality of companies quoted on the New York Stock Exchange in the United State of America. The study used least square (OLS) regression analysis to test the data collected through random sampling and a total of three hundred and thirty-three quoted companies were samples used for the study. The study covers 2009 to 2011 and the findings show that audit assurance has a significant positive influence on earnings quality of companies quoted on the New York Stock Exchange. Also, Bistрова and Lace (2012) examined the quality of corporate governance system and the quality of reported earnings with evidence from CEE companies. The sample used is 118 companies quoted on Central and Eastern European (Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Romania, Poland, Slovakia, Slovenia) stock exchanges and multiple regression methods were adopted to analyse the dataset. The analysis period was 4 years (from 2007 to 2010). The findings reveal that audit by Big Four significantly reduces intentional earnings management, which improves the earnings quality of quoted companies.

Francis, Michas and Seavey (2013) investigated audit market concentration and the quality of audited earnings from audit markets in 42 Countries. The sample period in their study is 1999–2007, using data from the Global Vantage database and applying a multivariate logistic regression model. It discovered that there was a significant negative association between the size of Big Four audits and the occurrence of earnings quality but the other variables did not have a significant impact on the quality of reported earnings. In addition, Badolato, Donelson, and Ege (2014) examined Big Four audit quality and earnings quality among quoted companies in the US after regulatory pressure to ensure quality audit. Data for the study was extracted from Compustat, CRSP and Thompson Reuters. The sample used includes 29,073 firm-year observations from 2001 to 2008. The findings reveal that more earnings quality released by quoted companies reflects the true state of the companies and the benefit of the Big Four audit.

Corbella, Florio, Gotti and Mastrolia (2015) investigated the costs and benefits associated with the audit firm and earnings quality. The study used hand-collect publicly available data for a larger sample of Italian public companies audited by a Big Four and non-Big Four audit firm (1,583 firm-year observations) over a longer time horizon (1998-2011). The findings show that earnings quality improves following audit firm rotation for companies audited by a non-big four audit firm when compared to a Big Four audit firm.

## **2.5 Critique of Existing Literature**

Reviewing existing empirical and theoretical literature on the effects of corporate governance practice and earnings quality, it was very possible to identify several areas of divergence and yet-to-be resolved issues. Uadiale (2012) examined the role of the outside directors and audit committee in preventing earnings management in Nigeria. The study used listed companies in Nigeria for 2011 only. The study employed primary data using a questionnaire survey and data were analysed using simple regression. The findings revealed that companies with a higher proportion of outside directors help to curtail incident of earnings management in Nigeria and also an audit committee member with deep financial knowledge and financial competencies aid the quality of monitoring and review of financial reports thus reducing the likelihood of earnings management. Notwithstanding, the study only used a few respondents based in Lagos which is not broad enough and cannot be reflective of all quoted companies in Nigeria. Also, the study period only covers a year which will not make the findings robust.

Fodio, Ibikunle and Oba (2013) examined the effects of corporate governance mechanisms on reported earnings quality of Insurance companies quoted on the Nigerian stock Exchange. The study used 25 listed insurance companies as a sample and covers 4 years from 2007-2010. The study used multiple regressions on five governance mechanisms on reported earnings quality proxy, the results reveal that audit supervision, board size, and outside director are negatively and significantly associated with earnings

management. This study was based on the insurance sector in Nigeria with relatively few researches, and the findings have contributed to the extant study in Nigerian Insurance. The findings revealed that independent external audit and outside directors show a positive relationship with discretionary accruals. The period covered by the study is a relatively short period which may decrease the robustness of the findings.

Miko and Kamardin (2015) appraised the effectiveness of the two corporate governance codes and make comparisons using audit committee and audit quality by Big Four audit firm against earnings management in the pre- and post-code 2011 in Nigeria. The study adopted multiple regressions to measure the association between audit supervision, audit quality and discretionary accruals in both periods of 2003 and 2011. Discretionary accruals variables measured used modified Jones model. The findings show how audit committee and audit quality by Big Four audit firm will reduce manipulation of accounts through discretionary accruals in the pre- and post-code 2011 and compared the outcomes of the two periods (pre- and post-code 2011) for the performance measurement of the codes. Notwithstanding, the study did not include other factors that may influence audit committee and audit quality such as the financial years of experience of members of the audit committee. It also did not factor in the size of the audit firm.

Uwugbe, Peter and Oyeniyi (2014) investigated the effects of corporate governance mechanism on earnings management in Nigeria for 5 years from 2007-2011. The result shows that while outside directors and board size have a significant negative impact on earnings management (proxy by discretionary accruals), Notwithstanding, CEO duality had a significant positive impact on earnings management. The study employed a regression analysis method to analyse a total of 40 quoted companies on Nigerian stock exchange using judgmental sampling technique. This represents 20.5% of the total population. Although this study investigates all sectors of the Nigerian economy through quoted companies on Nigeria Stock Exchange, it also covers a relatively short period of 5 years and small sample size both of 20.5% of the total population. These lapses may reduce the robustness of the findings.

## 2.6 Research Gaps

Findings from the literature review show that there are several literature gaps that are filled by this study. First, there is a lack of clarity with respect to the level of earnings quality among quoted Nigerian companies, yet investors and other stakeholders rely on financial reports prepared by management for making a vital decision. Available studies done on the effect of earnings quality have almost exclusively been derived from advanced countries particularly the USA and similar advanced stock exchanges, and very few from emerging markets excluding Nigeria (Blanco, Lara & Tribó 2014; Chung & Wynn 2008; Kaden & Sanchez, 2014). From the United States of America market perspective, all studies are from advanced economies and with confounding results, while Yeh, Chen and Wu (2014) highlighted the Taiwanese angle, Arouri, Hossain and Muttakin (2014) Gulf Co-Operation Council (GCC) countries and Alves (2012) Portugal, all parts of emerging economies. Studying corporate governance and its effect on earnings quality among Nigerian quoted companies help expose the inter-linkages between the two in a financial reporting environment with unique attributes like those in the Nigerian environment where enforcement of regulatory provision is weak.

Secondly, from a methodological angle, empirical literature (Oluoch, 2015; Yeh, Chen & Wu, 2014; Cassell, Myers & Seidel, 2015; Bouvatier, Lepetit & Strobel, 2014; Frankel, McVay & Soliman, 2011; Blanco, Lara & Tribó, 2014) has focused several measures of the quantitative earnings quality in a study. This study has incorporated the earnings quality and corporate governance of non-financial companies in one study and importantly from an African perspective with particular reference to Nigeria. Incorporating these aspects, which has generated valuable earnings information that is critical to investors who rely on earnings information, the study has probably provided a new empirical perspective of earnings quality that is hitherto insufficiently available in earnings quality literature relating to Nigeria.

Lastly, corporate governance and earnings quality studies in the Nigerian Stock market have revealed mixed results (Uwuigbe, Peter & Oyeniya, 2014; Miko & Kamardin, 2015; Fodio, Ibikunle & Oba, 2013), and most studies are based on the financial service sector with very few on the non-financial sector but limited a sub-sector in Nigeria. This presents a milestone literature gap. This study forms a sound basis for testing the earnings quality phenomenon among all sectors of quoted non-financial companies in Nigeria.

**Table 2.2: Summarised Prior Empirical Studies Showing Research Gaps**

| <b>Authors &amp; Year of study</b> | <b>Country of the Study</b> | <b>Objective</b>                                                                                                   | <b>Methodology / Data</b>                                                                                                                                                                                                      | <b>Key Finding(s)</b>                                                                                                                                 | <b>Gaps</b>                                                                                      |
|------------------------------------|-----------------------------|--------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------|
| Nakano and Nguyen (2012)           | Japan                       | To ascertain the effect of interlocking directorship on corporate earnings quality                                 | Multiple regression, the study used 1,324 firm years and the study period is from 2003-2007                                                                                                                                    | The finding shows that corporate governance practices ensure reduction with income-decreasing discretionary accrual choices.                          | The study used only 5 years                                                                      |
| Yeh, Chen and Wu (2014)            | Taiwan                      | To investigated the association between corporate governance and earnings quality                                  | The study used Samples of 502 companies and it covered a period of 10 years.                                                                                                                                                   | The findings show that there is a strong significant association between corporate governance practises and earnings quality of financial reporting.  | Relative short period of investigation                                                           |
| Gill and Mathur (2011)             | Canada                      | The study examined the impact of corporate governance, earnings quality and value of Canadian manufacturing firms. | The study used non-relational and non-experimental research design on Canadian manufacturing firms. For a period of 3 years (from 2008-2010). The study sample was ninety-one and using simple regressions to analyse the data | The results revealed that corporate governance practices have a negative impact on earnings quality and on the value of Canadian manufacturing firms. | Relative short period of investigation and adopting non-relational and non-experimental research |



|                                   |                  |                                                                                                                                                 |                                                                                                                                    |                                                                                                                                                                                                   |                                                                                                      |
|-----------------------------------|------------------|-------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------|
| Fodio, Ibikunle and Oba (2013)    | Nigeria          | The study examined the effect of corporate governance mechanisms on earnings quality of Insurance companies                                     | The study used 25 listed insurance companies as a sample and covered 4 years (from 2007-2010). The study used multiple regressions | The results reveal that audit supervision, board size, and outside director are negatively and significantly associated with earnings quality.                                                    | Relative short period of investigation, small sample size and focus on one sector (Insurance sector) |
| Frankel, McVay and Soliman (2011) | The United State | To examined the association between the outside board and characteristic earnings quality                                                       | The study covered seven years (from 1998 to 2005). The study used 4,246 firm-quarter observations and used multiple regression     | The findings show that an outside board positively influenced earnings quality                                                                                                                    | Relative short period of investigation                                                               |
| Siagian and Tresnaningsih (2011)  | Indonesia.       | To investigated whether outside directors and audit committees influence the earnings quality of companies listed on the Jakarta Stock Exchange | The data were analysed using multivariate regressions. The study sample consisted of 80 firms                                      | The results show that total discretionary accruals (DA) and earnings response coefficient (ERC) had greatly improved after the appointment of outside directors and independent audit committees. | Relative short sample size of the data used in the study                                             |
| Ahmed and Gabor (2011)            | Bangladesh       | To examined the impact of outside directorship on the earnings quality                                                                          | The study employs purposive sampling of 27 banks using ordinary least                                                              | The finding shows that outside directorship has an insignificant relationship                                                                                                                     | Relative short period of investigation and sample size for the study                                 |

|                                    |             |                                                                                                                            |                                                                                                                                                                                   |                                                                                                         |                                                                                                                                      |                                                                |
|------------------------------------|-------------|----------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------|
| Zerni, Kallunki and Nilsson (2010) | Switzerland | To investigated the effect of outside directorship on the earnings quality of companies on SSE Swiss Stock Exchange.       | The study used simple regressions and random sampling, the total sample size employ of this study comprise of 1,171 firm-year observations for seven years period from 2000-2006. | square regression analysis to test the data, the study covers a period of five years from 2003 to 2008. | with earnings quality of banks quoted on the Bangladesh Stock Exchange.                                                              | Relative short period of investigation                         |
| Uwuigbe, Peter and Oyeniyi (2014)  | Nigeria     | To investigated the effects of corporate governance mechanism on earnings management in Nigeria                            | The study employed a regression analysis method and a sample of 40 companies. for 5 years from 2007-2011                                                                          |                                                                                                         | The result shows that while outside directors and board size have a significant negative impact on earnings quality.                 | Relative short period of investigation and sample size         |
| Ararat, Orbay and Yurtoglu (2010)  | Turkey      | To ascertain the relationship between outside directors and earnings quality of organisations listed on the Istanbul Stock | The sample used for the study was 118 companies, for 3 years 2006-2008                                                                                                            |                                                                                                         | The results show that outside director is ineffective, not capable of curbing the high scope of related party transactions and has a | The study period covers three years which is relatively short. |

|                              |                      | Exchange 100 index<br>(ISE 100)                                                                               |                                                                                                                    | negative influence on<br>earnings quality in<br>Turkish companies.                                                                                                                                                                                      |                                                                                  |
|------------------------------|----------------------|---------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------|
| Chen, Cheng and Wang (2015)  | The United Kingdom   | To examined the influence of new regulatory reforms requiring majority board independence on earnings quality | A sample size of 1587 and a period from 2002 to 2005. Using multiple regressions.                                  | It was discovered that firms that do not comply on the average experienced a significant reduction in earnings management while firms that do not comply with low information acquisition cost experienced a significant reduction in earnings quality. | The data analysis method used was not robust and relative short period of study. |
| Khalil and Ozkan (2016)      | Egypt                | To investigated the relationship between outside directors, audit quality and earnings management             | The sample used was 1,005 firm-year observations and for a period of 2005 -2012. The study used regression method. | The findings cast doubts on the notion that outside director is associated with lower earnings quality. Impact of outside director on earnings quality is dependent on the levels of ownership held by executive directors and large shareholders.      | The data analysis method used was not simple regression which was not robust.    |
| Givoly, Hayn and Katz (2010) | The United States of | Examined the effect of ownership concentration                                                                | The study covered 26 years from 1978 to 2003 and the                                                               | The findings revealed that the concentration of ownership                                                                                                                                                                                               | The numbers of variables used in                                                 |

America on earnings quality.

sample used 2519 firm has a negative influence on the study is years observations of earnings quality while the relatively small. private equity and 30,696 dispersion of shares firm years of public ownership positively companies. The study earnings quality. applies multiple regression on the dataset.

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## **2.7 Summary**

In the wake of various corporate collapses and huge losses suffered by investors and other stakeholders, stakeholders and governments all over the world enacted laws and issues code of corporate governance to ensure the highest form of management of corporations. FASB's Conceptual framework state that the underlining purpose of financial reporting is to provide information that is useful and needful for business decisions. Thus, earnings are expected to be of high quality, notwithstanding, evidence from literature reveals a contradiction. Also, there is a lack of consensus, inconclusiveness or contradiction on empirical literature on how corporate governance affects earnings quality (Uwuigbe, Peter & Oyeniya, 2014; Miko & Kamardin, 2015).

Corporate governance issues in advanced economies and emerging economies tend to differ due to several factors such as cultural, political and economic factors, though there is a wide range of interaction among countries of the world. Abundant evidence from empirical literature has established that even with corporate governance laws and codes in place, there have been breaches in corporate governance regulation.

There is a lack of consensus as to whether and how corporate governance affects earnings quality and an agreed method of measuring earnings quality. One view holds that there is often research data anomalies and defective research design that allegedly provide a misleading view that corporate governance is the only variable that affects earnings quality. But empirical studies have shown that multiple variables (a type of government, financial reporting, tax, and strict regulatory environment), do not consider the alternative mechanisms that firms might use to achieve the firm's earnings quality objectives (Babalola, 2013; Niresh & Thirunavukkarasu, 2014; John & Adebayo, 2013).

Other scholars with divergent views posit that earnings quality is a function of moderating variables within the financial reporting and market regulatory environment. The factors that are explicitly identified in the literature are big audit (DeFond and

Lennox (2011), market capitalisation (Meza & Zang (2011)), age of the firm (Eshleman and Guo (2014) as well as corporate reputation (Luchs, Stuebs & Sun, 2011). Furthermore, corporate governance literature related to earnings quality also makes significant contributions. While there are considerable problems in interpreting the empirical associations found in corporate governance studies (Erkens, Hung & Matos, 2012), the evidence generally suggests that corporate governance-related factors, such as board size, ownership concentration, internal controls over financial reporting and audit quality, play a role in determining earnings quality (Isenmila & Afensimi, 2012; Butt, Chamberlain & Sarkar, 2012).

Whereas all these factors have been considered in several empirical studies, the literature has been biased towards developed economies, yet these have different fundamentals expected to impact corporate governance and earnings quality differently from emerging markets like the Nigeria Securities Exchange. Part of the prejudice could admittedly be due to the deep lack of data for markets like NSE and the significantly small size of such markets. In a nutshell, the literature review provides watershed literature gap that provides the basis for this study. It indicates that there is a lack of clarity with respect to the level of earnings quality among Nigerian public companies, yet shareholders and other stakeholders rely on financial statements for vital decision making. In addition, existing literature shows mixed results in the evaluation of earnings quality of listed companies. In the overall, the existence and even pervasiveness of the earnings quality phenomenon of non-financial companies listed in the Nigerian capital markets have never been established.

This chapter has reviewed the relevant literature with an emphasis on independent and dependent variables. The review covered theoretical review, empirical review and conceptual framework. Also, relevant theories were reviewed and these are Agency theory, Stakeholder's theory, and Shareholders theory. In addition, an empirical review was conducted on prior studies. Both advanced economies and emerging economies

were reviewed adopting the following criteria, title, scope, methodology resulting in a critique. From this critique, the research gaps were identified.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter provides the rationale for the research method that was used to explore the influence of corporate governance practices on earnings quality of quoted non financial companies on Nigeria Stock Exchange. This chapter covers the research design, population, target population, sample and sampling methods. A detail of variables that were used to test the hypotheses identified in chapter 1 is also discussed. Lastly, the techniques that were used to analyse the data and the study models are presented together.

#### **3.2 Research Philosophy**

A research philosophy is a belief about the way in which data about a phenomenon should be gathered, analysed and used. Research philosophy is majorly divided into three: epistemology, ontology, and axiology (Brown, Pott & Wömpener, 2014). These parameters influence the way research is undertaken from design to conclusion. Researchers' preferences are likely to shape research design without research philosophy and paradigms (Scholtens & Kang, 2013). Thus, this study adopts a pragmatic philosophy: the research objective and hypotheses were determined, the research designs, methods, measuring instruments and ultimately the outcome of this research work. Dimopoulos and Wagner (2012) contend that pragmatism is intuitively appealing, largely because it avoids the researcher engaging in what they see as rather pointless debates about such concepts as truth and reality. The adoption of the combined paradigms is because of its key feature of methodological pluralism or eclecticism, which frequently results in superior research, being an expansive and creative form of



research (Gaio & Raposo, 2014). Therefore, this study adoption of this research paradigm is as a result of the quantitative corporate governance attributes, earnings quality information and as well as listed company specific attributes employed for this study.

### **3.3 Research Design**

This study adopts cross sectional time series (CSTS) survey to determine the influence of corporate governance practice on earnings quality over fifteen years period. This research design was adopted because firstly, it helps to establish the relationship between corporate governance and earnings quality. Secondly, the study focuses on earnings quality over a prescribed fifteen-year period, from January 2002 to December 2016. Thirdly, it is appropriate for achieving the research objectives of the study because the data and the study depend grossly on secondary data collected from the annual report and account of non financial companies listed in Nigeria Stock Exchange and investigate the causal relationship between the relevant variables of the study.

This approach is useful for this kind of study because it also makes it possible to deduce since the inferences from the test of statistical hypotheses lead to general inferences about the features of the population (Harwell, 2011) Also, a quantitative portion of this study involved the use of multiple regressions, T-test, and correlation. The regression was subject to diagnostic tests.

### **3.4 Target Population**

The target population for this study consists of the 130 non-financial companies listed on the Nigeria Stock Exchange within the period of 2002 to 2016 financial years. This period was suitable because it witnessed series of accounting scandals that affected Nigerian economy, and some quoted companies on the Nigeria Stock Exchange. During the period, Nigeria Securities and Exchange Commission issued a Code of Corporate

Governance in 2002 and later reviewed it in 2011 to ensure higher standards of corporate governance among quoted companies on the Nigeria Stock Exchange.

The target population for this study was companies quoted on the Nigeria Stock Exchange that met the eligibility criteria below. First, the listed company must be operating in the non-financial sector of the Nigeria economy. Secondly, the listed company's share must have been actively traded all through the study period till date. Thirdly, the company's financial statements are published all through the years under investigation.

### **3.5 Sampling Frame**

Sampling frame is a list or other device used to define a researcher's population of interest. The sampling frame defines a set of elements from which a researcher can select a sample of the target population (Lewis-Beck, Bryman & Liao; 2003). Also, Kothari (2014) defines a sampling frame as a list of all the items where a representative sample is drawn for a study. The sampling frame for this study includes all non financial companies listed in Nigeria Stock Exchange as at 31st December 2016 (NSE, fact sheet, 2017).

**Table 3.1: Sectoral Breakdown of Listed non Financial Companies**

| <b>Sector</b>              | <b>Non financial companies</b> |
|----------------------------|--------------------------------|
| Agriculture                | 5                              |
| Conglomerate               | 5                              |
| Construction & Real Estate | 9                              |
| Consumer Goods             | 27                             |
| Healthcare                 | 11                             |
| ICT                        | 9                              |
| Industrial Goods           | 21                             |
| Natural Resources          | 5                              |
| Oil and Gas                | 14                             |
| Services                   | 23                             |
| <b>Total</b>               | <b>130</b>                     |

Source: Nigerian Stock Exchange (NSE), 2017

### **3.6 Sample and Sampling Technique**

According to Kothari and Forter, (2010) sampling design is the technique or procedure the researcher would adopt in selecting items for the sample. This section describes how the sample size for the study was determined and the procedure that was used to identify sample subjects. The study adopts purposive sampling technique due to missing and partly unavailability of data for 15 companies. While 10 companies had listing periods less than the periods cover by this study. The outcome of the samples included and used for hypothesis tests and analysis in this study is presented in Table 3.2:

**Table 3.2: Sectoral Breakdown of sampled listed non-financial companies**

| <b>Sector</b>              | <b>Sampled Companies</b> |
|----------------------------|--------------------------|
| Agriculture                | 5                        |
| Conglomerate               | 5                        |
| Construction & Real Estate | 7                        |
| Consumer Goods             | 26                       |
| Healthcare                 | 11                       |
| ICT                        | 4                        |
| Industrial Goods           | 18                       |
| Natural Resources          | 4                        |
| Oil and Gas                | 10                       |
| Services                   | 15                       |
| <b>Total</b>               | <b>105</b>               |

The one hundred and five (105) companies are made up of five quoted agricultural companies, five conglomerate companies, seven quoted construction/ real estate companies, twenty-six quoted consumer goods companies, eleven quoted health care companies, four quoted companies in information, communication & technology. Also, there are eighteen industrial goods quoted companies, four quoted companies operating in natural resources, ten quoted companies in Oil & Gas, twenty one quoted companies in the services sector. The 105 companies were chosen based on the fact that they met all the data requirements for hypothesis tests in this study.

### **3.7 Data Collection Instrument**

The data for this study was collected through the use of a structured data collection matrix form (Appendix 2). Data collection matrix form was used to collect secondary data from annual audited financial reports, and the Nigeria Stock Exchange fact book was directly used for the variables (independent and dependent). It is also the most widely used instrument for data collection relating to secondary data and it is also a quick means of extracting needed information on a wide range of subjects. According to Kothari (2014), secondary data defined as data that is already available or which have already been collected and analyzed by someone else. In order to collect relevant data, the data collection matrix was designed in such a way that every variable was captured so as to collect only relevant data. This study investigates the influence of corporate governance practices on earnings quality of quoted non financial companies on the Nigeria Stock Exchange. For the purpose of achieving the objectives of this study, only secondary data form was used to collect data from the Nigerian Stock Exchange and from the audited financial statements of non financial companies filed with the Security and Exchange Commission.

### **3.8 Data Collection Procedure**

Johnson and Turner (2003) posit that data collection is the accurate means to systematic gather and extract vital information from all the relevant sources to find answers to the research problem, test the hypothesis and evaluate the outcomes. Therefore, to achieving the set objectives of this study, only secondary data from the Nigerian stock exchange and the audited financial statements of non financial companies listed on Nigeria Stock Exchange was used. The procedure involves visiting the registrars of the non financial companies to collect the audited financial statements and visit the websites of the individual non financial company to download their audited financial statements, this is to ensure that all the relevant years were complete. Thereafter the required information to measure the variables were extracted and processed for further analysis. The

information obtained from the audited financial statement of the quoted companies were compared with the documentation of the security and exchange commission, (Nigeria stock exchange fact books) to ensure accuracy in data collection. The study has only involved the use of secondary data from sample quoted company audited financial reports, covering the period from January 2002 to December 2016 in order to fully enrich its fitness in the regression.

### **3.9 Data Processing and Analysis**

Zikmund, Babin, Carr and Griffin (2010) posit that data analysis is the application of reasoning to understand the data that has been gathered with the aim of determining consistent patterns and summarizing the relevant details revealed in the investigation. Data processing first involved the clearing of the raw data to ensure that it is consistent with the requirements for estimation and evaluation of corporate governance and earnings quality. The data so gathered was subjected to hypothesis testing based on models identified in this section and the variables defined in Table 3.2. The first step entailed the estimation of both the corporate governance and earnings quality metrics among listed companies in Nigeria. This was critical in order to ensure that the data is fitted for the testing of the null hypotheses among the listed companies in Nigeria.

Different statistical tests and procedures are used in the study. To allow for the use of multiple linear regression, preliminary checks to ensure the data present the best linear unbiased estimators are used. Accordingly, the assumptions of normality, linearity, homoscedasticity, non-multicollinearity and non-serial correlation are checked using the relevant statistics. To ascertain the non-collinearity of data set and to be certain that OLS assumptions are addressed, Variance Inflation Factors (VIF) were used on the variance of an estimator, The VIF formula -  $1 / (1-R^2)$ . The guiding rule is that a VIF that exceeds 4 will indicate the need for further investigation, while A VIF of 1 will imply the absence of correlation among predictors but serious multicollinearity sign will be revealed when VIF exceeds 10 (Gujarati, 2004).

Shapiro-wilk and Anderson Darling test for normality was performed to test for normality on the data set, using R Statistics. Also, linearity test, autocorrelation test, and heteroscedasticity test were performed on the data set. To guide against the problem of heteroscedasticity, Breusch-Pagan test was applied to the data set. If an F-test confirms that the independent variables are jointly significant then the null hypothesis of homoskedasticity can be rejected. Serial correlation or Autocorrelation was tested with the use of Durbin Watson (DW) test which is considered appropriate for this study because the samples are Panel data. DW test findings show serial correlation when the test result is different from 2 and no autocorrelation when the result is around 2. Nevertheless, a Newey-West method which is an extension of White's test for detecting heteroscedasticity and corrects standard error for autocorrelation at the same time was employed because of its suitability for a large sample (Gujarati & Forter, 2010).

The descriptive statistics include simple mean, median, mode and standard deviation. Since the data was collected for a period of fifteen years, trend analysis was also done with the use of SPSS 24 and presented with tables and graph. This study used both simple and multiple regression analysis for quantifying the influence of various simultaneous influences upon a single dependent variable. A multiple linear regression model was used to test the significance of the influence of the independent variables on the dependent. T-test and F-Statistic at 5% level of significance was used to examine the significance of coefficients of variables in the model. The explanatory power of corporate governance on earnings quality for the total period of observation, adjusted coefficient of determination (R<sup>2</sup>) was performed. Also, Ordinary Least Square (OLS) simple, multiple regression analyses, and Pearson correlation test were performed on data set.

In addition, the study also employed Fixed and Random Effects Models for the purpose of addressing the heterogeneity of the sample data (Omokhudu & Ibadin, 2015). In order to determine the efficiency of either random or fixed effect, Hausman's (1978) specification test was performed to ascertain the effects model that was more appropriate

for the study. A second possible model specification check for the consistency of variable in the data is the Lagrange Multiplier Test and F test for individual effects was performed. Also to ascertain whether one time series is useful in forecasting another, Granger causality test was performed on the data.

### **3.9.1 Measurement of Study Variables**

The main objective of this study is to investigate effect of corporate governance practices on earnings quality of non financial companies listed on Nigeria Stock Exchange. Therefore, the study adopts corporate governance practices as the independent variable and earnings quality as the dependent variable while audit assurance was adopted as the moderating variables. These variables are discussed below:

#### **Independent Variable**

The independent variable for this study is corporate governance practices. Corporate governance practices refer to a set of principles or norms that are related to the internal management of companies. The implementation of corporate governance practices seek to address deficiencies in the corporate legal system of business management, ownership models or stakeholder rights. Due to the nature of this research as indicated in the research gap the proxies of corporate governance practices measures used in this study include, firstly, outside directorship, this is the portion of outside directors that servers on the board of director to the total number of directors on the board, serving as an indicator of the board's independence. It is often considered to be one of the most important variables in determining and sustaining the board's integrity, and protect and help grow shareholder wealth (Aguilera & Cuervo-Cazurra, 2009).

Secondly, the ownership concentration (OC): This is the addition of the percentage of shares held by the shareholders owning minimum of 5 % and above. The ownership concentration has significant internal governance control mechanism in which



shareholders can control and influence the management of the companies to protect their interests has been one of the major sources from which the agency theory draws inspiration to expect the agents to represent the best interests of the principal without regard for self-interest (Overland, Mavruk & Sjögren, 2012). The choice of this variable is appropriate since the major objective of this study is to determine the effect of corporate governance practices on earnings quality of non financial companies listed in NSE.

Thirdly, the board size (BS): this is the total number of directors that serves on the board in any given year. The size the board of directors and the diversity of the composition adds value to the decisions of the boards; it also has a direct relationship with its earnings quality (Muchemwa, Padia & Callaghan, 2016). This variable is of importance because corporate governance practices measure by board size is the most comprehensive measure of ability of the board of directors to initiate strategic changes that help the companies to achieve the organisational goals and earning quality projection (Mori, Golesorkhi, Randøy & Hermes, 2015).

Fourthly, Interlocking directorship (ID): the interlocking directorship was ascertained by the presence of directors who are also board members of other quoted companies. If an interlocking directorship is present on the board of director, a dummy variable of figure 1 was assigned, where the board does not have an interlocking directorship, a dummy variable of figure 0. This variable is of importance because corporate governance practices measure by the presence of interlocking directorship is the most vital measure of ability of the board of directors to maintain independence of management of the companies. Also, the interlocking directorship brings to bear their wealth of experience divergent views that help the companies to make intelligent and broad decisions that affects all stakeholders (Peasnell, Pope & Young, 2005).

Finally, the study employed audit assurance as the moderating variable for the study. The choice of audit assurance as moderating variable was informed by its importance

and relevance as a firm-specific factor that may affect the compliance with the code of corporate governance practices of listed companies as engaged by prior corporate governance practices and earnings quality studies (Allegrini & Greco, 2013; DeFond & Lennox, 2011; Kabir et al., 2011). In empirical research, different measures have been adopted to operationalize audit assurance. Measures such as audit committee composition, financial knowhow of audit committee members, and independence of audit committee, as well as audit engagement executed by big four audit firms have been extensively employed with success to depict audit assurance of the companies in empirical research (Minutti-Meza & Zang, 2011; Miko & Kamardin, 2015; Bistrova & Lace, 2012). For this study, audit assurance was measured by taking the audit engagement executed by big four audit firms

**Dependent Variable**

Earnings quality is the ability of earnings to meet the primary objective of financial reporting, providing relevant and reliable information to stakeholders (Entwistle and Phillips 2003). Also, is the capability of reported earnings (income) to predict an organization’s future earnings and it reveals a company’s financial wellbeing, which improves capital market efficiency (Boulton, Smart & Zutter, 2011).

For this study, proxy of earnings quality is earnings persistence, which captures by employing current earnings performance in relation to last year’s earnings performance (Kim, et al., 2012). Thus, earnings persistence is measured by regressing current earnings on previous earnings. This study measures earnings persistence for a company by estimating the following time-series model for the period 2002 to 2016 following Kim, et al., (2012); Khalil & Ozkan (2016).

$$EPS_t = \beta_0 + \beta_1 EPS_{t-1} + \epsilon \quad \text{-----} 3.1$$

Where for year  $t$ , and  $EPS_t$  is total earnings before extraordinary items in year  $t$  scaled by total common shares outstanding in year  $t$ ;  $EPS_{t-1}$  is earnings before extraordinary items in year  $t-1$  scaled by total common shares outstanding in year  $t-1$ ;  $\varepsilon_t$  is the residual error; Earnings persistence is measured as the slope-coefficient ( $\beta_1$ ), from Equation (1). Value of  $\beta_1$  close to one implies highly persistence earnings, while value of  $\beta_1$  close to zero indicates highly transitory earnings.

This measure for earnings quality was adopted for two key reasons. First, earnings per share ratio (EPS ratio) measure the amount of a company's net income that is available for payment to the holders of its common stock (Shubita, 2015). A company with high earnings per share ratio is capable of generating a significant dividend for investors which is the ultimate aim of many investors. Secondly, earnings per common share are usually the first financial ratio investors look at when analyzing companies to invest in (Ongore, 2011). Despite its simplicity, this metric is extremely powerful and condenses a great deal of crucial information into a single number (Srivastava, 2014). This allows investors to compare alternative investments, chart the performance of a particular business over time and estimate the growth of her investments in the future (Turley & Zaman, 2014).

However, the choice proxy for the independent and dependent variables are summarized in Table 3.3 with their measurements.

**Table 3.3: Study Variables**

| <b>Variable</b>                                                | <b>Selected Indicators</b> | <b>Measure</b>                                                                      | <b>Data</b> | <b>Source</b>                   | <b>Author(s) and Year</b>                                                |
|----------------------------------------------------------------|----------------------------|-------------------------------------------------------------------------------------|-------------|---------------------------------|--------------------------------------------------------------------------|
| <b>Independent</b><br><br>Corporate<br>Governance<br>Practises | Ownership concentration    | Addition of minimum 5% shareholding and above                                       | Secondary   | annual audited financial report | Arouri, et al., (2014); Kouaib and Jarboui (2014); Latif, et al. (2017)  |
|                                                                | Board Size                 | Addition of executive directors and non executive directors                         | Secondary   | annual audited financial report | Kumar and Singh (2013); Chen, et al., (2015); Huang and Wang, (2015)     |
|                                                                | Outside Directorship       | Number of Outside directors/total numbers of directors                              | Secondary   | annual audited financial report | Lee and Roberts (2015), Kumar and Singh (2012); Kim, et al., (2014)      |
|                                                                | Interlocking Directorship  | Dummy variable 1 = presence of ID on the board, 0 = non presence of ID on the board | Secondary   | Annual audited financial report | Brown,et al., (2010); Cassell, et al., (2015); Kaczmarek, et al., (2014) |
| <b>Dependent</b>                                               |                            | 14 years                                                                            | Secondary   | Annual                          | Oluoch                                                                   |

|                   |                                                                                                                                 |           |                                                             |                                                                                                   |
|-------------------|---------------------------------------------------------------------------------------------------------------------------------|-----------|-------------------------------------------------------------|---------------------------------------------------------------------------------------------------|
| Earnings quality  | rolling Standard deviations of error in regression of changes in EPS 1 year lagging in EPS                                      |           | audited financial report/ statement of comprehensive income | (2015); Kim, et al., (2012); Khalil and Ozkan (2016)                                              |
| <b>Moderating</b> | Dummy variable 1 = company is audited by one of the big 4 audit firm, 0 = company is not audited by one of the big 4 audit firm | Secondary | Annual audited financial report                             | Francis, et al., (2013); Badolato, et al.,2014; Lambert, et al., (2017), Lawrence, et al., (2011) |
| Audit Assurance   |                                                                                                                                 |           |                                                             |                                                                                                   |

### 3.9.2 Model Specification

To examine the influence of corporate governance practices on earnings quality of listed non financial companies in Nigeria stock exchange, the study adopted panel data set. Panel data set was employed because panel data provides more degrees of freedom, more efficiency and variability, more robust information, less collinearity among variables, and also permits control of unobserved firm heterogeneity (Baltagi, 2005, pp. 4-9).

This study employs multiple regression models because of it has the capacity to ascertain the relative effect of one or more independent variables on the dependent variable and also, to identify outliers, or anomalies among the variables. The earnings quality measure will be regressed against the four corporate governance practises variables of ownership concentration, outside director, board size, and interlocking directorship. The regression model is specified in the equation (i)

$$EQ = \beta_0 + \beta_1(BS_{it}) + \beta_2(ID_{it}) + \beta_3(OC_{it}) + \beta_4(OD_{it}) + \varepsilon_{it} \text{-----}(3.2)$$

Where:

$\beta_0$  = constant

$\beta_1$ - $\beta_4$  = corporate governance practices (BS, ID, OC, OD)

EQ = earnings quality (earnings persistence)

$\varepsilon_{it}$  = is the error term

$i = 1\ 2\ 3\ \dots\dots\dots n$  companies

$t = \text{time } 2002 - 2016$

However, the study considered the combined effect of the moderating effect of audit assurance on corporate governance practices indicators on earnings quality using equation 3.5.

$$EQ = \beta_0 + \beta_1(BS_{it})(AA_{it}) + \beta_2(ID_{it})(AA_{it}) + \beta_3(OC_{it})(AA_{it}) + \beta_4(OD_{it})(AA_{it}) + \varepsilon_{it} \text{-----}$$

3.3

Where:

AA = audit assurance

Other variables are as defined in 3.2

## **CHAPTER FOUR**

### **RESULTS AND DISCUSSION**

#### **4.1 Introduction**

This study investigated the influence of corporate governance practice on earnings quality. Specifically, the study investigated the effect of board size, outside directors, ownership concentration, audit assurance and interlocking directorship on earnings quality. The findings of this study are presented in this chapter including the discussions thereof of the study based on the research objectives and research hypotheses stated in chapter 1. The results involve descriptive and inferential statistics presented in chapter 3.

This chapter is structured into eight sections. This first section 4.1 introduces the chapter while section 4.2 reveals the descriptive statistics of the variables of the study. Section 4.3 explores the trend and analysis of the study variables. Thereafter, sections 4.4 to 4.9 provide the presentation and discussion of the inferential and supporting descriptive statistics for each of the objectives (i) to (v) as provided in chapter 1.

#### **4.2 Descriptive Analysis**

The first step in the process of ascertaining the objectives of this study involved the determination of accurate data set for each of the company listed on the Nigeria Securities Exchange. A company qualified for analysis based on some criteria stated in chapter 3. Accordingly, companies included in the analysis are those that experienced continuous listing over the years under study. They operate in the non financial sectors of the Nigerian economy. In conformity with this qualification, firms suspended from trading over the study period, companies with incomplete data for this study, the de-listed ones, and those companies with a listing period that is less than 15 years were excluded from the analysis. In overall, 105 companies met the criteria and are used in the analysis.

**Table 4.1: Breakdown of Sampled Firms and Sectors**

| S/N | Sector                                  | No. of Firms | Percentage  |
|-----|-----------------------------------------|--------------|-------------|
| 1   | Agricultural                            | 5            | 5%          |
| 2   | Conglomerate                            | 5            | 5%          |
| 3   | Construction/ Real Estate               | 7            | 8%          |
| 4   | Consumer Goods                          | 26           | 25%         |
| 5   | Health Care                             | 11           | 10%         |
| 6   | Information, Communication & Technology | 4            | 4%          |
| 7   | Industrial Goods                        | 18           | 17%         |
| 8   | Natural Resources                       | 4            | 4%          |
| 9   | Oil & Gas                               | 10           | 9%          |
| 10  | Services                                | 15           | 14%         |
|     | <b>Total</b>                            | <b>105</b>   | <b>100%</b> |

Breakdown of the sample size as presented in Table 4.1 reveals that, the sample consist one hundred and five (105) non-financial industry category firms (i.e. five (5) quoted agricultural companies, five (5) conglomerate companies, seven (7) quoted construction/ real estate companies, twenty-six (26) quoted consumer goods companies, eleven (11) quoted health care companies, four (4) quoted companies in information, communication & Technology. Eighteen (18) industrial goods quoted companies, four (4) quoted companies operating in natural resources, ten (10) quoted companies in Oil & Gas, twenty one (15) quoted companies in the services sector. This represents 80.8 percent of the non financial companies listed as of December 31, 2016. The sample size is, therefore, considered representative for drawing generalizations particularly because all the segments of non financial sectors of the NSE are represented in the sample.

In succinct, the sample size for the study was arrived at based on the scope of this study using balanced panel data thereby leading to 1575 firm-year observations covering fifteen (15) years period (i.e. 2002 – 2016). The 105-firm sample employed for this study is substantially greater than 70 obtained by Oyerinde (2011) but significantly higher than 47 firms used by Omokhudu and Ibadin (2015) in related studies of listed firms at the Nigerian stock market.



#### 4.2.1 Descriptive statistics for Corporate Governance and Earnings Quality

According to Frankfort, Nachmias and Nachmias (2009), coefficient of variation should be calculated and reported for the purpose of comparing the degree of dispersion relative to mean of the distribution especially when the distribution has different means and when ratio scale is used. The variables in this study are corporate governance practices (explanatory variables) such as outside directors (OD), board size (BS) ownership concentration (OC) were drawn for the earnings quality model. Dummies of the presence of interlocking directorship and as well as moderating variable such as big audit incorporated in the valuation models. While earnings quality was used as the dependent variable. The variables have different means thus the coefficient of variation was computed and stated in Table 4.2.

**Table 4.2: Descriptive Statistics**

|    | N    | Mean  | Std. Deviation | Skewness | Kurtosis | CoV    |
|----|------|-------|----------------|----------|----------|--------|
| EQ | 1574 | 0.223 | .303           | 1.146    | .005     | 0.0014 |
| OD | 1574 | 5.50  | 1.669          | .045     | -.694    | 0.3035 |
| OC | 1574 | 0.54  | 0.183          | -.685    | -.468    | 0.3389 |
| BS | 1574 | 8.60  | 2.235          | .400     | -.042    | 0.2599 |
| ID | 1574 | 0.59  | 0.492          | -.367    | -1.868   | 0.8339 |
| AA | 1574 | 0.49  | 0.500          | .059     | -1.999   | 1.0204 |

*N* is the number of observations; EQ is earnings quality of firm *i* at time *t*, OD is outside directors of firm *i* at time *t*; OC is ownership concentration of firm *i* at time *t*; BS is board size of firm *i* at time *t*; ID is interlocking directorship of firm *i* at time *t* and AA is audit assurance of firm *i* at time *t*.

Descriptive statistics were also carried out on all the independent variables (board size, outside directors, ownership concentration, interlocking directorships), and moderating

variable (audit assurance) using the mean of all the selected companies. Evidence from Table 4.2 revealed that the mean of outside director on board of companies on NSE is 5.5 indicating that approximately 6 outside directors are on the board of listed non financial companies in Nigeria. This mean of 5.5, when compared with the standard deviation of 1.669, translates to a coefficient of variation of 0.3035, this finding is in agreement with Contessotto, and Moroney (2014) study from New Zealand with a mean of 4.3 and a standard deviation of 1.30075, however, translates a coefficient of variation of 0.3025. In another study by DeFond and Lennox (2011) contrary to the findings of this study reveal an outside director mean of 2.5 with a corresponding standard deviation of 0.07. This translates to a relative measure of volatility (CV) of 0.028.

Ownership concentration has a mean of 0.54 and a standard deviation of 0.183 translating into the coefficient of variation of 0.3389. This indicates that ownership of shares in listed companies in Nigeria is concentrated at 55% and the CV  $\pm$ 0.3838. The findings from this study are consistent with those of Peterson, Schmardebeck and Wilks (2015) with a mean of 0.61 and a standard deviation of 0.296 with CV of 0.4852 however, unlike the results from this study Persakis and Iatridis (2015) reports ownership concentration values of 0.887 and a standard deviation of 0.029 This translates to a relative measure of volatility (CV) of 0.033.

From Table 4.2 board size has a mean of 8.6 and a maximum size of 15 board members, the standard deviation is 2.235 translating into the coefficient of variation of 0.2599. This indicates that board size of approximately 9 members of listed companies on NSE this is in agreement with the finding of Cassell, Myers and Seidel (2015) in the US market, board size means of 7 and a standard deviation of 1.765 which translate into the coefficient of variation of 0.2521. While the study by Claessens and Yurtoglu (2013) board size mean of 5.3 and a standard deviation of 0.356 which translated into the coefficient of variation of 0.0007.

Table 4.2 revealed that interlocking directorship has a mean of 0.59 and the standard deviation of 0.492 translating into the coefficient of variation of 0.8339. It indicates that 59% of listed non financial companies in Nigeria stock exchange used for this study have interlocking director presence on the board of director and it translates to 62 listed companies based on 105 sampled companies. The finding is in line with those of Dimopoulos and Wagner (2012) in the U.K. and Germany-over the period 1995-2005, it showed that 65% of companies in the U.K. and Germany have the presence of interlocking directorship on the board of director. In another study, Edogbanya and Kamardin (2014) contrary to the findings in this study reveal that 25% of companies have interlocking directors on the board of quoted companies based on the Nigeria Stock Exchange. Further, using different compustat data, Engelen (2014) contrary to the findings in this study revealed that 15% of companies have interlocking directors on the board of quoted companies in Thailand.

Audit assurance in this study as indicated in Table 4.2 revealed that big audit a mean of 0.49 and the standard deviation of 0.50 translating into the coefficient of variation of 1.0204. It indicates that 49% of listed non financial companies in Nigeria stock exchange used for this study have one of the big four as their external auditor and it translates to 52 listed companies based on 105 sampled companies. The finding is in line with those of Bistrova and Lace (2012) in evidence from CEE companies and it was discovered that 78% of the companies were audited by one of the big four audit firms. Furthermore, Francis, Michas and Seavey (2013) in data set from audit markets in 42 Countries revealed that 67% of the companies were audited by one of the big four audit firms. In a contrary finding Eshleman and Guo (2014) that 29% of the company's financial records are audited by one of the big 4 audit firms. In agreement with the findings of Eshleman and Guo (2014), Miko and Kamardin (2015) in West Africa posit that 32% of the companies were audited by one of the big four audit firms

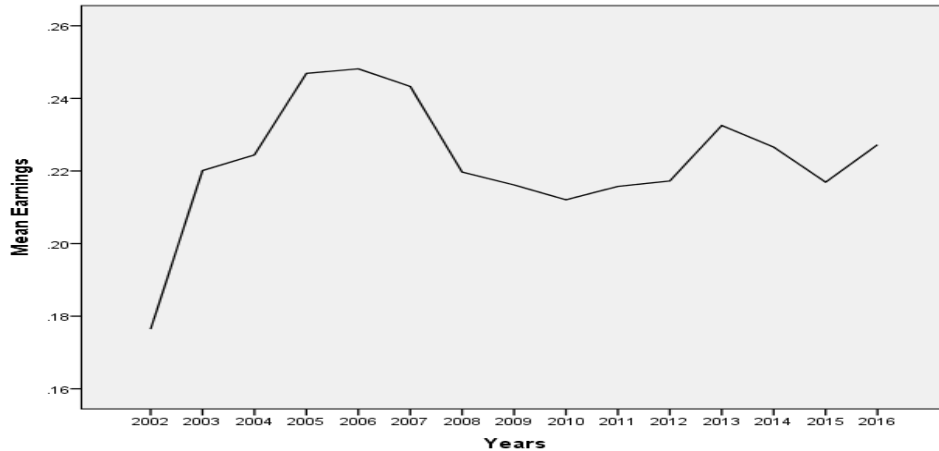
The conclusion that can be drawn from Table 4.2 is that the descriptive statistics of the variables are of interest, 1574 data points were collated with the mean and the deviation

describe important characteristics of the variables: The mean is the average value. The deviation is an expression that reflects the degree to which the different observed values of the variables vary around the mean value. As shown in Table 4.2 in all four variables were utilized in this study namely leverage (Outside directors, Ownership Concentration, Board size, and interlocking directorship), which represents the independent variable. The independent variable is earnings quality while audit assurance was employed as the moderating variable. From Table 4.2, the mean outside director represented by OD was 5.50 which indicate that approximately there are 6 outside directors on the board of listed non financial companies in Nigeria Stock Exchange. While the mean stood at 0.54 which indicate that on the average 54% of total ordinary shares in issues of non financial companies on Nigeria Stock Exchange are concentrated in the hands of few shareholders.

Furthermore, the averages for board size stood at 8.6 indicating that there are approximately 9 members on the board of listed non financial companies in Nigeria. The range of the presence of interlocking directorship among non financial companies is from 0 to 1 while the average mean of interlocking directorship is 0.59 indicating that 59% of listed non financial companies had interlocking directors on the board. Forty-one percent (41%) of listed non financial companies do not have interlocking directors on the board of the companies. The average audit assurance which is included as the moderating variable is 0.49; this implies that 49% of listed non financial companies are audited by one of the big four audit firms while 51% of listed non financial companies are audited by non big four audit firms in Nigeria.

#### **4.2.2 Trend Analysis for Earnings Quality Mean**

Earnings quality is a measure of how well earnings reflect the actual performance of a firm (Dechow & Schrand, 2010).

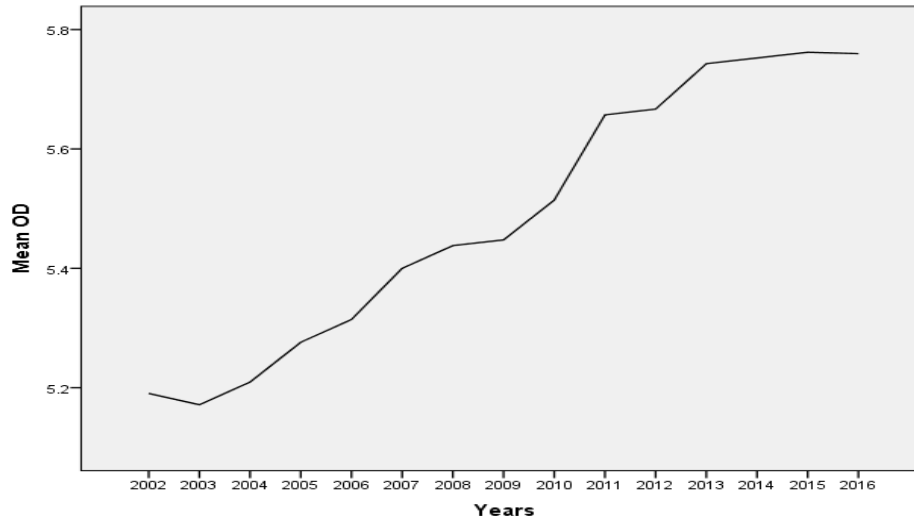


**Figure 4.1: NSE Non financial companies' Earnings Quality Mean Trend**

The results of the trend analysis for the mean earnings quality on yearly basis revealed that there was a significant increase in quality of earnings between 2002 and 2003 and a slight improvement occurred from 2004 to 2005. There was another sharp improvement in quality between 2005 and 2006 and between 2007 and 2009 while a decrease in earnings quality was also experienced and remained same till 2011 and by 2012 it had increase slightly in quality and an improvement was experienced in 2013 but a marginal decrease was suffered by 2014 to 2015. The earnings quality increase in 2016 as presented in figure 4.1 the mean trend, however, recorded a significant increase in 2006. The fall in earnings quality between 2008 and 2010 can be attributed to manager's discretion as a result of the financial crises among quoted non financial companies occasioned by the global financial meltdown and its ripple effect on Nigeria economy.

#### **4.2.3 Trend Analysis for Outside Directorship Mean**

Outside directorship is non-executive director who sit on the board of public companies and do not own shares in the companies where they are serving in the capacity of outside directorship (SEC, 2003).

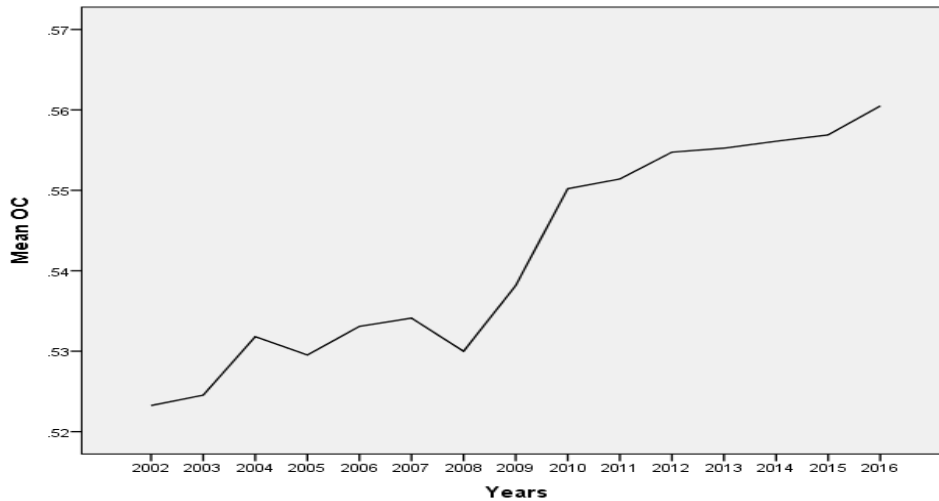


**Figure 4.2: NSE Non Financial Companies’ Outside Directorship Mean Trend**

From figure 4.2, the trend analyses on outside directorship revealed that the number of outside directorships has been decreased from 5.2 in 2002 to 5 in 2003. By 2004 the numbers of outside directorship increase slightly up to 2019 at an average number of 5.5. It was observed that thereafter, the number of outside directorships increased significantly averaging range of 5.7 to 5.8 members. Furthermore, outside directorships provides independent monitoring and improve corporate governance in quoted companies, the more the better. The growing agreement is that a diverse, vigilant and strong board of directors with outside directorship exerts a positive influence on companies governance value (Gabrielsson, 2007).

#### **4.2.4 Trend Analysis for Ownership Concentration Mean**

Ownership concentration is the proportion or percentages of shares of companies held by a few shareholders who could be banks, individuals, family, and other companies. Ownership concentration as a system is perceived as an effective way of monitoring and influencing the management, thus leading to better performance (Liu, Saidi, & Bazaz, 2014)

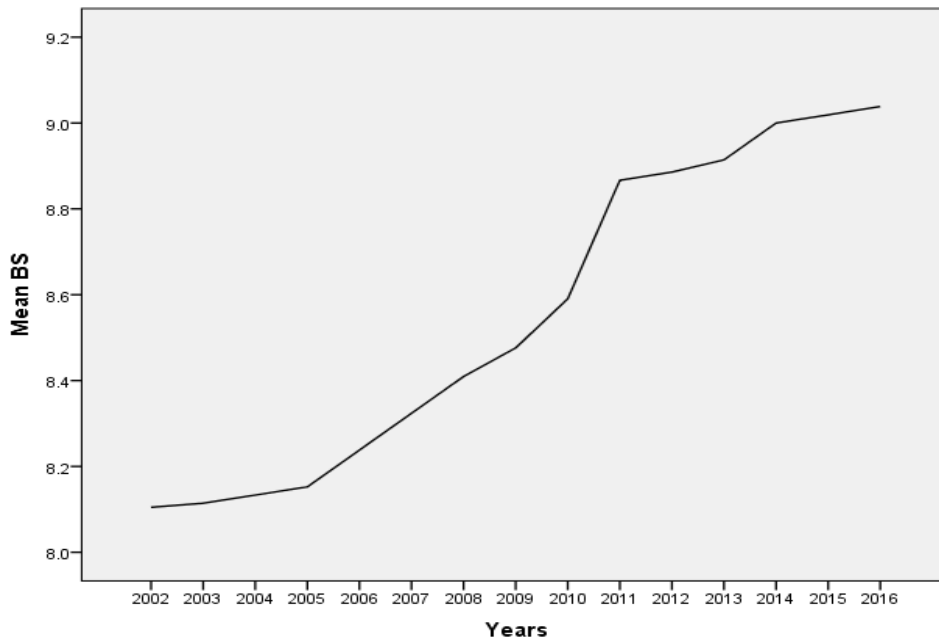


**Figure 4.3: NSE Non-Financial Companies' Ownership Concentration Mean Trend**

The trend analysis result on ownership concentration for the period under consideration revealed that about 0.52% to 0.53% of the shares of the listed companies were owned by the largest shareholders between 2002 and 2007. In 2008 it dropped slightly and by 2009 and 2011, it rose to about 0.55% of the shares of the companies under consideration were owned by the largest shareholders while about 0.56% of the shares were owned by the largest shareholders during the year 2012 and 2016. This result revealed an extensive existence of ownership concentration in the ownership structure of the listed non financial companies in Nigeria. Anderson and Reeb (2003) posit that high concentration of ownership induces the large shareholder to try and maximize firm value due to their private wealth interest, providing an incentive to reduce agency costs. While, Caprio and Levine (2002) states that ownership concentration can be established where 1% of the total stock of a company is owned by an individual or a single family, where 5% of the total stock of the company is owned by the top ten shareholders and where 10% of the total stock of a company is owned by an institution. From figure 4.3, implies that the shares of non financial quoted companies in Nigeria are concentrated in the hands of a few individuals, families, institutional investors and related companies.

#### 4.2.5 Trend Analysis for Board Size

Board size is the total number of directors on the board of a company at any given time. It includes executive directors, outside directors and interlocking directors (Uwuigbe, 2012).



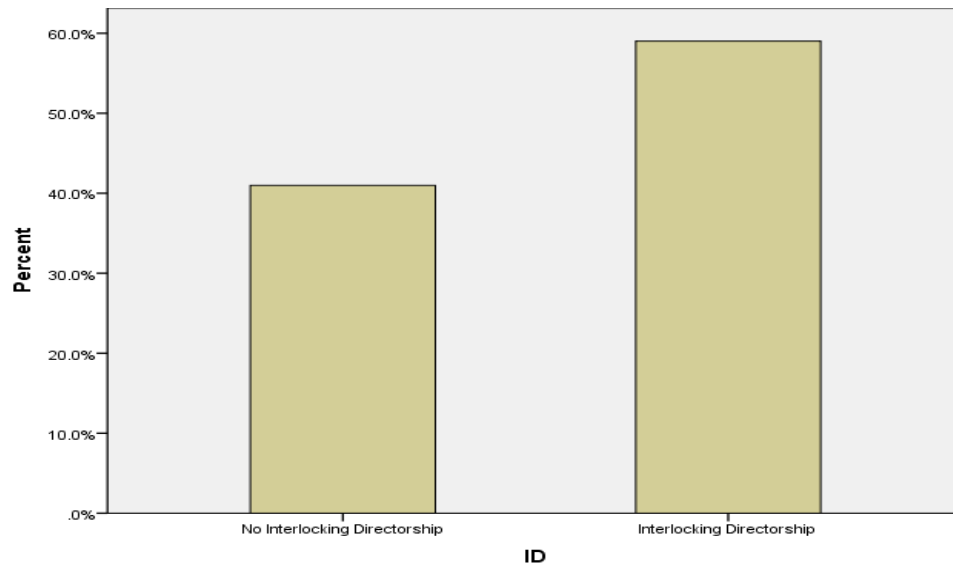
**Figure 4.4: NSE Non-Financial Companies' Board Size Mean Trend**

The trend analysis for the board size shows a gradual increase in the board size of listed companies in Nigeria. The average size of the board of the listed companies between 2002 and 2005 was 8.1. The size increased to 8.2 between 2006 and 2007 while the average board size rose to 8.4 in 2008 to 8.6 in 2009 and from 2010 to 2016 it continuously increase from 8.7 to 9.1 Arouri, Hossain and Muttakin (2014) found that large boards provide a wider diversity of backgrounds, diversity in communications skills, experience and business contacts outside the company. Also, the rise in board size may be due to OECD (2014) recommendations which advocated for the larger board for the effective discharge of directors' duties. The result was presented in figure 4.4.



#### 4.2.6 Bar Chart Analysis for Interlocking Directorship

Interlocking directorship refers to directors who are serving as a director on several boards of public companies within a particular period, whose experience can add great value to boards where they are currently serving (Solomon, 2013)

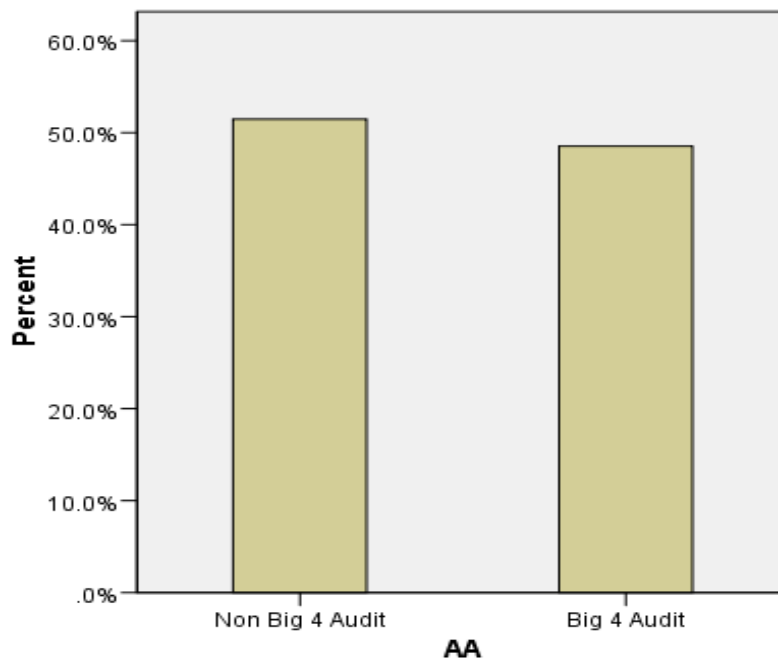


**Figure 4.5: NSE Non-Financial Companies' Interlocking Directorship Bar chart**

The bar chart analysis of interlocking directorship shows that 41% of listed non financial companies in the Nigeria Stock Exchange do not have an interlocking director on the board of the companies. While 59% of the companies have interlocking directors present on the board. Evidence from the literature suggests that the interlocking directorship brings to bear their wealth of experience divergent views that help the companies to make intelligent and effective broad decisions that affect all stakeholders (Peasnell, Pope & Young, 2005). The result was presented in figure 4.5.

#### 4.2.7 Bar Chart Analysis for Audit Assurance

Audit assurance is the guarantee that the financial statement audited by any of the four largest accounting firms in the world as measured by revenue and clients is free from material misstatement (Uwuigbe, Peter and Oyeniya (2014).



**Figure 4.6: NSE Non-Financial Companies' Audit Assurance Bar chart**

The bar chart analysis of audit assurance variable measured by big 4 audits, from figure 4.6 shows that 49% of sample listed non financial companies in the Nigeria Stock Exchange in this study appoint one of the big 4 audit firms as an external auditor. While 51% of the sample companies in this study appoint non big 4 audit firms as their external auditor. The result was presented in figure 4.6.

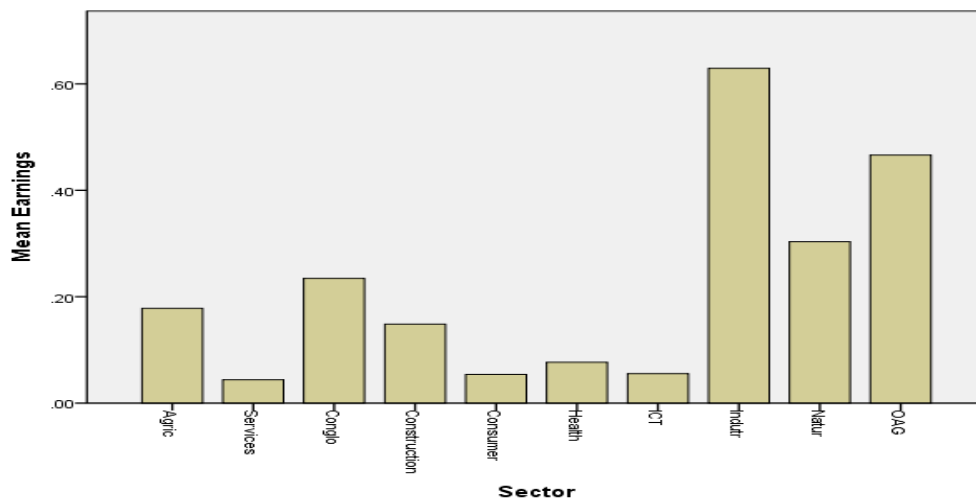
Also, the trend analysis results for all the ten sectors considered in this study revealed that the highest mean was found in the quoted construction companies suggesting that

the listed construction have been audited by one of the big four audit firm implying that through review of the accounts and records are done yearly. It is followed by conglomerate and oil and gas sectors respectively. It was also observed that the natural sector companies in Nigeria reported the lowest mean for big audit indicating that natural sector companies were audited by more non big four big audits during the years under consideration.

### 4.3 Sectorial Analysis

The study focused on non financial listed companies in Nigeria Exchange Stock Exchange, from Table 4.1 is evidenced that the sample consist of Agricultural sector, Conglomerate sector, Construction/ real estate sector, Consumer goods sector, Health care sector, Information, communication & Technology sector, Industrial goods sector, Natural resources sector, Oil & Gas sector, and Services sector.

#### 4.3.1 Sectorial Analysis of Earnings Quality mean

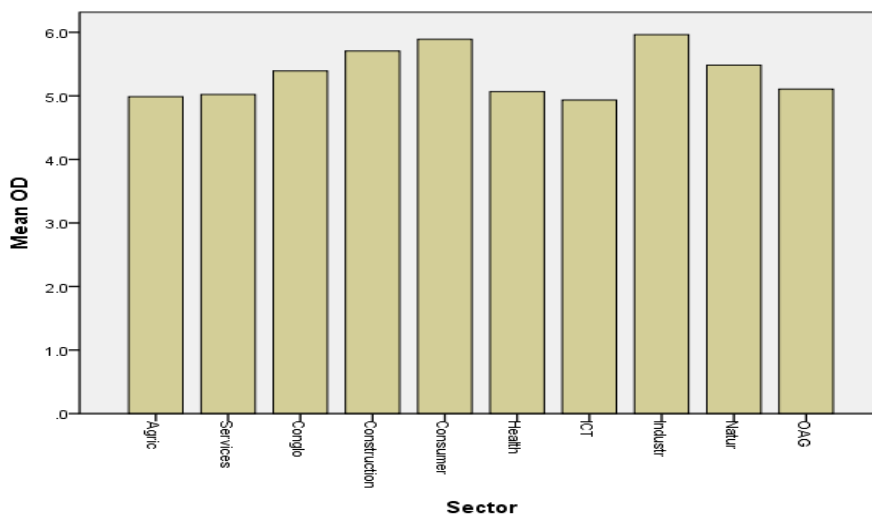


**Figure 4.7: NSE Non-Financial Sectors Earnings Quality Mean**

The sectorial analysis for earnings quality for all the ten sectors considered in this study was presented in figure 4.7. It can be observed from the results that the services sector

had the lowest mean earnings quality during the period under consideration followed by information, Communication and Technology and consumer goods sectors respectively indicating that earnings quality as measured by persistence in these sectors transitory and not persistence. While the industrial sector companies recorded the highest earnings quality mean at 0.6 indicates that the earnings quality is the persistence of this sector. This sector is followed by oil and gas, natural resources sectors with 0.5 and .35 respectively. It can be deduced from Figure 4.7 that oil & gas sector and natural resources sector earnings quality mean is transitory. Also, it was observed that none of the sectors had mean earnings quality above 0.6 indicates that the sectors had low earnings quality.

#### 4.3.2 Sectorial Analysis of Outside Directorship Mean

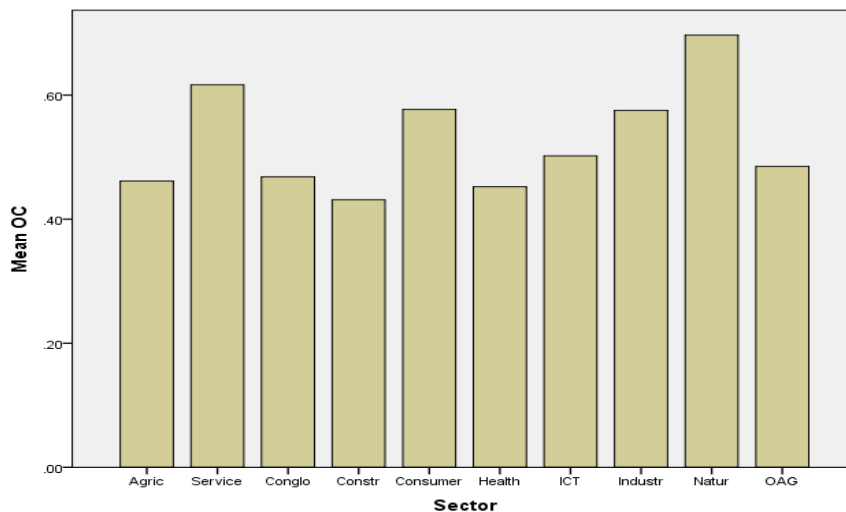


**Figure 4.8:NSE Non-Financial Sectors Sectorial Outside Directorship Mean**

The sectorial analysis result on outside directorship for the ten sectors considered in this study revealed that highest mean of outside directors are found in the industrial goods sector in Nigeria followed by the outside directors of the consumer goods sector, while ICT sector has the lowest mean of outside directors on the board. If this result is related to the sectorial analysis result on the board size mean where it was revealed that

consumer and industrial sectors had the largest board size mean and ICT had the smallest board size mean, the results can be considered acceptable.

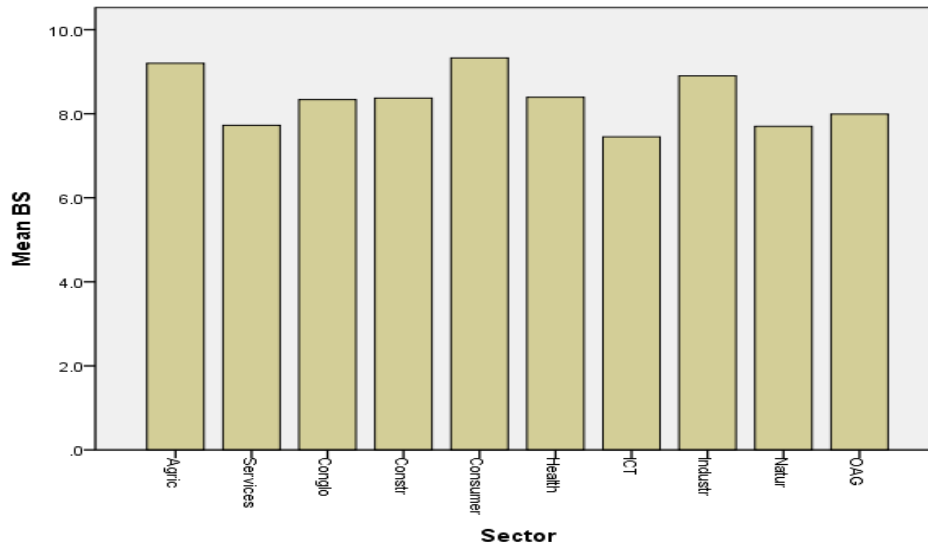
#### 4.3.3 Sectorial Analysis of Ownership Concentration Mean



**Figure 4.9: NSE Non-Financial Sectors Sectorial Ownership Concentration Mean**

The result of sectorial mean analysis on ownership concentration for the ten sectors considered in this study revealed that ownership concentration was more prominent in the natural resources sector of the Nigerian economy with 75% mean ownership concentration, followed by the services sector with 62% mean ownership concentration. The lowest form of mean ownership concentration was demonstrated by the quoted construction sector in Nigeria with 42% mean ownership concentration during the years under consideration.

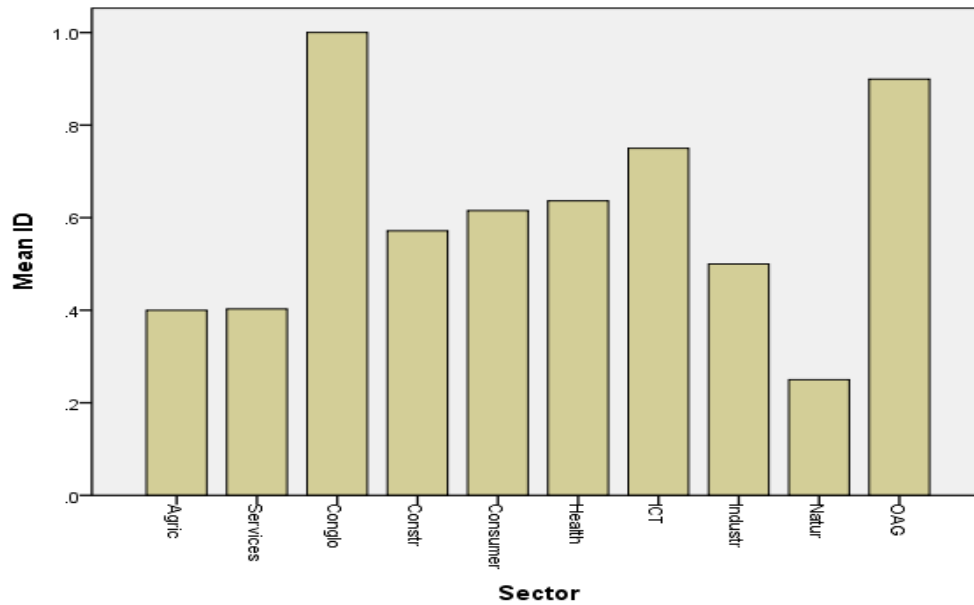
#### 4.3.4 Sectorial Analysis of Board Size Mean



**Figure 4.10: NSE Non-Financial Sectors Sectorial Board Size Mean**

The result of the sectorial analysis on board size means for the ten sectors considered in this study as presented in figure 4.10 revealed that consumer goods sector has the largest mean of board size at 9 board members, followed by Agricultural sector of the Nigerian economy with a mean board size of 8.5 members per board. The Information, communication, and Technology (ICT) sector has the lowest mean board size in Nigeria, which is as the result of the numbers of companies and their size in the Information, communication and Technology (ICT) sector. The consumer and agricultural sectors in Nigeria serves as the major employer of labour and also contributed 48% of the total GDP in 2016.

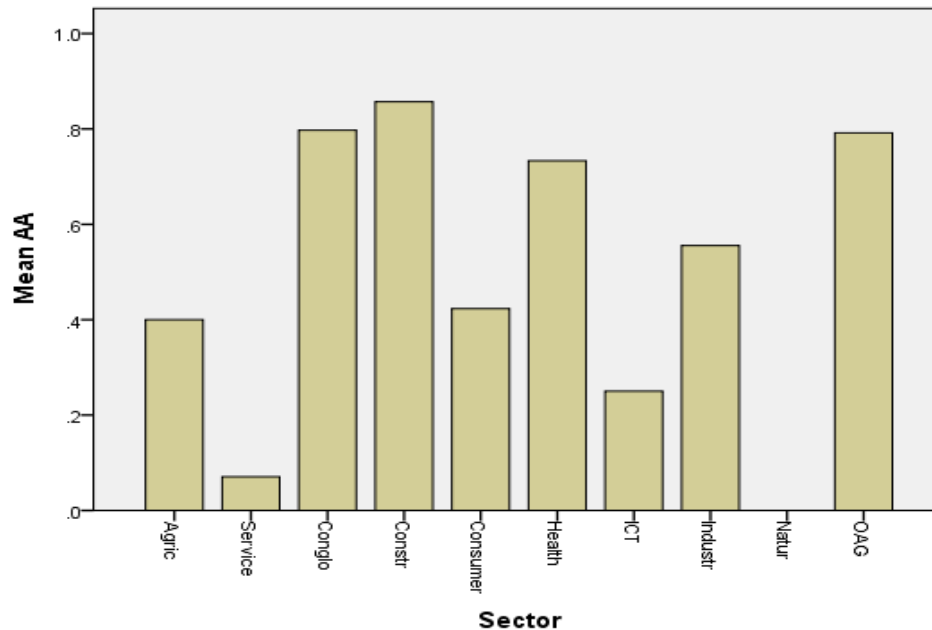
### 4.3.5 Sectorial Analysis of Interlocking Director Mean



**Figure 4.11: NSE Non-Financial Sectors sectorial Interlocking Directorship Mean**

The result of the sectorial mean analysis for all the ten sectors considered in this study as presented in figure 4.11 for the years under consideration revealed that conglomerate sector had the highest mean of interlocking directors on the board of the sector at 90% of board members are interlocking directors, followed by the oil and gas sector with 82% mean of board member are interlocking directors. The sector with the least mean of interlocking directors is natural sector of the non financial sector of the Nigerian economy at 25%.

### 4.3.6 Sectorial Analysis of Audit Assurance Mean



**Figure 4.12: NSE Non-Financial Sectors Sectorial Audit Assurance Mean**

The sectorial mean analysis results for all the ten sectors considered in this study as presented in figure 4.12 revealed that the highest sectorial mean of 95% was found in the listed construction sector suggesting that the 95% of listed construction companies translating to 6 companies out of 7 have been audited by one of the big four audit firm implying that through review of the accounts and records are done yearly. It is followed by conglomerate and oil and gas sectors with sectorial mean of 80% and 79% respectively. It was also observed that the natural sector companies in Nigeria reported the lowest sectorial mean of 0% for big audit indicating that natural sector companies were audited by non big four big audits during the years under consideration.

### 4.4 Model Diagnostic Test Procedures

The data for the study were subjected to diagnostic tests before being used for inferential analysis. The inferential analyses for this study were Pearson correlation analysis and

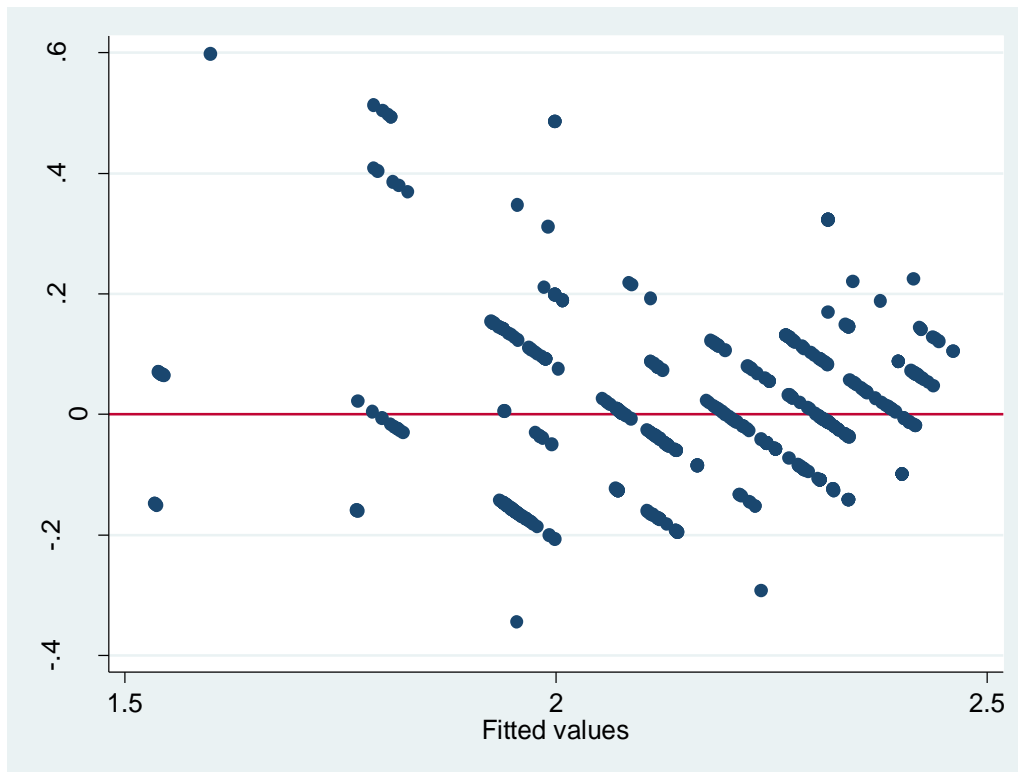


regression analysis. The different diagnostic tests were carried out in this study and they include normality test, autocorrelation test (also known as a test for independence) and homoscedasticity test.

Assumptions of linear and multiple linear regressions are never truly met in reality. Furthermore, it is important to check in order to ascertain that we can work with the dataset. The basic assumptions include; variation of observations around the regression line is constant, this is referred to as homoscedasticity. Y values can be expressed as a linear function of the X variable (linearity). Y values are independent. Y values are normally distributed for given values of X (normality) Knowledge of how the data has been gathered as well as the study design guides assumptions 3, while all others can be derived from model errors or residuals. For the dataset within this study, the linearity assumptions are met. This is mainly because the fitted red line on the residual versus fitted plot is straight.

#### **4.4.1 Normality Test**

The Normal Q-Q plot is for normality. Normality is more or less a statistical assumption within a dataset. It is a diagnostic test that looks at the distribution pattern within a dataset. The figure below gives the first impression of the normality of the data used for this research. Most data points fall on the fitted line, causing the normality assumption to be met. Nevertheless, we cannot directly ascertain normality. Hence, model testing such as “Shapiro Wilk” test can be used as normality confirmatory test.



**Figure 4.13: Residual vs Fitted**

A One-Sample Shapiro-Wilk Test was done to test the normality of the dependent variable and independent variables. The null and alternative hypotheses were as follows:

$H_0$ : The data was normally distributed

$H_1$ : The data was not normally distributed

**Table 4.3: One-Sample Shapiro-Wilk and Anderson Darling Test**

|                       | Earnings Quality | outside directorship | ownership concentration | board size | Audit assurance | interlocking directorship |
|-----------------------|------------------|----------------------|-------------------------|------------|-----------------|---------------------------|
| N                     | 1573             | 1573                 | 1573                    | 1573       | 1573            | 1573                      |
| SW                    | 0.34895          | 0.95038              | 0.98309                 | 0.97391    | 0.6363          | 0.62466                   |
| AD                    | 0.34895          | 0.95038              | 0.98309                 | 0.97391    | 0.6363          | 0.62466                   |
| p-value               | 0.00000          | 0.00000              | 0.00000                 | 0.00000    | 0.00000         | 0.00000                   |
| Sig                   | 0.00             | 0.00                 | 0.00                    | 0.00       | 0.00            | 0.00                      |
| Asymp. Sig.(2-tailed) | .000             | .000                 | .000                    | .000       | .000            | .000                      |

The results obtained in table 4.3 indicate that Shapiro-Wilk p-value derived for all the variables ranged from 0.000000001 to 0.000000002. Since the p-value is lower than 0.05, the null hypothesis was rejected and concluded that the data was not normally distributed. A second possible test to check normality is the Anderson Darling test. It works in the same way as the Shapiro test and they both often yield similar results. It was also revealed in the table that Shapiro-wilk and Anderson Darling had a p-value of .000 respectively indicating that the data are normally distributed and can, therefore, be relied on for statistical analysis.

#### **4.4.2 Test for Autocorrelation-Durbin Watson Statistic for independent and dependent variables**

The Durbin-Watson d-test was used to interrogate serial correlation in the data, using R statistics, when d value is approximately 2 and p-value lesser than 0, an indication that there is neither positive nor negative first order autocorrelation. Thus, the null hypothesis that there was no autocorrelation in the data collected was purposed and

tested for this study using Durbin Watson Statistics. Since the p-value was greater than 0.05, the null hypothesis which stated that there was no autocorrelation in the data was not rejected. Furthermore, this implies that the residuals were independent of each other.

**Table 4.4: Durbin Watson Statistics for Autocorrelation**

| <b>Lag</b> | <b>D.W Statistics</b> | <b>P-Value</b> |
|------------|-----------------------|----------------|
| 1          | 2.0063                | -0.005213      |
| 2          | 2.0183                | -0.01331       |
| 3          | 2.0794                | 0.06711        |

As revealed that Durbin Watson Statistics for lag 1 was 2.00063 with a p-value of -0.005213 while the Durbin Watson Statistics for lag 2 and 3 were 2.0183 and 2.0794 with a p-value of -0.0133 and -0.0671 respectively. Since the p-value was lower than 0, the null hypothesis which stated that there was no autocorrelation in the data was accepted. It can, therefore, be said that the earnings for the year 2006 were not a function of earnings for the year 2007. Earnings quality for 2011 was also not a function of earnings quality for 2012 and soon.

#### **4.4.3 Test for Homoscedasticity**

Cohen, Cohen, West and Aiken (2013) and Barley (2009) posit that heteroscedasticity violation makes it difficult to gauge the true standard deviation of the forecast errors, it always makes confidence intervals to be too extensive or too narrow. The presence of heteroscedasticity in any data set is a major concern in the application of regression analysis, including the analysis of variance, as it can invalidate statistical tests of significance that assume that the modelling errors are uncorrelated and uniform hence that their variances do not vary with the effects being investigated.

**Table 4.5: Brusch Pagan Test for Homoscedasticity**

| Test Statistics | Degree of Freedom | P-Value |
|-----------------|-------------------|---------|
| 504.35          | 5                 | 0.0000  |

For homoscedasticity (i.e. constant variance), notice from the residual versus fitted plot in figure 4.13, that all data points seem to cluster around the line. This shows that the variation seems constant. It is not enough to decide by mere visual observation. As a result, to prevent the problem associated with homoscedasticity in research, it is useful to test for homoscedasticity in this study. Thus this study tested the null hypothesis that the data deployed for this study were homoscedastic in variance using Brusch pagan test. This was done by carrying out a linear regression between the square of the residuals and the independent variables. The result of the test presented in table 4.5 revealed that the p-value of 0.000 is less than 0.05. Hence, we reject the null hypothesis and say that the model fit meets the assumption of homoscedasticity (constant variance) and can be relied on for regression analysis.

#### **4.4.4 Test for Multicollinearity**

According to Garson (2012) multicollinearity is an undesirable high level of co-relationship among the independent variables, such that the effects of independent variables cannot be split. As far as multicollinearity is concerned, the Variance Inflation Factor (VIF) tests are used in this study. The VIF values are compared to 1. When the values are close to 1, the data is assumed not to contain statistically significant levels of multicollinearity particularly if it falls between the values of 1 and 5.

To verify this problem, the variance inflation factor (VIF) can be used. This is because VIF checks pairwise correlation to ascertain whether collinearity or multi-collinearity does exist and where. It is this information that often informs

the idea of dropping a variable as its presence within a dataset may not be useful. This means that even with multicollinearity, the choice of usage of a variable depends on the performance of that variable within a variance inflation domain. From the R-capture below, each of the independent variables in this research has been tested for values greater or less than 5 (or 10 in some cases) to determine whether they are useful for further analysis;

**Table 4.6: Test for Multicollinearity**

| Variables | Tolerance Level | VIF   |
|-----------|-----------------|-------|
| OD        | 0.972           | 1.028 |
| OC        | 0.951           | 1.052 |
| BS        | 0.863           | 1.158 |
| ID        | 0.788           | 1.269 |
| AA        | 0.770           | 1.299 |

As it was observed from table 4.6 the VIF results revealed 1.028 for outside directors, 1.052 for ownership concentration, 1.158 for board size, 1.269 for interlocking directors and 1.299 for audit assurance respectively. It, therefore, implies that since all variance inflation factors values are all between 1 and 5. The data do not contain a statistically significant level of multicollinearity.

#### **4.4.5 Granger Causality Test**

The Granger causality test is a statistical hypothesis test for determining whether one time series is useful in forecasting another. Bressler and Seth (2011) posit that Granger causality test essentially consists of estimating a bivariate linear model, determining the optimal lag length, and testing the significance of the lags of the exogenous variable(s). The data set for this study is balanced panel data therefore, is important to granger test the variable before running the multiple regression test. The null and alternative hypotheses were as follows:

H<sub>0</sub>: OD, OC, BS, ID, and AA all do not granger cause EQ

H<sub>1</sub>: OD, OC, BS, ID, and AA all do granger cause EQ

Model1: EQ ~ Lags(EQ, 1:2) + Lags(OD+OC+BS+ID+AA, 1:2)

Model2: EQ ~ EQ(EQ, 1:2)

**Table 4.7: Granger Causality Test**

|         | Res.Df | Df | F      | Pr(>F)       |
|---------|--------|----|--------|--------------|
| Model 1 | 5875   |    |        |              |
| Model 2 | 5875   | -2 | 9.0564 | 0.000768 *** |

The results obtained in table 4.7 indicate that Granger causality p-value derived is 0.000768. Since the p-value is lower than 0.05, the null hypothesis was rejected and concluded that all of OD,OC,BS,ID, and AA causes EQ.

#### **4.4.6 Hausman Test: Fixed and Random Effects**

Bell and Jones (2015) state that Hausman test is used to check the consistency of variable for use within the data and check random and fixed as well as pooling effects with all often yielding similar results. If a variable is inconsistent, it is dropped, if not, it is used in further interpretation.

In order to ascertain the consistency of the variables within the data set of this study, a number of tests such as model pooling, Lagrange, fixed and random effects are compared. The null and alternative hypotheses were as follows:

H<sub>0</sub>: the preferred model is not fixed effects

H<sub>1</sub>: the preferred model is fixed effects

**Table 4.8: Hausman Test**

|               | data  | chisq  | df | p-value | Alternative hypothesis |
|---------------|-------|--------|----|---------|------------------------|
| Random, fixed | Y ~ X | 6191.4 | 3  | 2.2e-16 | significant effects    |

Y= dependent X= independent variable bound together

**Table 4.9: Lagrange Multiplier Test- (Honda) for balanced panels**

|         | data  | normal | p-value | Alternative hypothesis |
|---------|-------|--------|---------|------------------------|
| pooling | Y ~ X | 72.056 | 2.2e-16 | significant effects    |

Y= dependent X= independent variable bound together

**Table 4.10: F test for individual effects**

|                | data  | F      | df1 | df2  | p-value | Alternative hypothesis |
|----------------|-------|--------|-----|------|---------|------------------------|
| fixed, pooling | Y ~ X | 40.239 | 593 | 3567 | 2.2e-16 | significant effects    |

Y= dependent X= independent variable bound together

The results obtained in table 4.8 indicate that Hausman p-value derived is 2.2e-16. Since the p-value is lower than 0.05, the null hypothesis was rejected and concluded that the all models are consistent at 0.05, therefore, the preferred model is fixed effect and comparing results to random and fixed effects, it was observed see that all the variables are okay for the dataset. A second possible model specification check for the consistency of variable in the data is the Lagrange Multiplier Test and F test for individual effects. It was also revealed in table 4.9 And 4.10 that Lagrange Multiplier Test and F test for individual effects had p-values of .0000 respectively indicating that the variables are consistent and that it can, therefore, be relied on for further statistical analysis.



#### 4.5 Correlation Analysis

A correlation has been defined by Yang (2008) as a statistical measure that indicates the extent to which two or more variables fluctuate together. A positive correlation indicates the extent to which those variables increase or decrease in parallel while a negative correlation indicates the extent to which one variable increases as the other decreases. Kothari and Garg (2014) stated that Pearson Correlation Coefficient is the most widely used method of measuring the degree of relationship between two variables. It ranges from -1 to +1. A correlation coefficient of -1 indicates a perfect negative correlation, 0 indicates no correlation while +1 indicates a perfect positive correlation. It is a statistical test that informs a researcher the magnitude and direction of the relationship between two variables.

**Table 4.11: Pearson Correlation Matrix for Independent and Dependent Variables**

|    | EQ    | OD      | OC      | BS      | ID      | AA    |
|----|-------|---------|---------|---------|---------|-------|
| EQ | 1.000 |         |         |         |         |       |
| OD | .037  | 1.000   |         |         |         |       |
| OC | -.027 | -0.4834 | 1.000   |         |         |       |
| BS | -.003 | 0.5946  | -0.1663 | 1.000   |         |       |
| ID | -.025 | -0.0624 | 0.0049  | -0.1709 | 1.000   |       |
| AA | .097  | -0.0392 | 0.1106  | -0.1586 | -0.4390 | 1.000 |

\*\* . Correlation is significant at the 0.01 level (2-tailed).

\* EQ- Earnings Quality, OD- Outside Directorship, OC- Ownership Concentration, BS- Board Size, ID- Interlocking , AA- Audit Assurance

#### **4.5.1 Pearson Correlation Analysis for Audit Assurance and Earnings Quality**

The Pearson correlation of big audit and earnings quality was computed and the result produces a coefficient of 0.097 indicating a positive relationship between the two variables. Ke, Lennox and Xin (2014) reported a Positive relationship between big audit and earnings in a sample of Chinese firm for ten years. In like manner, Tsipouridou and Spathis (2014) study 20 Greek medium size firms to investigate the impact of audit on earnings; the findings revealed that inverse relationship exist between big audit and earnings quality. These results therefore made a case for big audit for quoted companies. From table 4.11, it can then be concluded that there is a positive linear relationship between the big audit and earnings quality since the correlation coefficient is positive in line with Rumesy (2016) categorization of correlation coefficient.

#### **4.5.2 Pearson Correlation Analysis for Outside Directors and Earnings Quality**

The Pearson Correlation Coefficient of outside directors and earnings quality was computed and established as 0.037 indicating a positive relationship between outside directors and earnings quality. From table 4.11, it could then be concluded that there is a significant positive linear relationship between the two variables since the correlation coefficient is between 0.4 and -0.6 in line with Rumesy (2016) categorization of the correlation coefficient.

In a related empirical study conducted by Kim, Mauldin and Patro (2014) on the relationship between outside directors and earnings quality in Korean firms the findings was positively correlation, indicating that increase in presence of outside directors leads to increase in earnings quality. In a contrary study, Perotti and Wagenhofer (2014) investigated the relationship between outside and earnings quality of small and medium sized Portuguese companies for 5 years from 2002 to 2007. The study used seventy firms and the data was analysed using simple regression. The findings show a negative

and statistically significant correlation of outside on earnings quality of SMEs firms in Portugal.

#### **4.5.3 Pearson Correlation Analysis For Ownership Concentration And Earnings Quality**

The Pearson Correlation Coefficient of ownership concentration and earnings quality was computed and established as  $-.027$  indicating a negative relationship between ownership concentration and earnings quality. From table 4.11, it could then be concluded that there is a significant negative linear relationship between the two variables since the correlation coefficient is between  $0.4$  and  $0.69$  in line with Rumesy (2016) categorization of the correlation coefficient.

A related study by Wang and Shailer (2015) which evaluates the impact of ownership concentration on the earnings quality in the emerging market for five years reported a negative relation between the ownership variable and earnings. The dependent variable was earnings which were measured by earnings per share and the independent variable was ownership concentration. While Doğan (2013) examined the effects of ownership concentration on earnings quality, the study used data from 200 companies listed on Istanbul Stock Exchange (ISE) for the period covering 2008-2011. It also used simple regression and correlation methods to empirically analyse the data. The findings revealed a significant positive linear relationship between ownership concentration and earnings quality.

#### **4.5.4 Pearson Correlation Analysis for Board Size and Earnings Quality**

The Pearson Correlation Coefficient for board size and earnings quality was computed and established as  $-0.003$  indicating a negative relationship between board size and earnings quality. From table 4.11, it could then be concluded that there is a significant negative linear relationship between the two variables since the correlation coefficient is between  $-0.50$  and  $+0.5$  in line with Rumesy (2016) categorization of the correlation

coefficient. This result confirms the findings of Lee and Roberts (2015) the study investigates the influence of board size on earnings from five major emerging markets (Brazil, India, Korea, Russia, and Turkey). There was a significant weak negative relationship between board size and performance was reported.

In a different empirical test, Niresh and Thirunavukkarasu (2014) examined the effects of board size on the earnings quality of quoted manufacturing firms in Sri Lanka. The study covered five years period using data from 15 companies listed on Colombo Stock Exchange (CSE). The study used correlation and regression methods in the empirical analysis. The findings show that there is no indicative relationship between board size and earnings quality of listed manufacturing firms. It also showed that board size has no profound impact on the earnings quality of the listed manufacturing firms in Sri Lanka.

#### **4.5.5 Pearson Correlation Analysis for Interlocking Director and Earnings Quality**

The Pearson Correlation Coefficient of interlocking directors and earnings quality was computed and established as -0.025 indicating a negative relationship between the interlocking director and earnings quality. From table 4.11, it could then be concluded that there is a weak negative linear relationship between the two variables since the correlation coefficient is between 0.5 and -0.6 in line with Rumesy (2016) categorization of the correlation coefficient. In a related study, Falato, Kadyrzhanova and Lel (2014) conducted a study of the relationship between interlocking directorship and earnings quality among listed American companies for ten years. The results of the study indicate an inverse relationship between the two variables.

Also, Lee (2009) studied the effects of interlocking director on earnings quality of firms operating in the manufacturing sector in Vietnam using the data of 15 years (1987 to 2002). The data were analysed using regression method. The findings of the study revealed that negative and statistically significant effect exist between interlocking director and firms' earnings quality. In a different region, Jónsson (2011) examined the

effect of interlocking directorship on earnings quality of Icelandic firms for 5 years. The study used two hundred and fifty Icelandic firms and the data was analysed using regression method. The result shows that interlocking directorship had positive impact on the earnings quality of the firms.

#### **4.5.6 Overall Pearson Correlation Matrix for Dependent and Independent Variables**

The correlation matrix is used to determine the extent to which changes in the value of an attribute is associated with changes in another attribute. The correlation coefficient according to Kothari and Garg (2014) can range from -1 to +1, with -1 indicating a perfect negative correlation, +1 indicating a perfect positive correlation, and 0 indicating no correlation at all. Table 4.11 revealed that there was a negative correlation between earnings and audit assurance at -0.097, there was also a significant positive correlation between the earnings and outside directors at 0.037. Similarly, there existed a negative correlation between earnings and board size of 0.003. The relationship between earnings and ownership concentration on the hand was realized a weak negative correlation at -0.027. Finally, the correlation between earnings and interlocking directors was negative at -0.025

From table 4.11, the independent variables were found to have both negative and positive correlation with one another, firstly, the ownership concentration was found to be negatively correlated with the outside directorship and board size, ownership concentration was also found to have weak positive correlation with interlocking directorship and audit assurance. Secondly, board size was found to have weak positive correlation with outside directorship and strong negative correlation with interlocking directorship and audit assurance. Thirdly interlocking directorship was found to strong negative correlation with outside directorship and board size; it has positive correlation with ownership concentration. Fourthly, audit assurance was found to have negative

correlation with outside directorship, board size and interlocking directorship, while it has positive correlation with ownership concentration.

The highest correlation was found between the board size and outside directorship at 0.594, followed by the correlation between audit assurance and ownership concentration at 0.111 and interlocking director and ownership concentration at 0.005. While the lowest correlation existed between the ownership concentration and other independent variables ranged between -0.039 to -0.662. Evidence from extant literature posits that correlation coefficient should not go beyond 0.7 to avoid multicollinearity. Hence it can be that concluded that this research is free from a multicollinearity problem with the exception of board size and outside directors with 0.594 which is lower than 0.7. In summary, the Pearson product-moment correlation employed in this study, measures the strength and direction of association that exists between continuous variables. A value of zero indicates no relationship. From Table 4.11, AA is negatively correlated with EQ. OD is also positively correlated with EQ and BS. On the contrary, OC is inversely related to EQ, OD and BS, positively related with ID and AA variable. Further, BS is negatively correlated with all the variables except with OD.

#### **4.6 Regression Analysis**

In this section, pooled ordinary regression was done for the dependent variable to understand the level of earnings quality in Nigeria measure by persistence and multiple regression analysis was also done in order to establish the specific statistical effect of each corporate governance variable captured in multiple regression models by way of addressing each specific objective. The objective is to test the hypotheses that the corporate governance variables such as outside director, ownership concentration, board size, interlocking director and moderated by big audit have no effect on earnings quality the firms listed at the NSE. Panel data diagnostic tests were done for the possible use of the models. Results of these analyses are reported and discussed in the ensuing subsections.

**Table 4.12: Pooled Overall Regression Output**

| Earnings | Coef.     | Std. Err. | t     | P> t  |
|----------|-----------|-----------|-------|-------|
| OD       | .02464    | .0079384  | 3.10  | 0.002 |
| OC       | -.0163421 | .0424842  | -0.38 | 0.701 |
| BS       | -.0156242 | .0059733  | -2.62 | 0.009 |
| ID       | -.0532601 | .0173171  | -3.08 | 0.002 |
| AA       | .083922   | .0172429  | 4.87  | 0.000 |
| _cons    | .2206461  | .0385691  | 5.72  | 0.000 |

Signif. codes: 0 '\*\*\*' 0.001 '\*\*' 0.01 '\*' 0.05 '.' 0.1 ' ' 1

### ***Regression Statistics***

Residual standard error: 0.04547 on 1568 degrees of freedom

Multiple R-squared: 0.63559 Adjusted R-squared: 0.40005

F-statistic: 4.532 on 51568 DF, P-value: 0.000417

### **4.6.1 Effect of Outside Director on Earnings Quality**

In line with specific objective one and the first hull hypothesis of this study which contends that outside directors have no effect on earnings quality of listed companies on Nigeria Stock Exchange. The findings as indicated in Table 4.12 revealed that outside director has a positive and significant coefficient of 0.02464. This is shown by t and p values that are both outside the null hypothesis acceptance region. The p-value is shown as 0.002 while the corresponding t-value 3.10 which is significant at 5% level. Accordingly, this study therefore rejects the null hypothesis based on the regression results that outside directorship do not have a significant effect on earnings quality of listed non

financial companies in Nigeria, which prompted the acceptance of the alternative hypothesis which suggests that outside directorship have a significant effect on earnings quality of listed non financial companies in Nigeria

This result is in agreement with that of Terjesen, Couto and Francisco (2016) empirically study the impact of outside director and gender diversity on earnings quality. The study used data from 3,876 public firms in 47 countries and controlling for a wide set of corporate governance mechanisms. The finding shows that firms with more female outside directors have a higher earnings quality. This finding could possibly be ascribed to different corporate governance practises among the 47 countries. In another study by Reddy, Locke and Scrimgeour (2010), they examined the effect of corporate governance practices such as outside director on the earnings quality of firms' quoted on New Zealand stock exchange, for a period of 10 years from 1999 to 2009. The study used multiple regressions and the findings show that outside director has positive influence on earnings and performance of the companies. This finding could possibly be ascribed to strict corporate governance practises among companies in New Zealand.

In a similar study, Peasnell, Pope and Young (2005) investigated the influence of outside director on earnings quality of companies in the United Kingdom for five years using simple regression. The result shows that outside director have significant positive effects on earnings quality thereby improving the quality of audited accounts. This finding could possibly be ascribed to the numbers of years used in the study. In a different result by Feldman and Montgomery (2015) they investigate the effect of outside director on earnings and performance, using Fortune 500 companies boards as a sample, this finding shows that the presence of outside directors has a negative impact on earnings quality and firm value. This finding could possibly be attributed to the sample size and strict corporate governance practises among companies. Furthermore, Abels and Martelli (2012) interrogate the effect of outside directorship on earnings quality of selected top five hundred companies in the United State of America. The study employ simple regression model and purposive sampling to select the sampled companies based on



annual turnover. The finding revealed that outside directorship does not have significant effect on earnings quality of selected top five hundred companies in the United State of America. This finding could possibly be ascribed to strict corporate governance practises among companies in the United State of America. In a similar study, Ghazali (2010) examined several corporate governance variables such as outside directors, ownership concentration, board size, interlocking directorship and audit assurance on earnings quality of companies quoted on Malaysia Stock Exchange. The study used data relating to non financial companies on Malaysia Stock Exchange for one year and employ regression model. The finding shows that outside directorship does not have significant influence on earnings quality of sampled companies Malaysia Stock Exchange. The similarity in findings could perhaps be attributed to the sampled non financial companies.

#### **4.6.2 Effect of Ownership Concentration on Earnings Quality**

The second objective is to test the hypothesis that the ownership concentration has no significant effect on earnings quality of the non financial companies listed at the NSE. A positive association is expected between ownership concentration and earnings quality. Multiple regression analysis was carried out to establish the statistical significance of the independent variable (Ownership Concentration) on the dependent variable (earnings quality). The findings as indicated in Table 4.12 revealed that ownership concentration has no effect insignificant coefficient of -0.0163421. This is shown by p and t values that are both inside the null hypothesis acceptance region. The p-value is shown as 0.701 while the corresponding t-value -0.38 which is insignificant at 5% level. Accordingly, this study fails to reject the second null hypothesis, which suggests that ownership concentration does not have significant statistical effect on earnings quality of listed companies in Nigeria.

The result suggests the possibility of higher earnings quality in a company is a function of other factors other than concentrated ownership. This findings was supported by Wang

and Shailer (2015) they examine the effect of ownership concentration on earnings quality and performance in emerging markets, the study used meta-analytical techniques to integrate the diverse empirical findings and investigate factors contribute to the inconsistencies in the empirical evidence, using 419 correlations collected from 42 primary studies of listed corporations in 18 emerging markets, the findings reveal that ownership concentration has a negative relation with firm earnings across countries.

The similarity in this finding is intuitively plausible because the large size of the samples across 18 emerging markets and corporate governance laws applicable in the various countries. Furthermore, Ongore and Kobonyo (2011) investigated the influence of ownership concentration on earnings quality on companies quoted on Nairobi Stock Exchange (NSE). To proffer answers to the objective of the study, the study employs logistic and stepwise regression. The study used random sampling method and a total of fifty-four sampled companies were used for a period of five years. The result revealed that ownership concentration does not have significant influence on earnings quality of companies on Nairobi Stock Exchange (NSE). The similarity in findings could perhaps be attributed to the large size of the sample companies.

Also, Mangunyi (2011) study the effect of ownership concentration on earnings quality of banks in Kenya. The study covers a period of one year and primary instrument was used to solicit information from respondents within Nairobi central business district. The study sampled forty bank managers and used ordinary least square (OLS) regression analysis. The outcome of the study shows that ownership concentration has no significant influence on earnings quality of banks in Kenya. The similarity in findings could perhaps be attributed to the country stands on corporate governance. Also, Shah, Kouser, Aamir and Hussain (2012) explored the relationship between ownership concentration and earnings quality of companies. The study employs simple regression on the sampled data, the study cover five years. Thus the study concludes that ownership concentration has no significant positive relationship with earnings quality of

companies. The similarity in findings could perhaps be attributed to the years cover by the study.

Nguyen, Locke and Reddy (2015) revealed a divergent position from the effect of ownership concentration on earnings quality of companies in Singapore and Vietnam, using a dynamic framework by focusing on two different types of national governance systems. The findings show a positive effect of concentrated ownership on earnings was persists in these markets even after the dynamic nature of the ownership concentration–performance relationship is taken into consideration. The divergence in this finding could perhaps be attributed to variance the national governance systems in Singapore and Vietnam which also influence the corporate governance systems and by extension share ownership concentration. Also, While Reyna (2012) examined the relationship between ownership concentration and earnings quality of companies quoted on the Mexican Stock Exchange. The study used random sampling and regression model. The study covers a period of five years from 2005 to 2009. The findings show that ownership concentration has significant positive relationship with earnings quality of companies quoted on the Mexican Stock Exchange. This finding could possibly be ascribed to strict corporate governance practises among companies in Mexico.

In a similar study, Ehikioya (2009) investigated the effect of ownership concentration on earnings quality of listed companies in Nigeria. The study used a sample of 107 companies for a period of five years from 1998 to 2002. The study also used multiple regressions to analyze the data. The findings revealed that ownership concentration has significant positive effect on earnings quality. This finding could possibly be ascribed to different corporate governance practises in Nigeria. Also Claessens and Djankov (2014) the study looked at 96 companies over a period of five years in the Czech Republic, the findings show that ownership concentration has a positive effect on earnings quality of companies in the Czech Republic. The divergence in this finding is instinctively possible because the study covers only 5 years period and 96 companies implying 480 firm years, thus influencing the overall outcome of the study. Furthermore, Tin-yan and Shu-kam

(2012) examined the relationship between family ownership concentration and earnings quality of firms listed on Hong Kong Stock Exchange. The study covers 3 years and employs random sampling and a total of 346 firm-years were used. The findings show that ownership concentration has significant positive effect on earnings quality depending on the presence of interlocking directorship. This finding could possibly be ascribed to different corporate governance practises in Hong Kong. Also in the same country, Leung and Horwitz (2010) explored the influence of ownership concentration by top management of the companies quoted on Hong Kong Stock Exchange. The study covers 2 years and simple regression was employed. The findings show that ownership concentration by management has significant positive effect on earnings quality depending on the presence of board size.

In similar study, Ivashkovskaya and Stepanova (2011) investigated the effect of ownership concentration and earnings quality in European, Russian and other emerging market's firms. The study employs multiple regression model and purposive sampling. The covers ten years period from 2001 to 2010, the findings revealed mixed result on the effect ownership concentration on earnings quality, its effect depends on the country corporate governance code relating to share ownership. This finding could possibly be ascribed to strict corporate governance practises among different countries. Also, Zerni et al. (2010) investigated the effect of ownership concentration on earnings quality of companies on SSE Swiss Stock Exchange. The study used simple regressions and random sampling, the total sample size employ of this study comprise of 1,171 firm-year observations for seven years period from 2000-2006. The findings show that ownership concentration has positive effect on earnings quality of companies on SSE Swiss Stock Exchange. The similarity in this finding could be attributed to the period cover and size of the data used in the study.

### **4.6.3 Effect of Board Size on Earnings Quality**

To corroborate the findings from the third objectives as reflected in the third null hypotheses. The objective is to test the hypothesis that the board size has no significant effect on earnings quality of the companies listed at the NSE. In order to establish the statistical significance of the independent variable (board size) on the dependent variable (earnings quality), multiple regression analysis was carried out. The expectation is that there will be an inverse association between board size and earnings quality.

The result as indicated in Table 4.12 revealed that board size has a negative but significant coefficient of  $-0.0156242$ . This is shown by p and t values that are both inside the null hypothesis acceptance region. The p-value is shown as 0.009 while the corresponding t-value  $-2.62$  which is significant at 5% level. Accordingly, this study therefore rejects the null hypothesis based on the regression results that board size does not have a significant effect on earnings quality of listed companies in Nigeria, which prompted the acceptance of the alternative hypothesis which suggests board size does have a significant effect on earnings quality of listed companies in Nigeria

This result corresponds to the finding of Fodio, Ibikunle and Oba (2013), they investigate the effect of corporate governance mechanisms on reported earnings quality of listed Insurance companies in Nigeria. Using 25 listed insurance companies covering 4 years period and multiple regressions were adopted for the study. The finding shows that board size negatively and significantly associated with earnings management in listed insurance companies in Nigeria. This finding could be attributed to the period cover, the size of the sample and the study focused on only one sector (insurance sector). Furthermore, Del Guercio, Dann and Partch (2003) examined the effect of board size and board structure on earnings quality of closed –end investment. The study used regression analysis on 506 closed-end investment for a period of ten years. The outcome shows that companies with small board size have significant effect on earnings quality of the companies. The similarity in this finding could be attributed to the size of the data

and period cover used in the study. In another study in the financial sector Onakoya, Fasanya, and Ofoegbu (2014) examined the effect of board size on earnings quality of banks in Nigeria. The study covers 5 years from 2006 to 2010. It used ordinary least square (OLS) regression analysis to test the data collected from a sample of 9 banks using random sampling. The finding shows that board size on has significant positive influence on earnings quality of banks in Nigeria. This finding could possibly be ascribed to strict corporate governance practises among banks in Nigeria.

In addition, Wang (2012) studied 1618 companies for a period of twelve years, the study adopted unbalanced panel data to investigate the impact of board size on earnings quality and financial performance, the findings reveal that firms with smaller boards invest more heavily in risky assets which eventually led to loss of assets and reduction in profitability and poor earnings quality. The similarities in these findings are plausible because regardless of countries board executives are paid more and become unnecessary large in order to segregate the functions and positions as required by corporate governance codes. While Huang and Wang (2015), a study on corporate governance in china, the findings show that board size has a positive impact on the earnings quality of the companies used in the study over a period of ten years. The convergence in this finding is intuitively attributable to the corporate governance systems in China.

In divergent results by Ozcan and Ince (2016) they examined the impact of board size on earnings quality and firm profit margin (PM), using a sample of 30 Pakistani listed firms for two years. The findings show that large board size does not have any significant influence over earnings quality. This finding could possibly be ascribed to strict corporate governance practises among companies in Pakistan. Also, finding shows that large board size among listed companies in the United State of America only adds to the cost of overheads without corresponding benefit to earnings quality companies (Coles *et al.*, 2014). This finding could possibly be ascribed to strict corporate governance practises among companies in the United State of America. In similar study, Aljifri and Moustafa (2007) examined the effect of board size on earnings quality of companies in

the United Arab Emirate. The study employs simple linear regression to test the variables, also the study use random sampling to select fifty-one companies. The research outcome revealed that the null hypothesis was not rejected implying that board size do not have significant effect on earnings quality. This finding could possibly be ascribed to sample size used in the study. Also, Chaghadari (2011) investigated the influence of board size on earnings quality of firms quoted on Malaysia Stock Exchange for a period of 5 years. The study employs multiple linear regressions. The findings show that there is no significant effect of board size on earnings quality of firms in Malaysia. This findings is collaborated by Kajola (2008), the study examined the relationship between board size and earnings quality of twenty companies quoted on Nigeria Stock Exchange. The study employs random sampling and simple linear regression analysis to test the data, the study covers a period of seven years from 2000 to 2006. The result shows that board size do not have significant relationship with earnings quality.

#### **4.6.4 Effect of Interlocking Directorship on Earnings Quality**

Based on specific objective four, hypothesis four was framed which is presented thus there is no significant effect of interlocking directorship on earnings quality of listed non financial companies on the Nigeria Stock Exchange. Multiple regression analysis was carried out to determine the statistical significance of the independent variables on the dependent variable (earnings quality). The result as indicated in Table 4.12 revealed that board size has a negative but significant coefficient of  $-0.0532601$ . This is shown by p and t values that are both outside the null hypothesis reject region. The p-value is shown as 0.002 while the corresponding t-value  $-3.08$  which is significant at the 5% level. Consequently, the study therefore rejects the null hypothesis based on the regression analysis that there is no significant effect of interlocking directorship on earnings quality of non financial companies in the Nigeria Stock Exchange, which prompted the acceptance of the alternative hypothesis which suggests that interlocking directorship has a

statistically significant effect on earnings quality in listed non financial companies on Nigeria Stock Exchange.

Consequently, companies with interlocking directors on the board are prone to good earnings quality. Thus a company with a higher number of interlocking directors reduces earnings quality. This result can be interpreted in the context of the agency theory, as a presence of interlocking director enhances board ability to monitor and ensure strict corporate governance practices, influences the board's ability to act as an effective monitoring mechanism in mitigating agency conflicts (Xie *et al.*, 2003). Furthermore, De Toledo (2007) examined the effect of interlocking directorship as a component of corporate governance variable on earnings quality. The study employs random sampling method and multiple regressions, the study used a sample of 97 Spanish non-financial quoted firms. The results revealed that interlocking directorship has a significant positive effect on earnings quality of non financial quoted Spanish firms. This finding could possibly be ascribed to strict corporate governance practises among companies in Spain. Furthermore, Ur Rehman and Mangla (2012) examined the relationship between interlocking directorship and earnings quality of banks in Pakistan. The study used multiple regression models to test the data of sampled banks. The study employs random sampling and a total sampled size of 30 banks. The study covers a period of nine years from 2001 to 2009. The finding of the study shows that interlocking directorship has significant positive relationship with earnings quality of banks in Pakistan. This finding could be attributed to the period cover and the banking sector data used in the study.

Also, in a similar study, Ivashkovskaya and Stepanova (2011) investigated the effect of interlocking directorship and earnings quality in European, Russian and other emerging market's firms. The study employs multiple regression model and purposive sampling. The covers ten years period from 2001 to 2010, the findings revealed interlocking directorship has a significant positive effect on earnings quality of the various markets. This finding could possibly be ascribed to strict corporate governance practises in the different countries used in the study.



In another study, Nuryanah and Islam (2011) examined the effect of interlocking directorship on corporate earnings quality of emerging market and Indonesia. The study employs multiple regression model and random sampling, the study covers ten years. The findings revealed that interlocking directorship has a significant positive effect on earnings quality of both emerging market and Indonesia. This finding could possibly be ascribed to strict corporate governance practises among companies in Indonesia. Also, Lama (2012) investigated the relationship between interlocking directorship and earnings quality of Mid-sized Australian companies. The study employs simple regressions and Pearson correlation to analyze the data. Also the study used purposive sampling of Mid-sized Australian companies, the study cover a period of 5 years. The result revealed that interlocking directorship has significant relationship with earnings quality of Mid-sized Australian companies. The similarity in findings could perhaps be attributed to the large size of the sample companies.

Similarly, Moradi Aldin, Hevrani and Iranmahd (2012) examined the relationship between interlocking directorship and earnings quality of eighty- four companies quoted on Tehran Stock Exchange. The study employs random sampling and simple linear regression analysis to test the data, the study covers a period of five years from 2007 to 2011. The result shows that interlocking directorship has significant relationship with earnings quality of companies quoted on Tehran Stock Exchange. The similarity in findings could perhaps be attributed to the large size of the sample companies in Iran. Increased monitoring through the presence of interlocking director is expected to result in a reduction of information asymmetry and reduction in agency costs, thereby causing an increase in earnings quality, market share and profitability (Nelson, Gallery & Percy, 2010). The similarity in the submission of Nelson, Gallery and Percy (2010) is instinctively possible due to period cover in the study and large sample size used in the study.

In addition, De Nez and Da Cunha (2017) investigate the influence of interlocking directorship on firms in Brazil, using a sample of 235 companies. The findings reveal

that interlocking directorship in Brazilian companies has an inverse influence on earnings quality. The similarity in findings could perhaps be attributed to the large size of the sample companies. Furthermore, the findings were corroborated by Drago, Millo, Ricciuti and Santella(2015) they study the effect of interlocking directorship (ID) on company earnings for main Italian firms listed on the Italian stock exchange for 10 years. The study used a diff-in-diff approach, the results show a negative correlation between the presence of interlocking directors and earnings quality of Italian companies. The similarity in this finding could perhaps be attributed to the strict regulatory and listing requirements for Italian companies on main Italian Stock Exchange.

In addition, Siudak (2017) study the effect of interlocking directorship on corporate value and earnings of companies on Warsaw Stock Exchange, the findings reveal that presence of interlocking directorship leads to increase in earnings quality and by extension increase in corporate value. This finding could possibly be ascribed to strict corporate governance practises among companies in Poland. Also, Nam and An (2017) reported that interlocking directors have significant and negative effects on earnings quality and firm values. The possible reasons for this finding could be adduced to large panel dataset drawn from 7307 firm-year observations for 15 years. Also, high ethical values observed by listed Korean companies.

In a divergent findings, by Coskun and Sayilir (2012) investigated the relationship between interlocking directorship and earnings quality of Turkish companies. The study employs random sampling and simple linear regression analysis to test the data, the study covers a period of five years from 2006 to 2010. The total sample used for the study was thirty- one companies. The finding shows that interlocking directorship has no significant relationship with earnings quality of Turkish companies. The similarity in findings could perhaps be attributed to the large size of the sample companies. Also, Ahmed and Gabor (2011) examined the impact of interlocking directorship on earnings quality of banks quoted on Bangladesh Stock Exchange. The study employs purposive sampling and ordinary least square regression analysis to test the data, the study covers a

period of five years from 2003 to 2008. The total sample used for the study was twenty-seven banks. The finding shows that interlocking directorship has insignificant relationship with earnings quality of banks quoted on Bangladesh Stock Exchange. The similarity in findings could perhaps be attributed to the large size of the sample companies.

Furthermore, Vintila and Gherghina (2012) investigated the impact of interlocking directorship on earnings quality of firms in the United State of America. The study employ cross-section multiple linear regressions to test the data collected through random sampling of one hundred and fifty five companies. The outcome shows that interlocking directorship has no significant impact on earnings quality of firms in the United State of America. This finding could possibly be ascribed to strict corporate governance practices among companies in United State America. Accounting to Lamport, Seetanah and Sannassee (2011) they explored the relationship between interlocking directorship as a corporate governance variable and earnings quality of Mauritian firms. The study employs random sampling method to select One hundred firms. Also the study used multiple regressions to test the variables. The findings show that interlocking directorship does not have positive relationship with earnings quality. This finding could possibly be ascribed to strict corporate governance practices among companies in Mauritian.

Ghazali (2010) examined several corporate governance variables such as outside directors, ownership concentration, board size, interlocking directorship and audit assurance on earnings quality of companies quoted on Malaysia Stock Exchange. The study used data relating to non financial companies on Malaysia Stock Exchange for one year and employ regression model. The finding shows that interlocking directorship does not have significant influence on earnings quality of sampled companies Malaysia Stock Exchange. In addition, Lennox Wu and Zhang (2016) investigate big and small audit effect on earnings quality of companies in China; the finding shows a negative effect of big audit on the firm's earnings quality. The divergence in this finding is

intuitively attributable to the auditing regulation and corporate governance systems in China.

#### **4.7 The Moderating Effect of Audit Assurance on Corporate Governance practices and Earnings Quality**

This subsection presents results and discussion on the moderating effect of the big audit which is the moderating variable on the independent variables such as outside director, ownership concentration, board size and interlocking directorship and the dependent variable (earnings quality). To statistically determine the moderating effect of Audit Assurance on the independent variables and the dependent variable, a Multivariate Analysis of Variance (MANOVA) analysis was carried out.

The hypothesis for the Multivariate Analysis of Variance models was as follows:

$H_0$  = there is no moderating effect of moderating variable on the independent variable  
and dependent variable

**Table 4.13: MANOVA Model Summary Output**

| Factor | Cbind  | F      | Pillai | P-value      |
|--------|--------|--------|--------|--------------|
| A A    | OD, EQ | 4.9057 | 0.0062 | 0.007518 **  |
| A A    | OC, EQ | 43.086 | 0.0520 | 0.0000002*** |
| A A    | BS, EQ | 15.068 | 0.0188 | 0.0000003*** |
| A A    | ID, EQ | 200.37 | 0.2032 | 0.0000002*** |

Signif. codes:0 '\*\*\*' 0.001 '\*\*' 0.01 '\*' 0.05 '.' 0.1 ' ' 1

**a. Predictors: Audit Assurance, Outside Directorship, Ownership Concentration, Board Size and Earnings Quality**

#### **4.7.1 The Moderating Effect of Audit Assurance on the Relationship between Outside directorship and Earnings Quality**

In order to establish the moderating effect of Audit Assurance on the relationship between the outside directorship and earnings quality, MANOVA analysis was carried out. The result of the MANOVA analysis as presented in table 4.13 revealed that p-value of 0.007518 which is significant at 0.05 and also the F-test was carried out to test the null hypothesis that there is no moderating effect of big audit on the relationship between the outside directorship and earnings quality. The Multivariate analysis of variance test in Table 4.13 shows that the significance of the F-statistic 4.9057 is higher than the table value of 2.9467 meaning that null hypothesis is rejected and can be concluded that there is a moderating effect of audit assurance on the relationship between the outside directorship and earnings quality.

This result is supported by the findings of Pombo and Gutiérrez (2011) their study investigates the relation of board structure through the appointments of outside directorship and earnings quality as influenced by big audit within an environment of no regulation for privately held firms. The study used a sample of an average of 335 firms per year for 10 years period. The study finds a positive correlation between the presence of outside directors and earnings quality cum big audit which was high in large firms relative to small firms. The rationalization for this finding could possibly be attributed to the environment of no regulation regarding internal working of private firms. Also the firms in the sample were all private organisations. While Kumar and Singh (2012) examine the effectiveness of audit assurance on outside directorship and earnings quality of 157 non-financial Indian companies for the year 2008. The finding revealed that the effect of audit assurance on outside directorship and earnings has deteriorated whether in small firms or large firms. This finding is intuitively attributable to the operational dynamics in the non-financial sectors in India. Furthermore, this result supports the findings of Huang and Wang (2015) which suggests a negative relationship between

audit assurance on the outside directorship and earnings quality among Chinese firms. This finding is maybe attributable to the operational and regulatory dynamics in china.

#### **4.7.2 The Moderating Effect of Audit Assurance on the Relationship between Ownership Concentration and Earnings Quality**

In order to establish the moderating effect of audit assurance on the relationship between ownership concentration and earnings quality, regression analysis was carried out. The result of the regression analysis as presented in table 4.13 revealed a p-value of 0.0000002 and an F value of 43.086 which is higher the critical value. This confirms that there is a significant moderating effect of audit assurance on the relationship between ownership concentration and earnings quality of the listed companies in Nigeria

The finding is in agreement with Coles, Lemmon and Meschke (2012) the study examines the influence of ownership and big audit on earnings. The study used panel data and regression, it covers five years. The finding shows that big audit moderates the earnings and ownership concentration variables. This finding is intuitively attributable to the length of period cover in the study. The results are similar to that of Kouaib and Jarbou (2014) investigate the effect of jointly external audit quality and ownership structure on earnings management specifically focusing on the industrial and commercial sectors of Tunis Stock Exchange during the period 2007-2011. The sample of 61 Tunisian firms listed and unlisted was used. The result shows audit quality and has a positive and significant effect on earnings management in industrial firms but it has a negative and non significant effect on commercial firms. The possible rationalization for this finding is that big and experience audit firms co-audit sample companies with small and inexperience audit firm, thus the joint effort enhances the audit quality.

While Choi, Lee and Williams (2011) examine the innovative performance of firms in a transition economy from an ownership perspective, the study focus specifically on the relationship between ownership structures, big audit and firm earnings quality. The

study used data from 548 Chinese firms for 10 years; the study found out that earnings quality is most strongly influenced by foreign ownership in large firms relative to small firms that are audited by one of the big four audit firms. This finding is instinctively attributable to the strict regulatory auditing guide and practises in China. This result was also in agreement with the postulation of Bouvatier, Lepetit and Strobel (2014) that argued that big audit positively increases ownership concentration and earnings quality of listed banks in France. The rationalization for this finding could be attributed to strict auditing guideline and high professional ethical standards with the European Union member countries. In a contrary finding, Chu (2011) investigates the relationship between family ownership and firm earnings quality by considering the influence of family management, family control, and big audit. The study cover 5 years period, the study used proxy data from 786 public family firms in Taiwan. The findings show a stronger association between earnings quality and family ownership in firms audited by non big four audit firms in comparison to big four audit firms. The findings could perhaps be attributed to the high percentage ownership by same family members. Also the family members have significant influence over the daily activities of the companies and engagement of audit firms.

#### **4.7.3 The Moderating Effect of Audit Assurance on Board Size and Earnings Quality**

In order to establish the moderating effect of audit assurance on the relationship between the board size and earnings quality regression analysis was carried out. The result of the regression analysis as presented in table 4.13 revealed that  $p\text{-value} = 0.0000003$  which is significant. Furthermore, F-test was carried out to test the null hypothesis that there is no moderating effect of audit assurance on the relationship between the board size and earnings quality. The findings in Table 4.13F value = 15.068 which is statistically significant given that it is higher than the critical F of 2.9467 meaning that null hypothesis is rejected and can be concluded that there is a moderating effect of audit assurance on the relationship between the board size and earnings quality.

This confirms that there is a significant moderating effect of audit assurance on the relationship between board size and earnings quality of the listed companies in Nigeria. This result supports the findings of Vithessonthi and Tongurai (2015) the study examined whether Big Audit affects the relation between board size and earnings quality during the global financial crisis of 2007–2009. Data set of 496,430 firm-year observations of a sample of 170,013 mostly private firms in registered Thailand. The study used panel regression and year by year cross-sectional regression. The findings revealed that large board size firm's audited by big four have a negative effect on earnings quality while the small board size firms audited by non big four audit firms were positive. Thus big audit influences the earnings quality of the organizations. This finding is instinctively attributable to the large size of data set and the year of study.

Furthermore, Corbella *et al* (2015) reported a similar perspective, Italian public companies audited by a Big 4 and non-Big 4 audit firm (1,583 firm-year observations) over a longer time horizon (1998-2011). Finding revealed that earnings quality improved and board size effect was significant for companies audited by a Big 4 audit firm. Thus big 4 audits have a positive significant effect on board size and earnings quality of Italian listed companies. The possible rationalization for this finding could perhaps be attributed to the strict auditing regulations and listing requirements for Italian companies on main Italian Stock Exchange. In addition, consistent with the findings of Shamil, Shaikh, Ho, and Krishnan (2014) on a sample of Sri Lankan companies posit that a significant negative relationship was found between the board size and earnings quality as moderated by the big audit. This finding is intuitively plausible because of the size of Sri Lanka market and large numbers of small local audit firms.



#### **4.7.4 The Moderating Effect of Audit Assurance on the Relationship between Interlocking directorships and Earnings Quality**

In order to establish the moderating effect of audit assurance on the relationship between interlocking directorship and earnings quality, MANOVA analysis was carried out. The result of as presented in table 4.13 revealed that p-value of 0.0000002 that is significant. Furthermore, F-test was carried out to test the null hypothesis that there is no moderating effect of audit assurance on the relationship between the interlocking directorship and earnings quality. The multiple analysis of variance test in Table 4.13 reveals that F value of 200.37 that is significance meaning that null hypothesis is rejected and can be concluded that there is a moderating effect of audit assurance on the relationship between the interlocking directorship and earnings quality. This confirms that there is a significant moderating effect of audit assurance on the relationship between interlocking directorship and earnings quality of the listed companies in Nigeria.

This finding is also supported by Santos, Da Silveira and Barros (2012) investigates the effect of big audit on the simultaneous participation of directors in 320 Brazilian and earnings quality of listed companies for 3 years period. It uses simple regression and the findings show that big audit has an effect on interlocking directorates and which are common practice in Brazil. Interlocking directorship and earnings quality were negatively impacted by the big audit, especially in firms in which a majority of directors hold three or more board positions and are audited by one of the big four. This finding is instinctively attributable to the regulatory and operational dynamics in Brazil. In another study, Kaczmarek, Kimino and Pye (2014) investigate the relationship between big audit, an interlocking director's ties and earnings quality. The study used a sample of UK-listed financial and utility companies over a ten year period. The study revealed that big audit had a positive impact on interlocking directors and earnings quality of the firm, especially large firms. This finding is instinctively attributable to the strict regulatory and operational polices in the United Kingdoms.

**Table 4.14: List of the hypotheses accepted or rejected based on the significance of results**

|                 | <b>Hypothesis</b>                                                                                                                     | <b>Significance</b> | <b>Conclusion</b>       |
|-----------------|---------------------------------------------------------------------------------------------------------------------------------------|---------------------|-------------------------|
| H <sub>01</sub> | There is no significant effect of outside directorship on earnings quality                                                            | Significance        | H <sub>0</sub> Rejected |
| H <sub>02</sub> | There is no significant effect of ownership concentration on earnings quality                                                         | Not Significance    | H <sub>0</sub> Accepted |
| H <sub>03</sub> | There is no significant effect of board size on earnings quality                                                                      | Significance        | H <sub>0</sub> Rejected |
| H <sub>04</sub> | There is no significant effect of interlocking directorship on earnings quality                                                       | Significance        | H <sub>0</sub> Rejected |
| H <sub>05</sub> | There is no significant moderating effect of audit assurance on corporate governance (outside directorship) and earnings quality      | Significance        | H <sub>0</sub> Rejected |
|                 | There is no significant moderating effect of audit assurance on corporate governance (ownership concentration) and earnings quality   | Significance        | H <sub>0</sub> Rejected |
|                 | There is no significant moderating effect of audit assurance on corporate governance (board size) and earnings quality                | Significance        | H <sub>0</sub> Rejected |
|                 | There is no significant moderating effect of audit assurance on corporate governance (interlocking directorship) and earnings quality | Significance        | H <sub>0</sub> Rejected |

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

#### **5.1 Introduction**

In line with the purpose of this study which was to find out the influence of corporate governance on earnings quality among listed non financial companies in Nigeria with particular focus on ten sectors which include Agriculture, Health, Oil and Gas, Conglomerate, Construction , Service, Industrial, consumer, Nature and information, communication and Technology. Specifically, the study considered the board size, interlocking directorship, ownership concentration and outside director as corporate governance mechanisms, and big audit as the moderating variable while earnings quality as persistence. This chapter provides a summary of the findings of this study arrived at after testing the hypotheses presented in chapter 1 from secondary data. It is on the basis of these findings that conclusions are arrived at for each of the research objectives. Ultimately, based on both the findings and the limitations encountered in the study, policy recommendations as well as a suggestion for further research are made at the end of the chapter.

#### **5.2 Summary of Findings**

Corporate governance practices such outside directorship, ownership concentration, board size and interlocking directorship have an important role in the governance framework of public sector entities. This study sought to establish the effect of corporate governance practices on earnings quality of non financial companies listed in Nigeria Stock Exchange. Specifically, the study examined the effect of outside directorship, ownership concentration, board size and interlocking directorship on earnings quality of non financial companies listed in Nigeria Stock Exchange. The study also sought to test

the moderating effects of audit assurance on the relationship outside directorship and earnings quality, ownership concentration and earnings quality, board size and earnings quality, Interlocking directorship and earnings quality of listed non financial companies in Nigeria Stock Exchange.

Theoretically, the study draws guide and was founded on agency theory, stakeholder's theory and Stewardship theory. These theories helped to understand the theoretical form of the relationship between corporate governance practices and earnings quality, and its implication on the relationship between the managers and related stakeholders of listed companies. The study assessed previous literature conducted in these areas which enabled in development of the conceptual model that the study intended to validate and identified gaps that this study sought to fill and its resolve to add to knowledge.

Pragmatic research paradigm provided philosophical research guide for the study. Consequently, the descriptive research design was employed as 'outline' for addressing identified research problems and basis for collecting secondary (balanced panel) data used. Nigeria Stock Exchange Fact books and, audited published annual financial reports of the sampled firms were sourced. Descriptive and inferential statistics provided bases for evaluating stated objectives. While mean, the coefficient of variation, chart, and graphs among others was used for descriptive analyses, inferential statistics involved the use of multiple linear regressions and multiple analyses of variance for specific and overall general objectives. This study comprised of one hundred and five listed companies that have been in operation and are listed on the Nigeria stock Exchange from 2002 to 31 December 2016 is the target population used for this study. The model was tested on how well they fit the data and at the same time, the significance of each independent variable was tested using multiple regression and P-test, F-test and beta coefficient at ninety- five percent confidence level. Succinctly, a summary of findings regarding the research objectives based on a test of each statistical hypothesis of this study is presented in the following subsections.

### **5.2.1 Influence of Outside Director on Earnings Quality of listed non financial companies in Nigeria Stock Exchange**

The study sought to determine the effect of outside directorship on earnings quality of companies listed in Nigeria Stock Exchange which is measured by Proportion of non executive directors to executive directors. Drawing from the descriptive analysis, its numbers outside directorship was on the increase. The results of correlation employed indicated that outside directorship and earnings quality produces a positive and significant relationship between outside directorship and earnings quality. The findings implied that an increase in the numbers of outside directorship on the board increases the quality of earnings. Nevertheless, the results of the panel regression model employed indicated a significant effect of outside directorship on earnings quality. This finding suggests that outside directorship do have a significant statistical effect on earnings quality of listed companies in Nigeria. Thus, the null hypothesis was rejected and thus concludes that outside directorship does have a significant statistical effect on earnings quality of listed non financial companies in Nigeria. This result can be interpreted in the light of stakeholder's theory. The theory sees the outside directorship working in the interest of all stakeholders to ensure that the companies subscribe to good earnings quality. Hence, outside directorship provide independent monitoring and improve the corporate governance of listed companies in Nigeria.

### **5.2.2 Effect of Ownership Concentration on Earnings Quality of listed non financial companies in Nigeria Stock Exchange**

The study sought to determine the effect of ownership concentration on earnings quality of companies listed on Nigeria Stock Exchange. Descriptive analyses results showed that share ownership was concentrated. This indicates that ownership of shares in listed non financial companies in Nigeria is concentrated above average of fifty- five percentage. Also, trend analysis indicates ownership concentration of shares in Nigeria oscillating around fifty-five to fifty- eight percentage it implies that an extensive

existence of ownership concentration in the ownership structure of the listed non financial companies in Nigeria. Also, the findings of correlation analysis showed that a negative relationship, the Pearson correlation coefficient for ownership concentration and earnings quality was established. It implied that an increase in ownership concentration causes a decrease in earnings quality. Furthermore, the findings of regression analysis showed that ownership concentration has a negative but insignificant coefficient which is insignificant at the critical. Accordingly, it implies that null hypothesis that ownership concentration does not have a significant effect on earnings quality of listed companies in Nigeria is not rejected.

### **5.2.3 Effect of Board Size on Earnings Quality of listed non-Financial Companies in Nigeria Stock Exchange**

As construed by specific objective three of this study, a summary of the test results of the hypothesis that states that there is no significant effect of board size on earnings quality of listed companies in Nigerian stock market are presented in this subsection. In the first instance, means of the yearly descriptive analysis indicated board size had a size in accordance to the code of corporate governance code for listed companies in Nigeria for the period of study. Also, the trend analysis for the board size shows a gradual increase in the board size of listed companies in Nigeria. The findings of correlation showed that there is a positive linear relationship between the board size and earnings quality. This suggests that an increase in board size leads to an increase in earnings quality.

The model summary result of the regression analysis indicated that board size has a negative but significant coefficient and significant p-value. The implication is that the results confirmed that the null hypothesis is rejected and which prompted the acceptance of the alternative hypothesis which is that board size does have a significant effect on earnings quality of listed non-financial companies in Nigeria. This result can be interpreted in the light of stakeholder's theory. The theory implies that boards of

directors are stakeholders and work for the interest of all stakeholders. Accordingly, directors are considered as an important part of the organizations as well as the provider of direction to the organization. Consequently, when directors are considered as a stakeholder and the board of directors engages and applies corporate governance practices to manage the companies to the benefit of all stakeholders. The size of the board may not be important and various dimensions of director diversity clearly become important such as age, experience, qualification and the personal character of the directors.

#### **5.2.4 Influence of Interlocking Directorship on Earnings Quality of non Financial Companies in Nigeria Stock Exchange**

The study further sought to determine the influence of interlocking directorship on earnings quality. Hypothesis four was framed which is presented thus there is no significant effect of interlocking directorship on earnings quality of listed non financial companies on the Nigeria Stock Exchange. Descriptive analyses results showed that more than half of the listed non financial companies have interlocking directorship on their board of directors. It implies that fifty-nine percentage of quoted companies in Nigeria have interlocking director's presence on the board of director and it translates to sixty-two listed companies based on one hundred and five sampled companies present on the board of directors.

Furthermore, the finding of correlation showed that a negative relationship between the interlocking director and earnings quality. This implied that increase in number of interlocking directors in the board of director decreases earnings quality. The regression analysis showed that the p-value was significant. The finding suggests that the study fails to accept the null hypothesis that there is no significant effect of interlocking directorship on earnings quality. Thus, this confirms that there is a significant negative linear relationship between the interlocking director and the company's earnings quality. Consequently, companies with interlocking directors on the board are prone to good

earnings quality. Thus a company with a higher number of interlocking directors reduces earnings quality practices.

This, therefore, implies that the null hypothesis was rejected and thus concludes that interlocking directorship has a significant effect on earnings quality among quoted non financial companies in Nigeria. This result can be interpreted in the context of the agency theory, as a presence of interlocking director increasing board ability to monitor and experiences from other company aid to curbed increases in earnings practices, influences the board's ability to act as an effective monitoring mechanism in mitigating agency conflicts.

#### **5.2.5 Moderating Effect of Audit Assurance on Corporate Governance and Earnings Quality of listed non-financial Companies in Nigeria Stock Exchange**

For a detailed corporate governance study devoid of being narrow-minded, attempt to exhume possible moderating influence of audit assurance becomes expedient. This is because larger audit firms provide a higher level of audit quality to clients, big four audit firm do not rely on one client for economic dependence and big four audit firm do treat all their clients fairly and professionally.

As a result, audit assurance has a special role in corporate governance practices and earnings quality. The fifth specific objective was framed and hypothesised and measured by a dummy variable, 1 indicated companies audited by one of the big for audit firm and otherwise 0. The outcome suggests that big audit on outside directorship and earnings quality indicated a significant p-value. It implies that hat null hypothesis is rejected and audit assurance hassignificant moderating effect on the relationship between outside directorship and earnings quality of the listed companies in Nigeria. Also audit assurance on the relationship between ownership concentration and earnings quality, findings showed a significant p-value. This confirms that the null hypothesis is rejected and there is a significant moderating effect of audit assurance on the relationship



between ownership concentration and earnings quality of the listed companies in Nigeria.

Furthermore the audit assurance on the relationship between the board size and earnings quality, finding revealed a statistically significant p-value. This implies that null hypothesis is rejected this confirms that there is a significant moderating effect of audit assurance on the relationship between board size and earnings quality of the listed non financial companies in Nigeria. Finally, to establish the moderating effect of audit assurance on the relationship between interlocking directorship and earnings quality, the finding showed a statistically significant p-value. This implies that null hypothesis is rejected and concluded that there is a moderating effect of audit assurance on the relationship between the interlocking directorship and earnings quality.

### **5.3 Conclusions**

The aim of this study was to determine the influence of corporate governance practices on earnings quality of quoted companies on Nigeria stock exchange. Secondary data were used for the study. A variety of statistical test and analysis including descriptive statistics, correlation analysis, and regression analysis were carried out and conclusion pinched in relation to the objectives of the study and the theoretical framework for the study.

First and foremost, findings from descriptive statistics indicated the practice of earnings in all sectors. There was an increasing trend in the board size, ownership concentration, and interlocking directorship and outside directorship. Secondly, correlation statistics indicates mixed results as most variables showed significant positive relationship between most of the corporate governance mechanisms and earnings quality which exception to ownership concentration and interlocking directorship indicators. Pertaining to outside directorship, the study concludes that the presence of outside directorship on

the board of director does have a significant effect on earnings quality of quoted non financial companies in Nigeria.

For the ownership concentration, the conclusion was that ownership concentration does not have a significant effect on earnings quality of listed non financial companies in Nigeria. Thus for best global practices, the share ownership should be dispersed among several holders and where the ownership is concentrated there should be strict adherence to the law, corporate governance code, the presence of outside directors, interlocking directors and the companies should be audited by any of big four audit firm to assure other stakeholders.

Specifically, the study concludes that board size does have a significant effect on earnings quality of listed companies in Nigeria. Large board size leads to huge cost without corresponding benefit. In a nut shell, listed companies in Nigeria should engage sufficient board size that are honest, dedicated, divers and intellectually sound board members with proven track records. Who observed strong ethical, moral and business principles to benefit all stakeholders. From the findings, the study concluded concerning interlocking directorship, have a significant effect on earnings quality. As a result, listed companies should have interlocking directors on their board of directors as this enhances and promotes good earnings quality. Thirdly, for the moderating variable i.e. audit assurance; the study concludes that audit assurance has a significant moderating effect on the relationship between outside directorship and earnings quality of the listed companies in Nigeria. Also, there is the significant moderating effect of audit assurance on the relationship between ownership concentration and earnings quality of the listed companies in Nigeria. Furthermore, the study concludes that there is the significant moderating effect of audit assurance on the relationship between board size and earnings quality of the listed companies in Nigeria and finally the study concludes that there is a moderating effect of audit assurance on the relationship between the interlocking directorship and earnings quality. The sequel, from the conclusion, indicates that audit assurance as professionally practice by big four audit firms are able to curb the practices

of earnings among quoted non financial companies in Nigeria. This is as a result that big four audit firms are not very susceptible to undue influence as a result of extensive networks, size, and reputation in Nigeria.

Lastly, the overall regression result as indicated by p-value revealed a significant positive effect on earnings quality by three independent variables i.e. outside director, board size, and interlocking directorships. While results as indicated by p-value revealed an insignificant effect on earnings quality by one independent variable that is (ownership concentration). The moderating variable (audit assurance) had a significant effect on all independent variables and dependent variable i.e. outside directorship, ownership concentration, board size and interlocking directorship on earnings quality. This implies that the combined effect of corporate governance practices mechanisms with audit assurance intervening will reduce the practices of earnings thereby promoting and enhancing good quality among quoted non financial companies in Nigeria. It was therefore concluded that corporate governance does influence on earnings quality of quoted companies in Nigeria.

## **5.4 Recommendations**

Following the findings of this study, the following recommendations were made to both management and regulatory authorities connected with the listed companies in Nigeria:

### **5.4.1 Managerial Recommendations**

The listed companies Board of director should certify that outside directorship has a diversity of experience without compromising independence, compatibility, integrity, and availability of members to attend meetings. The outside directorship should not hold shares in the companies to ensure independence and integrity. Board of director membership should be balanced among outside directors, executive director, and other

directors to facilitate good decisions that will ensure the achievement of companies' goals and objectives.

The quoted non financial companies should also ensure that the ownership structure is diverse and widely owned to safeguard the interest of minority shareholders. Regulatory agencies also need to put stricter regulation on share acquisition of the quoted non financial companies as was done in the financial sector such as the banking sector when as it was discovered that family ownership was higher in most of the banks. Furthermore, the Board of directors of any listed company should be of a sufficient size relative to the scale and complexity of the company's operations and be composed in such a way as to ensure diverse opinion and experience incorporating independence, compatibility, integrity, and availability. The board of directors regardless of size should adhere strictly to the code of corporate governance, laws, rules, and regulations of the capital market to ensure attainment of the vision and mission of the companies.

The board of directors of quoted non-financial companies in Nigeria should ensure the presence of interlocking director on the board to galvanise diversity and the deployment of their wealth of experience to bring about reductions in the practise of earnings. Adequate modalities must be in place to attract and retain good interlocking directors that will add value to the companies and to align the interest of the management with those of the company's shareholders. An adequate accounting system should be put in place by the board of directors which should include the establishment of company's accounting policies, internal control and business strategy to curtail the use of practise by management. Also, a strong and independent audit firm is required to attest to the accounting system. The big four audit firm may not be able to manage all the quoted non financial companies; therefore joint audit should be in a place where any big audit and a small audit will jointly audit the companies in Nigeria. This will bring about enhanced quality of the audit procedures and quality audit practice by the small audit firms in Nigeria

### **5.4.2 Policy Recommendations**

Results of the study generally showed that a combination of corporate governance practices and moderating variable investigated appear to have a superior and stronger influence on earnings quality. Such finding has important implications for different regulatory agencies and policy makers. It helps to inform standard-setters and regulatory authorities about the importance of sound corporate governance practises in curbing earnings quality of quoted companies in Nigeria and establish value-creating relationships with various stakeholders. Regulatory agencies should formulate a guideline for the selection of outside director and compliance must be monitored. The contents of the guideline should lead to the appointment of outside directors that will add value the organisations in all areas of vital corporate governance indicators. When there is any breach appropriate sanction should apply.

As is the practise in Europe and North America, Nigerian listed companies should be guided by the regulatory authorities on the determination of majority shareholding in quoted non financial companies in Nigeria in accordance with the international best practices. Strict regulations should also be put in place by the Security and Exchange Commission, and Nigeria Stock Exchange on ownership of equities so as to ensure wide spread ownership either as individual, groups, and family. The non financial company needs to ensure the right size of the board of directors but much consideration should be given to the quality of the board members. Regulators should issue guideline to aid the appointment and selection of the best brains as directors of quoted companies. The policies makers should also be put in place by the regulatory authorities to ensure compliance with the prescribed guideline on the selection and quality of board members irrespectively of the size of the board as size is relative to the scale and complexity of the company's operations. For reduction in earnings practices, quoted companies should be mandated to have a joint audit, this is where any of the big four audit firm partners with any small audit firm to serve as joint auditor, the big audit will be the lead auditor.

Adequate guideline to enforce this recommendation should be in place to reduce earnings practise and increase the quality of audit output by audit Nigeria.

### **5.5 Areas for Future Research**

This study had various limitations, the solution to which may call for further studies to address them. Firstly, it focused on the non financial listed companies leaving out the financial sectors that supply funds to drive the economy. The financial sector earnings quality would be vital to understanding the effect of corporate governance on it. Accordingly, a study is suggested to test the effect of corporate governance on earnings quality of all listed companies (Financial and non financial) to evaluate if the findings would be the same to the ones in this study. Secondly, some companies and segments of the NSE did not qualify for analysis because of their relatively recent listings, the numbers of years were below fifteen years needed and some had missing data or incomplete data, as such the companies were dropped from the data set. Accordingly, a study is suggested to test the effect of corporate governance on earnings quality on listed companies with numbers of years below ten years so as to capture all companies listed Nigeria stock Exchange and evaluate if the findings would be the same to the ones in this study.

Thirdly, only four variables were used in this study relating to an independent variable out of possible eight due to non availability of the data such as directors expertise such information is not available through secondary data. Accordingly, a study is suggested to include both primary and secondary data to test the effect of corporate governance on earnings quality on listed companies to evaluate if the findings would be the same to the ones in this study. Fourthly, the study did not consider small and medium size organizations, their corporate governance aspects as well as their earnings quality attributes. The findings of this study are therefore limited to public listed companies yet small and medium size organizations play a significant part in the Nigerian economy. It, therefore, seems suitable to recommend a study to evaluate the influence of corporate

governance on earning quality of small and medium size organizations. Lastly, the study focused on companies listed in Nigeria only. It, therefore, did not identify the corporate governance practice and earnings quality aspects of companies in other countries within the Economic Community of West African States (ECOWAS). A study to evaluate the effect of corporate governance on earnings quality among companies in the Economic Community of West African States is suggested given that prevailing efforts are towards enhancing cross boarder business activities among members of this regional block.

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## APPENDICES

### Appendix I: Sectoral Breakdown of the Nigerian Listed Companies

#### Sectoral Breakdown of the Nigerian Listed Companies

| <b>Sector</b>              | <b>Frequency</b> | <b>Non Financial company</b> |
|----------------------------|------------------|------------------------------|
| Agriculture                | 5                | 5                            |
| Conglomerate               | 5                | 5                            |
| Construction & Real Estate | 9                | 9                            |
| Consumer Goods             | 27               | 27                           |
| Financial Service          | 56               | 0                            |
| Healthcare                 | 11               | 11                           |
| ICT                        | 9                | 9                            |
| Industrial Goods           | 21               | 21                           |
| Natural Resources          | 5                | 5                            |
| Oil and Gas                | 14               | 14                           |
| Services                   | 23               | 23                           |
| Utility                    | 0                | 0                            |
| <b>Total</b>               | <b>186</b>       | <b>130</b>                   |

**Source:** Nigerian Stock Exchange (NSE), 2017.

## Appendix II: Data Collection Matrix

| S/N | Name of the Sector and Company    | EQ               |  | OD                       | OC                              | BS                   | ID            | AA |
|-----|-----------------------------------|------------------|--|--------------------------|---------------------------------|----------------------|---------------|----|
|     | <b>Agriculture</b>                | EPS <sub>t</sub> |  | Numbers of out directors | Cumulative 5% & above ownership | Numbers of directors | Present of ID |    |
| 1   | Ellah Lakes Plc                   |                  |  |                          |                                 |                      |               |    |
| 2   | FTN Cocoa Processors Plc          |                  |  |                          |                                 |                      |               |    |
| 3   | Livestock Feeds Plc               |                  |  |                          |                                 |                      |               |    |
| 4   | Okomu Oil Palm Plc                |                  |  |                          |                                 |                      |               |    |
| 5   | Presco Plc                        |                  |  |                          |                                 |                      |               |    |
|     | <b>Conglomerate</b>               |                  |  |                          |                                 |                      |               |    |
| 6   | A. G. Leventis Nigeria Plc        |                  |  |                          |                                 |                      |               |    |
| 7   | Chellarams Plc                    |                  |  |                          |                                 |                      |               |    |
| 8   | John Holt Plc                     |                  |  |                          |                                 |                      |               |    |
| 9   | SCOA Nig Plc                      |                  |  |                          |                                 |                      |               |    |
| 10  | UACN Plc                          |                  |  |                          |                                 |                      |               |    |
|     | <b>Construction / Real Estate</b> |                  |  |                          |                                 |                      |               |    |
| 11  | Arbico PLC                        |                  |  |                          |                                 |                      |               |    |
| 12  | Costain (WA) Plc                  |                  |  |                          |                                 |                      |               |    |
| 13  | G CAPPALC                         |                  |  |                          |                                 |                      |               |    |
| 14  | Julius Berger Nig. Plc            |                  |  |                          |                                 |                      |               |    |
| 15  | Roads Nig. Plc                    |                  |  |                          |                                 |                      |               |    |
| 16  | Smart Products Nig. Plc           |                  |  |                          |                                 |                      |               |    |
| 17  | UACN Property Development Co. Ltd |                  |  |                          |                                 |                      |               |    |
|     | <b>Consumer Goods</b>             |                  |  |                          |                                 |                      |               |    |
| 18  | 7-Up Bottling Comp. Plc           |                  |  |                          |                                 |                      |               |    |
| 19  | Cadbury Nig. Plc                  |                  |  |                          |                                 |                      |               |    |
| 20  | Champion Brew.                    |                  |  |                          |                                 |                      |               |    |

|    |                              |  |  |  |  |  |  |  |
|----|------------------------------|--|--|--|--|--|--|--|
|    | Plc                          |  |  |  |  |  |  |  |
| 21 | Dangote Sugar Refinery Plc   |  |  |  |  |  |  |  |
| 22 | DN Trye & Rubber Plc         |  |  |  |  |  |  |  |
| 23 | Flour Mills Nig. Plc         |  |  |  |  |  |  |  |
| 24 | Golden Guinea Brew. Plc      |  |  |  |  |  |  |  |
| 25 | Guinness Nig Plc             |  |  |  |  |  |  |  |
| 26 | Honeywell Flour Mill Plc     |  |  |  |  |  |  |  |
| 27 | International Breweries Plc  |  |  |  |  |  |  |  |
| 28 | Jos Int. Breweries           |  |  |  |  |  |  |  |
| 29 | MCNichols Plc                |  |  |  |  |  |  |  |
| 30 | N Nig. Flour Mills Plc       |  |  |  |  |  |  |  |
| 31 | Nascon Allied Industries Plc |  |  |  |  |  |  |  |
| 32 | Nestles Nigeria Plc          |  |  |  |  |  |  |  |
| 33 | Nigerian Brew. Plc           |  |  |  |  |  |  |  |
| 34 | Nigerian Enamelware Plc      |  |  |  |  |  |  |  |
| 35 | P S Mandrides & Co Plc       |  |  |  |  |  |  |  |
| 36 | P Z Cussons Nig Plc          |  |  |  |  |  |  |  |
| 37 | Premier Breweries Plc        |  |  |  |  |  |  |  |
| 38 | Rokana Industries Plc        |  |  |  |  |  |  |  |
| 39 | U T C Nig. Plc               |  |  |  |  |  |  |  |
| 40 | Unilever Nig. Plc            |  |  |  |  |  |  |  |
| 41 | Union Dicon Salt Plc         |  |  |  |  |  |  |  |
| 42 | Vitafoam Nig. Plc            |  |  |  |  |  |  |  |
| 43 | Vono Products Plc            |  |  |  |  |  |  |  |
|    | <b>Healthcare</b>            |  |  |  |  |  |  |  |
| 44 | Afrik Pharmaceuticals Plc    |  |  |  |  |  |  |  |

|    |                                          |  |  |  |  |  |  |  |
|----|------------------------------------------|--|--|--|--|--|--|--|
| 45 | EkoCorp Plc                              |  |  |  |  |  |  |  |
| 46 | Evans Medical Plc                        |  |  |  |  |  |  |  |
| 47 | Fidson Healthcare Plc                    |  |  |  |  |  |  |  |
| 48 | Glaxo Smithkline Consumer Nig Plc        |  |  |  |  |  |  |  |
| 49 | May & Baker Nigeria Plc                  |  |  |  |  |  |  |  |
| 50 | Morison Industries Plc                   |  |  |  |  |  |  |  |
| 51 | Pharmaceuticals Plc                      |  |  |  |  |  |  |  |
| 52 | Nigeria-German Chemicals Plc             |  |  |  |  |  |  |  |
| 53 | Pharma-Deko Plc                          |  |  |  |  |  |  |  |
| 54 | Union Diagnostic & Clinical Services Plc |  |  |  |  |  |  |  |
|    | <b>ICT</b>                               |  |  |  |  |  |  |  |
| 55 | Chams Plc                                |  |  |  |  |  |  |  |
| 56 | Computer Warehouse Group Plc             |  |  |  |  |  |  |  |
| 57 | NCR (Nigeria) Plc                        |  |  |  |  |  |  |  |
| 58 | Omatek Ventures Plc                      |  |  |  |  |  |  |  |
|    | <b>Industrial Goods</b>                  |  |  |  |  |  |  |  |
| 59 | Adswith Plc                              |  |  |  |  |  |  |  |
| 60 | Ashaka Cem Plc                           |  |  |  |  |  |  |  |
| 61 | Austin Laz & Company Plc                 |  |  |  |  |  |  |  |
| 62 | Avon Crowncaps & Containers              |  |  |  |  |  |  |  |
| 63 | Berger Paints Plc                        |  |  |  |  |  |  |  |
| 64 | Beta Glass Co Plc                        |  |  |  |  |  |  |  |
| 65 | CAP Plc                                  |  |  |  |  |  |  |  |
| 66 | Cement Co. of North Nig. Plc             |  |  |  |  |  |  |  |
| 67 | Dangote Cement Plc                       |  |  |  |  |  |  |  |
| 68 | DN Meyer Plc                             |  |  |  |  |  |  |  |
| 69 | First Aluminium                          |  |  |  |  |  |  |  |



|    |                                     |  |  |  |  |  |  |  |
|----|-------------------------------------|--|--|--|--|--|--|--|
|    | Nig. Plc                            |  |  |  |  |  |  |  |
| 70 | Greif Nig. Plc                      |  |  |  |  |  |  |  |
| 71 | IPWA Plc                            |  |  |  |  |  |  |  |
| 72 | Lafarge African Plc                 |  |  |  |  |  |  |  |
| 73 | Nigerian Ropes Plc                  |  |  |  |  |  |  |  |
| 74 | Portland Paints & Products Nig. Plc |  |  |  |  |  |  |  |
| 75 | Premier Paints Plc                  |  |  |  |  |  |  |  |
| 76 | W A Glass Ind. Plc                  |  |  |  |  |  |  |  |
|    | <b>Natural Resources</b>            |  |  |  |  |  |  |  |
| 77 | Aluminium Extrusion Ind. Plc        |  |  |  |  |  |  |  |
| 78 | Aluminium Manufacturing Plc         |  |  |  |  |  |  |  |
| 79 | B.O.C. Gases Plc                    |  |  |  |  |  |  |  |
| 80 | Thomas Wyatt Nig. Plc               |  |  |  |  |  |  |  |
| 81 | Anion International Plc             |  |  |  |  |  |  |  |
|    | <b>Oil and Gas</b>                  |  |  |  |  |  |  |  |
| 82 | Capital Oil Plc                     |  |  |  |  |  |  |  |
| 83 | Conoil Plc                          |  |  |  |  |  |  |  |
| 84 | Eterna Plc                          |  |  |  |  |  |  |  |
| 85 | Forte Oil Plc                       |  |  |  |  |  |  |  |
| 86 | Japaul Oil & Maritime Service Plc   |  |  |  |  |  |  |  |
| 87 | Mobil Oil Nig Plc                   |  |  |  |  |  |  |  |
| 88 | MRS Oil Nig Plc                     |  |  |  |  |  |  |  |
| 89 | Oando Plc                           |  |  |  |  |  |  |  |
| 90 | Total Nig. Plc                      |  |  |  |  |  |  |  |
|    | <b>Service</b>                      |  |  |  |  |  |  |  |
| 91 | Academy Press Plc                   |  |  |  |  |  |  |  |
| 92 | Afromedia Plc                       |  |  |  |  |  |  |  |
| 93 | Airline Service & Logistics Plc     |  |  |  |  |  |  |  |
| 94 | Associated Bus Company Plc          |  |  |  |  |  |  |  |

|     |                                |  |  |  |  |  |  |  |
|-----|--------------------------------|--|--|--|--|--|--|--|
| 95  | C & I Leasing Plc              |  |  |  |  |  |  |  |
| 96  | Capital Hotel Plc              |  |  |  |  |  |  |  |
| 97  | Ikeja Hotel Plc                |  |  |  |  |  |  |  |
| 98  | Learn Africa Plc               |  |  |  |  |  |  |  |
| 99  | Nigerian Aviation Handling Plc |  |  |  |  |  |  |  |
| 100 | R T Briscoe Plc                |  |  |  |  |  |  |  |
| 101 | Red Star Express Plc           |  |  |  |  |  |  |  |
| 102 | Studio Press (Nig.) Plc        |  |  |  |  |  |  |  |
| 103 | Tantalizers Plc                |  |  |  |  |  |  |  |
| 104 | Transcorp Hotels Plc           |  |  |  |  |  |  |  |
| 105 | University Press Plc           |  |  |  |  |  |  |  |

Where: OD = Outside Director percentage of outside directors to the total board size,

BS= Board Size, percentage of the board size to maximum size by the corporate governance code OC=Ownership Concentration, cumulative of 5% or more share holding by any shareholder

ID=Interlocking Director, **Presence of ID, dummy variable (1 when there is ID, 0 when there is no ID)** AA= AA, **companies audited by one of the Big 4 audit firm, dummy variable (1 when the company is audited by big 4, 0 when not audited by big 4,**  $EQ = EPS_t = \beta_0 + \beta_1 EPS_{t-1}$

### Appendix III: Listed Companies on the Nigeria Stock Exchange

| S/N | Name of the Company                      | Sector                            |
|-----|------------------------------------------|-----------------------------------|
| 1   | Ellah Lakes Plc                          | <b>Agriculture</b>                |
| 2   | FTN Cocoa Processors Plc                 | ”                                 |
| 3   | Livestock Feeds Plc                      | ”                                 |
| 4   | Okomu Oil Palm Plc                       | ”                                 |
| 5   | Presco Plc                               | ”                                 |
| 6   | A. G. Leventis Nigeria Plc               | <b>Conglomerate</b>               |
| 7   | Chellarams Plc                           | ”                                 |
| 8   | John Holt Plc                            | ”                                 |
| 9   | SCOA Nig Plc                             | ”                                 |
| 10  | Transnational Corporation of Nig. Plc    | ”                                 |
| 11  | UACN Plc                                 | ”                                 |
| 12  | Arbico PLC                               | <b>Construction / Real Estate</b> |
| 13  | Costain (WA) Plc                         | ”                                 |
| 14  | G CAPPALC                                | ”                                 |
| 15  | Julius Berger Nig. Plc                   | ”                                 |
| 16  | Roads Nig. Plc                           | ”                                 |
| 17  | Skye Shelter Fund Plc                    | ”                                 |
| 18  | Smart Products Nig. Plc                  | ”                                 |
| 19  | UACN Property Development Co. Ltd        | ”                                 |
| 20  | Union Homes Real Estate Investment Trust | ”                                 |
| 21  | 7-Up Bottling Comp. Plc                  | <b>Consumer Goods</b>             |
| 22  | Cadbury Nig. Plc                         | ”                                 |
| 23  | Champion Brew. Plc                       | ”                                 |
| 24  | Dangote Sugar Refinery Plc               | ”                                 |
| 25  | DN Trye & Rubber Plc                     | ”                                 |
| 26  | Flour Mills Nig. Plc                     | ”                                 |
| 27  | Golden Guinea Brew. Plc                  | ”                                 |
| 28  | Guinness Nig Plc                         | ”                                 |
| 29  | Honeywell Flour Mill Plc                 | ”                                 |
| 30  | International Breweries Plc              | ”                                 |
| 31  | Jos Int. Breweries                       | ”                                 |
| 32  | MCNichols Plc                            | ”                                 |
| 33  | Multi-Trex Integrated Foods Plc          | ”                                 |
| 34  | N Nig. Flour Mills Plc                   | ”                                 |
| 35  | Nascon Allied Industries Plc             | ”                                 |
| 36  | Nestles Nigeria Plc                      | ”                                 |

|    |                                             |                         |
|----|---------------------------------------------|-------------------------|
| 37 | Nigerian Brew. Plc                          | ”                       |
| 38 | Nigerian Enamelware Plc                     | ”                       |
| 39 | P S Mandrides & Co Plc                      | ”                       |
| 40 | P Z Cussons Nig Plc                         | ”                       |
| 41 | Premier Breweries Plc                       | ”                       |
| 42 | Rokana Industries Plc                       | ”                       |
| 43 | U T C Nig. Plc                              | ”                       |
| 44 | Unilever Nig. Plc                           | ”                       |
| 45 | Union Dicon Salt Plc                        | ”                       |
| 46 | Vitafoam Nig. Plc                           | ”                       |
| 47 | Vono Products Plc                           | ”                       |
| 48 | Afrik Pharmaceuticals Plc                   | <b>Healthcare</b>       |
| 48 | EkoCorp Plc                                 | ”                       |
| 50 | Evans Medical Plc                           | ”                       |
| 51 | Fidson Healthcare Plc                       | ”                       |
| 52 | Glaxo Smithkline Consumer Nig Plc           | ”                       |
| 53 | May & Baker Nigeria Plc                     | ”                       |
| 54 | Morison Industries Plc                      | ”                       |
| 55 | Pharmaceuticals Plc                         | ”                       |
| 56 | Nigeria-German Chemicals Plc                | ”                       |
| 57 | Pharma-Deko Plc                             | ”                       |
| 58 | Union Diagnostic & Clinical Services Plc    | ”                       |
| 59 | Chams Plc                                   | <b>ICT</b>              |
| 60 | Computer Warehouse Group Plc                | ”                       |
| 61 | Courteville Business Solution Plc           | ”                       |
| 62 | E-Tranzact International Plc                | ”                       |
| 63 | Mass Telecommunication Innovations Nig. Plc | ”                       |
| 64 | MTech Communications Plc                    | ”                       |
| 65 | NCR (Nigeria) Plc                           | ”                       |
| 66 | Omatek Ventures Plc                         | ”                       |
| 67 | Tripple Gee and Company Plc                 | ”                       |
| 68 | Adswith Plc                                 | <b>Industrial Goods</b> |
| 69 | African Paints (Nigeria) Plc                | ”                       |
| 70 | Ashaka Cem Plc                              | ”                       |
| 71 | Austin Laz & Company Plc                    | ”                       |
| 72 | Avon Crowncaps & Containers                 | ”                       |
| 73 | Berger Paints Plc                           | ”                       |
| 74 | Beta Glass Co Plc                           | ”                       |
| 75 | CAP Plc                                     | ”                       |
| 76 | Cement Co. of North Nig. Plc                | ”                       |
| 77 | CUTIX Plc                                   | ”                       |
| 78 | Dangote Cement Plc                          | ”                       |
| 79 | DN Meyer Plc                                | ”                       |

|     |                                          |                          |
|-----|------------------------------------------|--------------------------|
| 80  | First Aluminium Nig. Plc                 | ”                        |
| 81  | Greif Nig. Plc                           | ”                        |
| 82  | IPWA Plc                                 | ”                        |
| 83  | Lafarge African Plc                      | ”                        |
| 84  | Nigerian Ropes Plc                       | ”                        |
| 85  | Paints and Coatings Manufactures Plc     | ”                        |
| 86  | Portland Paints & Products Nig. Plc      | ”                        |
| 87  | Premier Paints Plc                       | ”                        |
| 88  | W A Glass Ind. Plc                       | ”                        |
| 89  | Aluminium Extrusion Ind. Plc             | <b>Natural Resources</b> |
| 90  | Aluminium Manufacturing Plc              | ”                        |
| 91  | B.O.C. Gases Plc                         | ”                        |
| 92  | Multiverse Mining and Exploration Plc    | ”                        |
| 93  | Thomas Wyatt Nig. Plc                    | ”                        |
| 94  | Anion International Plc                  | ”                        |
| 95  | BECO Petroleum Product Plc               | <b>Oil and Gas</b>       |
| 96  | Capital Oil Plc                          | ”                        |
| 97  | Conoil Plc                               | ”                        |
| 98  | Eterna Plc                               | ”                        |
| 99  | Forte Oil Plc                            | ”                        |
| 100 | Japaul Oil & Maritime Service Plc        | ”                        |
| 101 | Mobil Oil Nig Plc                        | ”                        |
| 102 | MRS Oil Nig Plc                          | ”                        |
| 103 | Navitus Energy Plc                       | ”                        |
| 104 | Oando Plc                                | ”                        |
| 105 | Rak Unity Pet. Comp. Plc                 | ”                        |
| 106 | Seplat Petroleum Development Company Ltd | ”                        |
| 107 | Total Nig. Plc                           | ”                        |
| 108 | Academy Press Plc                        | <b>Service</b>           |
| 109 | Afromedia Plc                            | ”                        |
| 110 | Airline Service & Logistics Plc          | ”                        |
| 111 | Associated Bus Company Plc               | ”                        |
| 112 | C & I Leasing Plc                        | ”                        |
| 113 | Capital Hotel Plc                        | ”                        |
| 114 | Caverton Offshore Support GRP            | ”                        |
| 115 | DAAR Communications Plc                  | ”                        |
| 116 | Ikeja Hotel Plc                          | ”                        |
| 117 | Interlinked Technologies Plc             | ”                        |
| 118 | Juli Plc                                 | ”                        |
| 119 | Learn Africa Plc                         | ”                        |
| 120 | Lennards (Nig.) Plc                      | ”                        |
| 121 | Nigerian Aviation Handling Plc           | ”                        |
| 122 | R T Briscoe Plc                          | ”                        |

|     |                                  |   |
|-----|----------------------------------|---|
| 123 | Red Star Express Plc             | ” |
| 124 | Secure Electronic Technology Plc | ” |
| 125 | Studio Press (Nig.) Plc          | ” |
| 126 | Tantalizers Plc                  | ” |
| 127 | Tourist Company of Nig. Plc      | ” |
| 128 | Trans-Nationwide Express Plc     | ” |
| 129 | Transcorp Hotels Plc             | ” |
| 130 | University Press Plc             | ” |

**Source:** Generated from NSE website, 2017.