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# Corporate Governance Structure And Earnings Management Of Listed Healthcare Companies In Nigeria

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**ABSTRACT**

The crucial role played by the healthcare companies in Nigeria towards the overall health wellbeing and the development of the country's economy cannot be underplayed. The failure of firms in the healthcare industry is of particular concern. Against the backdrop of exploring the strategic use of Corporate Governance Structure as deterrence to earnings management, this study was undertaken to examine the relationship between Corporate Governance Structure and earnings management of listed healthcare firms in Nigeria. Using convenience sampling, a panel data from eight (8) healthcare companies that are listed on the Nigerian Stock Exchange were collected from 2010 to 2019. Inferential analyses were done using Ordinary Least Squares and Pearson's Produce Moment Correlation analysis techniques, based on 5% level of significance. Earnings management was respectively operationalized with earnings restatement, while Corporate Governance Structure was viewed from the dimensions of board independence, and board meeting frequency. Earnings restatement was then modeled as response variables in terms of the dimensions of Corporate Governance Structure in order to evaluate their elasticities to the Corporate Governance Structure dimensions. On the final analysis, it was found that board independence, and board meeting frequency were respectively significant in their impacts on earnings restatement. Therefore, this study came to the conclusion that is consistent with independent directors having strong incentives to curb earnings management tendencies. It is therefore recommended that listed healthcare companies should ensure adequate and rewarding remuneration package to attract and retain industry-experienced independent professionals to serve on their boards in non-executive capacity. Having independent non-executive directors in the boards of these companies enhance not only their transparency and disclosure quality, but will also energize the monitoring capacity and effectiveness of the board. Board meetings should be regulated in order not to create room for waste of man hour.

**Keywords:** Board Independence, Board Meeting Frequency, Corporate governance, Earnings Management, Earnings Restatement, Healthcare companies, Nigeria

## 1. INTRODUCTION

Nigerian pharmaceutical industry is one of the largest industries in Nigeria. The industry is among the most promising and growing sector in West Africa, and it has also been confirmed that about 60 per cent of drug manufacturing in the ECOWAS (Economic Community of West African States) sub-region takes place in Nigeria (Wakeel & Ekundayo, 2016). While this is a mile stone achievement, the sector is plagued by several challenges which have weighed down its growth potentials (Ikom & Chukwu, 2017). In terms of production, contributions from Pharmaceutical Manufacturing Group of Manufacturers' Association of Nigeria (PMG-MAN) and United Nations Industrial Development Organization (UNIDO) affirm that the local pharmaceutical manufacturing industry in Nigeria is currently able to meet 25 per cent of local demand. The remaining 75 per cent has to be covered with imports from Asian companies, most especially, China (Wakeel & Ekundayo, 2016).

The challenges that the sector is facing includes amongst others are exchange rate fluctuations, import duties, high taxation, poor infrastructure, inadequate human capital and non-availability of raw materials. This is as a result of the over dependence on the Nigerian oil market, excessive dependence on imports for both consumption and capital goods and the sharp fall in foreign exchange earnings. Thus as Ikom and Chukwu (2017) observed, the sector is in dire need of uninterrupted development, sustained democratic governance, investment-friendly environment as well as ultimate stability. One thing that can be deduced from here is that there is need for effective corporate governance so that the companies in the sector could become prudent in managing resources so as to ultimately remain afloat in their operations. Corporate governance mechanism encourages oversight and monitoring of management activities so as to engender the best international practices in corporate management (Lee, 2013). Strong corporate governance brings about a broad vision of the accounting process and this is associated with reported earnings (Heirany *et al.,* 2013).

Earnings management is an attempt by the managers of companies to manipulate the financial reporting process in other to achieve certain selfish objectives. It occurs when managers use judgment in financial reporting and structuring transactions to alter financial reports to either mislead some stakeholders about the economic performance of the company or to influence contractual outcomes that depend on reported accounting numbers. Managers have the motivation to conduct earnings management for selfish interests which may be inconsistent with the interest of the shareholders and investors (Jensen & Meckling, 1976).

Against the backdrop of mitigating the conflict of interest that follows the separation between corporate ownership and control, a number of scholars (Lee, 2013; Heirany et al., 2013; Gonzalez & Garcia-Meca, 2014) have suggested corporate governance mechanism as the panacea. Corporate governance is a mechanism that is employed to reduce the agency cost that arises as a result of the conflict of interest that exists between managers and shareholders (Shehu & Abubakar, 2012). The challenges that the sector is facing includes amongst others are exchange rate fluctuations, import duties, high taxation, poor infrastructure, inadequate human capital and non-availability of raw materials. This is as a result of the over dependence on the Nigerian oil market, excessive dependence on imports for both consumption and capital goods and the sharp fall in foreign exchange earnings.

Thus as Ikom and Chukwu (2017) observed, the sector is in dire need of uninterrupted development, sustained democratic governance, investment-friendly environment as well as ultimate stability. One thing that can be deduced from here is that there is need for effective corporate governance so that the companies in the sector could become prudent in managing resources so as to ultimately remain afloat in their operations. Several scholars have investigated the relationship between Corporate Governance Structure and earning management in various sectors in Nigeria. For instance, in recent times Al Azeez et al. (2019), Uwuigbe et al. (2018), Fadzilah (2017), Imoleayo et al. (2016), Kankanamage (2015), Daghsni et al. (2016), all focused on Corporate Governance Structure and earnings management. A good number of scholars like Fodio et al. (2013), Asogwa,et al. (2019), Adegbie and Fofah (2016), carried out their studies on corporate governance and earnings management in the banking and insurance sector.

Others like Igbodo (2017) investigated corporate governance and earnings management in the food and beverages sector. However, there is paucity of study on the possible impact of Corporate Governance Structure on earnings management in the healthcare sector in Nigeria.

### 1.1 Conceptual Framework

The conceptual framework of this study is viewed on presumed causal relationship between Corporate Governance Structure and earning management of listed healthcare companies in Nigeria. The model reveals three indices of corporate governance structure such as board independence, audit committee independence and board meeting frequency as the independent variables and two measures of earnings management which are earnings restatement and discretionary accruals. Each of the components of the Corporate Governance Structure was hypothesized to have influence on earning management. Firm size is selected as the contextual factor which is expected to moderate Corporate Governance Structure and earning management.

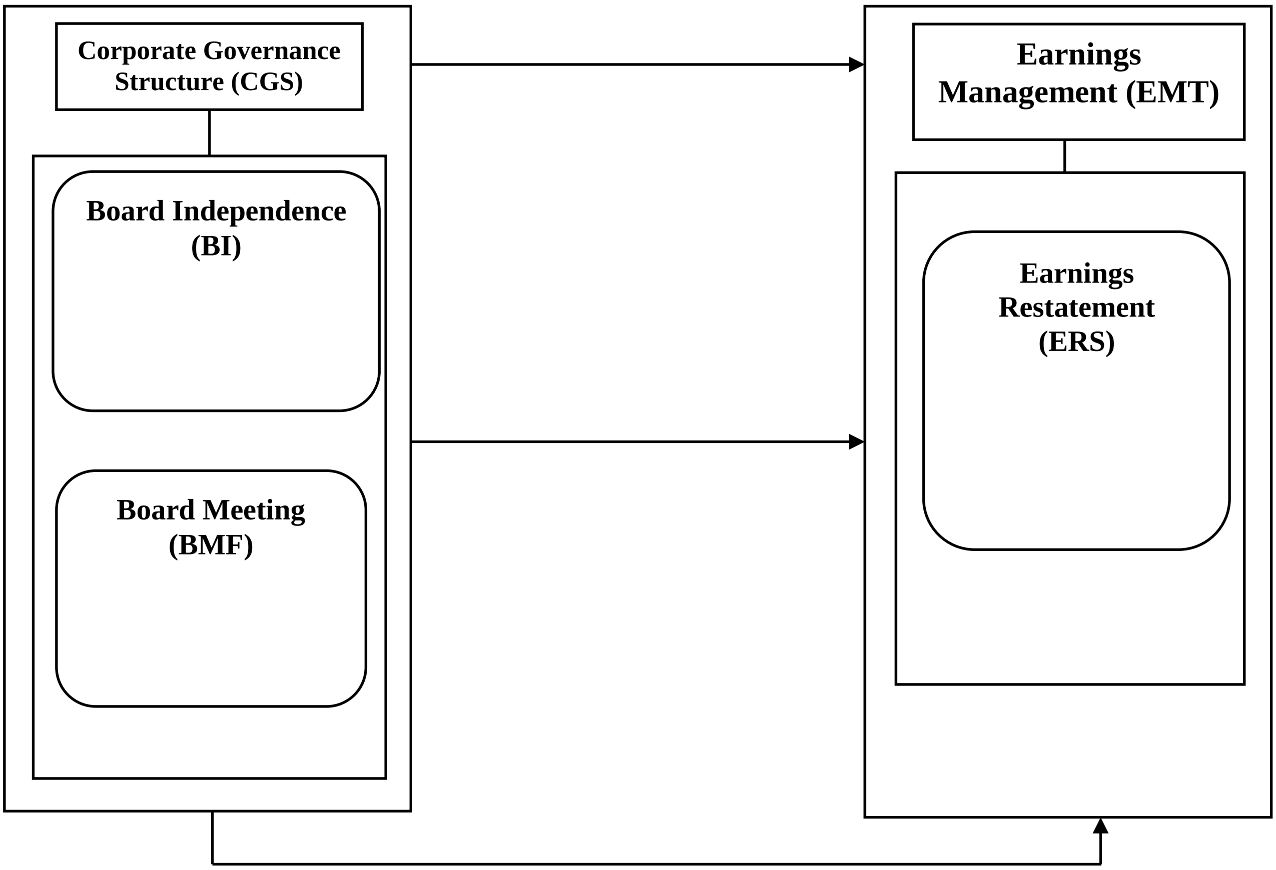


**Figure 1.1** Conceptual Framework of the relationship between Corporate Governance Structure and Earnings Management.
**Source:** Daghsini et al. (2016), Adegbie and Kofah (2016).

## 1.2 Aim and Objectives of the Study

The general aim of this study was to investigate the relationship between Corporate Governance Structure and earning management of listed healthcare companies in Nigeria. The specific objectives are to:

1. determine the relationship between board independence and earnings restatement of listed healthcare companies in Nigeria;
2. ascertain the relationship between board meeting frequency and earnings restatement of listed healthcare companies in Nigeria;

## 1.3 Research Questions

1. What is the relationship between board independence and earnings restatements of listed healthcare companies in Nigeria?
2. What is the relationship between board meeting frequency and earnings management of listed healthcare companies in Nigeria?

## 1.4 Research Hypothesis

**Ho$_1$** Board independence of listed healthcare companies in Nigeria does not have significant relationship with the probability of their earnings restatement.

**Ho$_2$** Board meeting frequency of listed healthcare companies in Nigeria does not have significant relationship with the probability of their earnings restatement

## 2. REVIEW OF RELATED LITERATURE

### Corporate Governance Structure

Corporate Governance Structure is an operating frame work for a panel of people who are elected to represent the shareholders of a firm, establish policies for management and make decisions about important issues in the company. The board of directors is the most imperative mechanism of corporate governance structure (Mohamed & Kandah, 2016). The corporate board of directors plays integral and crucial roles in every organization. The corporate governance structure involves composition, leadership and the information between board structures (Maassen, 1999). Though studies (Yermack, 1996 and Eisenberg et al, 1998) have shown no positive relationship between corporate governance structure and corporate performance, others (Zajac, 2001) also suggest that the size of the board of any corporate governance structure matters. Whilst larger boards are more difficult to coordinate, and may have communication and organization problems, a small board structure experiences efficiency problems. In most modern corporations, the size of the board varies from seven to eleven directors, with an average of about nine directors (Gillan, et al. 2007). Some studies (Seatles, 2005) also tie the minimum number of directors to the number of share-holders with voting rights, for example, there should be at least five directors for companies with 1,000 and fewer shareholders with voting rights and at least nine directors for companies with more than 10,000 shareholders with voting rights. According to Zahra and Pearce (1989), the decision on an ideal corporate governance structure in terms of composition of board should be based on significant environment, strategic and performance factors. Weil et al. (2012) proposes the nature, size and complexity of corporation, as well needs stage of development should inform decision on the size of the board. Generally for most of the firms, corporate governance structure ranges from seven to eleven directors, with an average of about nine directors, so ideally the corporate governance of a winning corporate structure should be the average nine, according to Boone et al. (2005). The board composition specifies the different kinds of directors put together to form the board. IFF (2002) suggests that as a best practice at least 1/3 of the board should be non-executive, majority of whom should be independent. The governance of companies lies on its board of directors. It is the responsibilities of the shareholders to ensure proper governance is put in place by appointing directors and auditors in the company. In this way, the board oversees the company by setting strategies, provision of leadership, supervision of the management and stewardship reporting to the shareholders.

### Board Independence

Board independence is the complete and unconditional freedom of a corporate board from any bias, both in deed and appearance, to exercise its authority in discharging its statutory function without fear or favour. Put differently, it is the situation whereby the board is collectively seen and perceived to be carrying out its avowed duty without fear or favour. The notion of board independence in corporate governance fundamentally requires that the board of directors be independent of management and the company. Independence can be achieved through the inclusion of disinterested parties, that is, outside directors, to increase the boards' ability to be more efficient in monitoring the top management (Fama & Jensen, 1983). Outside directors have more incentive to effectively monitor management because of a strong need to develop their reputations as expert decision makers. However, the success of these mechanisms depends upon its independence from management. Beasley's (1996) paper argues that the inclusion of grey directors who have affiliations with management may impair board independence. The independent directors must be solely outside directors who have no other relationship with the company except that of being on the board of directors.

In line with the notion of corporate governance as espoused in the literature, the need for the board to be independent of management is for the former to maintain a cautious vigilance over the activities of the latter. To this end, a number of studies' results have confirmed the notion that independent boards are more efficient in monitoring managerial opportunism.

According to Dunn (1987), boards dominated by outsiders stand in a better position to monitor and control managers. Outside directors are independent of the firm's management and they bring in their wealth of experience to the firm (Firstenberg & Makiel, 1980). From an agency standpoint, the ability of the board to act as an effective monitoring mechanism depends on its independence of management (Beasley, 1999). Fama and Jensen (1983) note that independent directors on boards make boards more effective in monitoring managers and exercising control on behalf of shareholders. Davidson, et al. (2005) find empirical support for the effective role of independent directors in constraining earnings management in Australian firms. Lin and Hwang, (2010) observe that the independence of the board of directors and its expertise have a negative relationship with earnings management. Hashim and Susela (2006), using a more recent sample, provides evidence of a significant contrary sign between board independence and earnings management and brings issues of whether Malaysian companies boards are effective and truly independent when performing their duties.

**Board Meeting Frequency**

The regular meeting of a board is of a great importance to the overall effectiveness and efficiency of that board. Board meeting is an organized set up arranged to assemble directly on the board to discuss and address relevant issues relating to their prior experiences, current predicament and forward looking matters as it relates to the organizations' going concern. Every director is expected to attend all board meetings as this forms part of the requirement for re-nomination as a board member (Eluyela et al., 2018). Board meeting assists directors to be well equipped with information and with all development within the organization.

The board meeting is a medium set up for deliberations on key issues amongst board members in order to make certain important decision for the progress and growth of any firm. The diligence of board members is often measured on the board meeting attendance frequency by each of the meeting members (Ghosh 2007; Johl et al., 2015). The board meeting frequency is a major way of measuring the effectiveness of a board because the directors are well informed and keep abreast of the activities within the organization when they meet regularly. It allows members of the board to interact among themselves thereby creating and strengthening of cohesive bonds that will engender mutual understanding for strategic decision that will contribute to improving management performance. Board meeting frequency is an important mechanism that could mitigate earrings management since it serves as an avenue where board members meet to deliberate on vital issues that will help in attaining firms' aims thereby curtailing earnings management practices. From the agency perspective, it is contended that when the board demonstrate more diligence in discharging its responsibility, this will enhance the overall over sign of the financial reporting process (Carcello et al., 2002).

The frequency of board meetings may reflect whether the board is active or not. It is generally believed that an active board is more effective in monitoring the management, so decisions made are more in line with the interest of majority, thus is conductive to enhance corporate performance. This was proven by Francis et al. (2012) in their study that revealed that board with a low frequency of meeting performs poorly compared to the board with high frequency. Nevertheless, the importance of board meeting cannot be overstressed because it is an important tool of governance.

**Concept of Earnings Management**

Corporate earning is the net income that represents a company's bottom line which has been recognized as a particularly most significant item in financial statements as they designate or signify the extent to which a company has engaged in value-added activities (Lev, 1989). Earnings signal the direction of resource allocation in capital markets as the theoretical value of a company's stock is the present value of its future earnings. Hence, increased earnings represent an increase in company value, while decreased earnings signal a decrease in the value of a company. Because of the connecting tissues that run through earnings, firm's value and private interests of firm's stakeholders, managers often resort to using their discretions to determine the outcome of earnings. Healy and Wahlen (1999) assert that earnings management occurs when management uses judgment in financial reporting and in structuring transactions to alter financial reports to either mislead some stakeholders about underlining economic performance of the company or to influence contractual outcomes that depend on reported accounting numbers. Managing earnings is the process of taking deliberate steps, prompted by constraints of generally accepted accounting principles, to bring income to a desired level of reported earnings (Davidson et al 1987). Earning management may take the form of either income-increasing or income-decreasing accounting choices. Opportunities for such manipulation arise because of flexibility permitted by GAAP and because it is costly to require and enforce less flexible financial reporting rules.

Dechow and Skinner, (2000) classify earnings management into three categories, namely: Fraudulent Accounting, Accruals Management, and Cash Flow earnings management (CFEM) which is more often referred to as Real Earnings Management (REM). Fraudulent Accounting involves accounting choices that violate GAAP; Accruals Management involves choices within-GAAP that try to "obscure" or "mask" true economic performance. Real earnings management occurs when managers undertake actions that involve changing a firm's underlying operations in an effort to boost current period earnings. Fraudulent accounting and accruals management are not accomplished by changing the underlying economic activities of the firm but through the choice of accounting methods used to represent those underlying activities. Dechow and Skinner (2000) further asserts that Accruals can be used to modify the timing of earnings recognition, thus causing earnings to either increase or decrease. Akers et al. (2007) defines earnings management as attempts by management to influence or manipulate reported earnings by using specific accounting methods (or changing methods), recognizing one-time non-recurring items, deferring or accelerating expense or revenue transactions, or using other methods designed to influence short-term earnings.

The desire to achieve a high stock price and/or to meet the earnings benchmark induces corporate managers to engage in earnings management. To meet a certain earnings target, managers can wait until the year-end to use discretionary accruals to manage reported earnings. But this strategy runs the risk that the amount of earnings that needs to be manipulated is greater than the available discretionary accruals because the discretion on accruals is bounded by GAAPs (Barton & Simko, 2002). Given the underlying economic transactions of a firm, manager's ability to report accrued earnings is limited. As a result, the earnings target may not be reached using discretionary accruals at year end (Graham & Rajgopal, 2005). Managers can reduce this risk by manipulating fundamental real economic operating activities during the year (Cash – based Earnings Management). Graham and Rajgopal (2005) find evidence that managers take real economic actions to maintain accounting appearances, and sometimes are more likely to use real actions than to use accruals to apply earnings management. Specifically, if the compensation of managers is associated with companies' performance, then managers have incentives to misreport earnings.

**Earnings Restatement**

This is the act or tendency to disclose amended financial statements due to discovery of material inaccuracy contained in the previous financial statements. In other words, it refers to the behavior of the listed company to restate the previously published financial report while discovering and correcting the errors in the previous financial report. When the current financial report is found to be in error or flawed, the listed company can take the initiative to make corresponding financial supplements or amendments, or it can be made according to the requirements of the auditor or regulatory department in the subsequent accounting period. Financial statement restatement is a bad news for investors, creditors, analysts and auditors. First, financial statement restatement by listed companies is bad news for equity investors. Investors use financial reports to understand the company's current operating conditions, predict the company's future profitability and evaluate the company's value. When the company restates the financial statements, it indicates that the information in the financial report provided by the company is distorted. This makes investors uncertain about the company's current and future financial reporting reliability, and concerns about the company's future profitability, resulting in negative market returns and reduced company value.

While several immediate reasons can be adduced in explaining why restatements occur, the remote reason is centered on audit failure. The restatement of the company's financial statements indicates that the audit failed and the auditor's audit risk increased. This argument is very much on point when viewed from the defining tenets of the audit risk equation: audit risk being a function of detection risk, control risk and inherent risk. Audit risk is that the auditor has issued an inappropriate opinion when the financial report has a material misstatement. Audit risk is consisted of material misstatement risk and detection risk, while the material misstatement risk is consisted of inherent risk and control risk. Therefore, the reasons for the financial statement restatement include the inherent risks, control risks and detection risks. Inherent risk refers to accounting complexity, including business complexity and complexity of the rules. When accounting complexity is high, managers may make mistakes when applying accounting standards, thereby increasing the possibility of unintentional misstatement; or increasing the likelihood of allowing management to manipulate financial reporting increases the likelihood of intentional misstatement (Peterson, 2012) and the increase in inherent risks increases the likelihood of financial statement restatement. Plumlee and John (2010) argue that in addition to accounting fraud, other overvalued earnings restatements should be attributed to unintentional accounting errors and misunderstandings of increasingly complex accounting standards.

Control risk refers to the company's internal control level. When the company's internal control level is low, the wrong cons will enter the company's financial reporting system, and the risk will crystalize in the form of misstatement. This will result in a higher likelihood of the financial statement restatement. Company's internal control defects are the most important reasons for financial restatement, (Yuan, et al., 2012). Other reasons include management's earnings manipulation and accounting, the ambiguity of the guidelines and the complexity of the business process. Another plausible reason, according to Romanus, et al. (2008), is engagement of industry-expert-auditor. Romanus et al. (2008) found that the auditor's industry expertise is mainly to reduce the accounting restatement affecting the core account. When the auditor is replaced by non-industry expertise, the probability of accounting restatement will increase. The consequence of earnings restatement can be far-reaching, from the perspective of listed firm. Anderson and John (2002) and Nguyen and Puri (2014) prove that the share price will drop significantly after the financial restatement announcement, resulting in a significant negative abnormal return.

Wilson (2008) and Chen et al. (2014) confirmed from the restatement of the content of earnings information that the company's earnings response coefficient will be significantly reduced after the financial statements are restated, which means that investors' confidence in the financial information system is received. The effect of restatement is reduced. The difference is that the former finds that the impact of restatement is short-lived, while the latter finds that the impact of restatement on investor confidence is long-term. Kravet et al. (2010), Nguyen and Puri (2014) found from the perspective of information risk and information asymmetry that the company's information risk factors and information asymmetry will increase significantly after financial restatement, reducing investors' future development of the company. Prospects for expectations will re-evaluate financial reporting information, require larger bid-ask spreads, and increase information costs. Scholars have also confirmed the negative effects of financial statement restatement on investors based on China's data.

He and Wei (2012) also found that the financial statement restatement led to an increase in market risk and uncertainty. Listed companies recounted the stock price decline during the announcement period, and the market's accumulated excess returns were significantly unresolved. It shows that financial statement restatement reflects the quality of accounting information lacking reliability and transparency, which increases the risk and uncertainty of future decision-making of investors. Zhao and Li (2016) used the standard deviation of the company's weekly excess return rate to measure the heterogeneity risk, and then proceeded to consider the impact of financial statement restatement on information asymmetry. They found that the financial statement restates the company's stock return heterogeneity risk significantly higher than the financial statement restatement. It also finds that the financial statement restates the company's product market competition performance and its securities market performance is significantly lower than the non-period financial statements.

## Theoretical Framework

### Agency Theory

Agency theory has its roots in economic theory exposited by Alchian and Demsetz (1972), and further developed by Jensen and Meckling (1976). The theory focuses on the consequences of separation of ownership and control (Bhimani, 2008). It highlights relationship between principals (e.g. shareholders) and agents (e.g. Management). The theory postulates that managers tend to pursue their selfish interests at the detriment of shareholders' interests, when shareholders (who are the owners or principals of the company) hire agents to perform work wherein the principals delegate the running of the business to agents (Clarke, 2004). Thus, agency problems can arise when one party (the 'principals') contracts with another party (the 'agents') to make decisions on behalf of the principals. Agency problems may occur as agents can hide information and manage firms in their own interest. According to Jensen and Meckling (1976), agency problem is concerned with the consumption of perquisites by managers and other types of empire building. (La Porta et al., 2000).Thus agency theory suggests that public company owners should always exercise cautious vigilance in delegating controlling authority to managers over the affairs of the company. This is why corporate governance is necessary to intricately align the interest of managers (i.e. the agents) to that of the shareholders (i.e. the principals).

In the agency theory shareholders expect the agents to act and make decisions in the principal's interest, but on the contrary, the agent may not necessarily make decisions in the best interest of the principals (Paddilla & Reguejo, 2000). They (agents) may be succumbed to self-interest, opportunistic behavior and falling short of congruence between the aspiration of the principal and the agent's pursuits. Thus, conflict of interest (agency problem) may occur as agent can hide information and manage firms in their own interest. Richardson (1998) noted that managers (agents) have an access to private information about the firm and its earnings which might not be available to the shareholders (principals). This is known as information asymmetry which can display itself in form of financial reports published by a firm. When information asymmetry is high, shareholders are unable to verify whether the published information represents the actual economic condition of the firm or not. Another short-coming of the principal – agent relationship is the agency cost.

Agency costs are costs incurred by principals in monitoring agency behavior because of lack of trust. According to Jensen and Meckling (1976) agency cost include monitoring expenditures by the principal such as auditing, budgeting control and compensation systems, bonding expenditures by the agents and the residual loss due to divergence of interests between the principal and the agent. The notion of problems arising from the separation of ownership and control in agency theory created the opportunity for the principal to institute monitoring functions to curtail the activities of the agent and ensure goal congruence where there is divergence of views and motives (Umobong & Ibanichuka 2017).

Agency model suggest that as a result of information asymmetry and self-interest, principals lack reasons to trust their agents and will seek to resolve those concern by putting in place mechanism to align the interest of agents with principals and to reduce the scope of information asymmetry and opportunistic behavior (Fama & Jensen, 1983). The relevance of agency theory to this study cannot be made more obvious than the scholarly submission of Daily et al. (2003) when they identify two major factors which influence the prominence of agency theory. Firstly according to Daily et al (2003), the theory is conceptual and simple one that reduces firm to two participants: managers and shareholders; and second, the theory suggests that employees or managers in firms can be self-interested

**Review of Empirical Literature**

Oserogho (2019) empirically examined the nexus before Corporate Governance Structure and real earnings management of listed firms in Nigeria using forty (40) quoted manufacturing firms in Nigeria over the period 2012 to 2017. Data was analyzed using multiple regression analysis and the result revealed that board independent, corporate governance and board gender are significant corporate governance variables that influence earnings management in Nigeria firms. Manukaji (2018) studied Corporate Governance and Income Smoothing in the Nigerian Deposit Money Banks. It was demonstrated that corporate governance is not effective in monitoring income smoothing. However, the study revealed a significant relationship between corporate governance and income smoothing in Nigerian deposit money banks. This positive relationship was supported by the earlier study of Nkanbia-Davies, et al. (2016), where there was a positive relationship was reported between corporate governance (corporate governance and independent directors) and accrual quality. However no relationship was established between independent audit committee and accrual quality in that study. This was in agreement with the study of Okoye, et al. (2016). The studies saw the need for strong governance standards for banks on the premise that increased governance quality leads to higher levels of investment as well as greater responsiveness of investment to growth opportunities.

Abu, et al. (2016) study used board characteristics as proxy for corporate governance. The study found foreign directors significantly and positively influencing the performance of deposit money bank in Nigeria, while home directors have negative significant effect. However, both executive directors, independent non-executive directors and women directors did not have any significant effect on banks performance in Nigeria.

Majiyebo, et al. (2018) used audit committee independence and audit committee size as proxies for corporate governance. The study found audit committee in dependence negative but significantly affecting financial reporting quality of listed deposit money banks in Nigeria. However, audit committee size exhibited no significant effect on the financial reporting quality of listed deposit money banks in Nigeria.

Adebiyi (2017) study, using discretionary accrual as proxy for quality of financial reporting; corporate governance , board independence and board meeting as corporate governance proxies found corporate governance and independence positively related while board meeting was negative. Hence the study established board composition as a key component of the quality of financial reporting, while the meeting did not have any effect on the quality of financial reporting of deposit money bank in Nigeria.

Igodo (2017) also found board meetings having negative effect on earnings management. Also, board gender and institutional ownership also relate negatively with earnings management. Audit committee meeting, on the other hand, exhibited positive effects on earnings management. Firm size, used as the control variable, also affected earnings management positively. The findings support the application of corporate governance principles as motivating factor used to ensure quality earnings management practice in Nigerian food product firms.

Olaoye and Adewumi (2020) examined the effect of corporate governance and earrings management of listed deposit money banks in Nigeria for the period 2006 – 2015. The data was extracted from the annual reports of these listed banks. Descriptive statistics, Pearson correlation and regression techniques were used for the analysis. They found the engagement of the service of reputable audit firms having a positive but insignificant effect on the earnings management of the sampled banks while corporate governance exhibited negative and insignificant effect on their earnings management. However, independent directors on the board and leverage have a negative but significant effect on earnings management of Deposit Money Banks in Nigeria.

Bourkhis and Najar (2017) investigated ownership and regulation on bank earnings in Middle East and North Africa with a sample of 158 banks comprising 44 Islamic banks and 114 conventional banks from 2000 to 2013. The proxies for earnings quality include earnings persistence, cash flow predictability, income smoothing through loan provision and small positive net income and findings suggested that all the measures of earnings quality are high for listed and widely held banks while that of the state-owned banks is of less quality. However, the Islamic banks earnings were significantly higher than the conventional banks. This study revealed that earnings quality is improved, thereby reducing earnings management in firms by using tighter supervision even when there is large shareholding.

## 3. METHODOLOGY

The researcher adopts triangulation approach (the combination of nomothetic and ideographic approaches) as the philosophical underpinning for this study. This study adopted co-relational and ex-post facto research design to investigate the relationship between Corporate Governance Structure and earning management listed healthcare firms in Nigeria. The population includes 13 listed healthcare companies on the Nigeria Stock Exchange as at 30 December, 2019. Using convenience sampling, a panel data from eight (8) healthcare companies that are listed on the Nigerian Stock Exchange were collected from 2010 to 2019. Inferential analyses were done using Ordinary Least Squares and Pearson's Produce Moment Correlation analysis techniques, based on 5% level of significance.

## 4. RESULTS AND ANALYSIS

### 4.1 Descriptive Analysis

The descriptive findings of the interaction of corporate governance structure components (board independence, and board meeting frequency) and earnings management are reported in Table 4.1. The relationship between board independence, audit committee independence and board meeting frequency and earnings management was investigated by testing the significance of their mean differences. The result in Table 4.1 shows that the mean differences between components of corporate governance structure and earnings management are high and significant, thus providing a clue of a positive association between components of corporate governance structure and earnings management.

**Table 4.1. Components of Corporate Governance Structure and Earnings Management (n=80)**

| | **BI** | **BMF** | **EM** |
|---|---|---|---|
| Mean | 23.94 | 19.26 | 11.88 |
| Std. Error of Mean | .292 | .453 | .279 |
| Std. Deviation | 3.664 | 5.877 | 3.647 |
| Variance | 14.903 | 32.538 | 13.298 |
| Skewness | -1.834 | -.458 | -670 |
| Std. Error of Skewness | .173 | .173 | .173 |
| **Sum** | **4569** | **3869** | **2574** |

**Source: SPSS Window Output, Version 22.0 (2021)**

**Notes:** **BI = Board Independence**
**BMF = Board Meeting Frequency**
**EM = Earnings Management**

Board independence appear to score higher on all dimensions of differentiation grounded on the mean value of 23.94 analogous to board meeting frequency which have mean of 19.26. Table 4.1 denotes that the mean score of earnings management (11.88). They all have rational dispersions. The standard error of mean as depicted in the table insinuates a harmonious component of corporate governance structure relating to earnings management. The standard error of mean are board independence (.296), board meeting frequency (.453) and earnings management (.279). Their standard deviations are also coherently significant with board independence (3.664), board meeting frequency (5.877) and earnings management (3.647). Board meeting frequency insinuates a higher variation with 32.538 than board independence with 14.903. From the sum and mean as depicted in Table 4.1, it is crystal clear to articulate that health care companies' emphasis on earnings management is as a result of high consideration of board independence as an attainable solution that can beget several benefits for companies with profound analytic results.

### 4.2 Testing of Hypotheses

**Hypothesis one**

**$Ho_1$**: Board independence of listed healthcare companies in Nigeria does not have significant influence on the probability of their earnings restatement

**Table 4.2: Pearson's Product Moment Correlation (PPMC) Result for Hypothesis one**

| **Variables** | | **Board Independence** | **Earnings Restatement** |
|---|---|---|---|
| **Earnings Restatement** | Pearson Correlation | 1 | .681$^{xx}$ |
| | Sig. (2-tailed) | . | 0.000 |
| **Board Independence** | Pearson Correlation | .681$^{xx}$ | 1 |
| | Sig. (2-tailed) | 0.000 | |

**Correlation significant at the 0.01 levels (2-tailed).

**Source: SPSS Window Output, Version 22.0 (2021).**

From the result, the high PPMC value of **0.**681$^{xx}$shows that there is strong correlation between board independence and earnings restatement, and correlation is significant at 0.000. We therefore conclude that there is a significant relationship between board independence and earnings restatement.

**Table 4.3: Relationship between Board Independence on Earnings Restatement *(N=80)*.**

| Model | R | R Square | Adjusted R Square | Std. Error of the estimate |
|---|---|---|---|---|
| 1 | .681 | .464 | .459 | .2.391 |

a. Predictors: (Constant), Board Independence

b. Criterion: Earning Restatement

**Source: SPSS Window Output, Version 22.0 (2021).**

Given that for hypothesis one, the significant is .000 which is less than 0.05; there is a significant influence of board independence on earnings reinstatement. The researcher also used ANOVA to test the hypothesis in this section. The results were presented in table 4.9.

**Table 4.4: One way ANOVA for the difference in mean between Board Independence and Earnings Reinstatement *(N=80)*.**

| | Sum of Squares | Df | Mean Square | F | Sig. |
|---|---|---|---|---|---|
| Between Groups | 485.482 | 1 | 485.482 | 84.925 | .0000 |
| Within Groups | 560.228 | 795.717 | | | |
| Total | 1045.710 | 80 | | | |

a. Criterion: Earnings reinstatement
b. Predictor: Board independence

**Source: SPSS Window Output, Version 22.0 (2021).**

Table 4.4 shows that there is difference in mean between board independence and earnings reinstatement of listed health care companies in Nigeria F(dfB,dfw) =F(80,1) =84.925, $p<0.05$. This agrees with the regression result in table 4.3.

**Hypothesis Two**

**$H_{02}$**: Board Meeting frequency of listed healthcare companies in Nigeria does not have significant influence on the probability of their earnings reinstatement.

**Table 4.5: Pearson's Product Moment Correlation (PPMC) Result for Hypothesis Two**

| **Variables** | | **Board Meeting Frequency** | **Earnings Restatement** |
|---|---|---|---|
| **Earnings Restatement** | Pearson Correlation | 1 | .810xx |
| | Sig. (2-tailed) | . | 0.000 |
| **Board meeting frequency** | Pearson Correlation | .810xx | 1 |
| | Sig. (2-tailed) | 0.000 | |

**Source: SPSS Window Output, Version 22.0 (2021).**

From the result, the very high PPMC value of 0.810 xx shows that there is very strong correlation between board meeting frequency and Earnings restatement, and correlation is significant at 0.000. We therefore conclude that there is very strong and significant relationship between board meeting frequency and earnings restatement.

**Table 4.6: Influence of Board Meeting Frequency on Earnings Reinstatement (N=80).**

| Model | R | R Square | Adjusted R Square | Std. Error of the estimate |
|---|---|---|---|---|
| 1 | .810 | .656 | .653 | .50668 |

a. Predictors: (Constant), Board Meeting Frequency
b. Criterion Variable: Earnings Reinstatement

**Source: SPSS Window Output, Version 22.0 (2021).**

Given that for hypothesis five, the significant is .000 which is less than 0.05; there is a significant, influence of board meeting frequency on earnings reinstatement. The researcher also used ANOVA to test the hypothesis in this section. The results are presented in table 4.7.

**Table 4.7: One way ANOVA for the difference in mean between Board Meeting Frequency and Earnings Reinstatement *(N=80)*.**

| | Sum of Squares | Df | Mean Square | F | Sig. |
|---|---|---|---|---|---|
| Between Groups | 55.771 | 1 | 55771 | 281.139 | .0000 |
| Within Groups | 23.849 | 79 | 257 | | |
| Total | 100.94 | 80 | | | |

a. Criterion variable: Board Meeting Frequency
b. Predictor: Earnings reinstatement

**Source: SPSS Window Output, Version 22.0 (2021).**

Table 4.7 shows that there is difference in mean between board meeting frequency and earnings reinstatement of listed healthcare companies in Nigeria F (dfB,dfw) =F(80,1) =281.139, $p<0.05$. Significant value is 0.01, r (1, 80). This agrees with the regression result in table 4.5.

## 4.3 SUMMARY AND DISCUSSION OF FINDINGS

### Board Independence and Earnings Management

The result of our analysis is significant to the subject matter and directly to our model expectations (*a priori* expectations) and completely supported the Agency theory. From our analysis, both of the two hypotheses concerning board independence and earnings management were confirmed to have significant relationship. Specifically, we found out that board independence was significantly related to earnings restatement. This implies that nonexecutive directors' monitoring activity is enough deterrence to put management's earnings restatement tendency under check. This result implies that monitoring activities of outside directors are able to check against management's discretionary accounting practices, thus confirming the postulations of Fama and Jensen (1983). Fama and Jensen (1983) argued that a board comprising majority of outside directors have the tendency of reducing agency conflict as they provide effective monitoring tool to the board. The premise of their argument is that boards are needed to monitor and control the actions of directors due to latter's opportunistic behavior (Jensen & Meckling, 1976). This finding is consistent with the works of Egbunike et al., (2015), Imoleayo et al. (2016), Olatunde and Fumilayo (2019), however sharply deviates from the findings of Abata and Migiro (2017), and Jaggi & Leung (2007). The study by Jaggi and Leung (2007) provided evidence of insignificant relationship between proportions of non-executive directors and accrual quality in high family-ownership samples of Hong Kong listed firms which suggest that the monitoring effectiveness of independent directors is reduced in family controlled firms. The result may be different if the study includes other firms not only family controlled firms because the independent directors are selected based on merit rather than family consideration.

### Board Meeting Frequency and Earnings Management

Results from both bivariate and multivariate analyses almost completely supported each other in terms of the respective surrogacy of both measures of earnings management. The only area of divergence is under bivariate analysis where the relationship differs in terms of their strengths on both proxies. This supports the findings of Eluyela et al. (2018) which shows the positive association between board meetings frequency and firm performance. Xie et al. (2003) opine that the more board meetings, the more time is devoted to issues such as earnings management and vice versa. However, It is argued that the board activity is a function of firm size, where the larger the firm, the more complex the firm which, in turn, needs more time consumed in the decision making process due to the information complexity in such organizations. The impact of board meeting frequency on earnings management is an important issue in transition literature, this study saw the relationship of board meetings frequency and earnings management from a different view where the board meetings frequency are not necessarily useful because the more the board meets, their earnings is being affected. This means that frequency of board meeting results in high energy cost, travel expenses and other expenses incurred for such meetings.

## 5. CONCLUSION AND RECOMMENDATION

In conclusion, it was found that board independence of listed healthcare companies in Nigeria significantly influence the probability of their earnings restatement. Contrary to expectation on the correlate between board meeting frequency and earnings management, it was found that there exists significant positive relationship between board meeting frequency and earnings restatement probability of listed healthcare companies in Nigeria.

In line with the findings of the study, the following recommendations are made:

1. Listed healthcare companies should ensure adequate and rewarding remuneration package to attract and retain industry-experienced independent professionals to serve on their boards in non-executive capacity. Having independent non-executive directors in the boards of these companies enhance not only their transparency and disclosure quality, but will also energize the monitoring capacity and effectiveness of the board.
2. Board meetings should be regulated in order not to create room for waste of man hour.

**Contribution to Knowledge**

This study has contributed to knowledge in at least three ways. Firstly, the joint evaluation of two distinct dimensions of Corporate Governance Structure in modeling one respective attribute of earnings management for a listed Nigerian healthcare industry is novel. Secondly, for Corporate Governance Structure nexus to earnings management, this study contributes to knowledge by utilizing pre and post IFRS data, thereby offering the platform to evaluate the response variable without risk of GAPP-bias, while studying the healthcare companies. Thirdly, in addition to stringent robustness tests for compliance with econometric requirements, this study employed parallel form of reliability test whereby two inferential approaches were adopted to ensure that both approaches corroborate each other in conclusions, thus strengthening reliability and validity.

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