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Corporate Governance and Earnings Management of Industrial Goods Firms in Nigeria

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ABSTRACT
This research examines how corporate governance structures affect earnings management among industrial firms listed on the Nigerian Exchange Group between 2014 and 2023. Data from 11 firms over ten years were analyzed using a panel regression framework to assess the roles of board size, audit committee independence, and ownership concentration. The results show that the coefficient of board size ($\beta = 0.1999$, $p = 0.3805$) is positive but statistically insignificant, indicating that variations in board size across firms have little effect on the extent of earnings management. Audit committee independence exhibits a strong and significant negative relationship with earnings management ($\beta = -0.4061$, $p < 0.05$). This implies that firms with more independent audit committees tend to engage less in earnings management activities. Ownership structure shows a positive and highly significant coefficient ($\beta = 0.4800$, $p < 0.05$), suggesting that concentrated ownership leads to greater earnings manipulation. This indicates that when a few shareholders hold dominant control, they may influence management decisions in ways that distort reported earnings for personal advantage. The study concludes that effective governance practices, especially independent audit oversight and dispersed ownership, play a crucial role in improving financial transparency and accountability. Therefore, Regulators and firms should ensure that audit committees consist mainly of independent and financially competent members capable of objectively overseeing financial reporting. Firms should prioritize members' expertise, diversity, and commitment over merely expanding board numbers.

Keywords: Corporate Governance, Earnings Management, Board Size, Audit Committee Independence, Ownership Concentration

1.0 INTRODUCTION

Following a series of high-profile corporate scandals, including those involving "WorldCom, Enron, and Xerox, and the onset of the 2008 global financial crisis, the focus on developing and enforcing effective corporate governance mechanisms intensified worldwide. These events revealed serious weaknesses in corporate accountability systems and raised doubts about the credibility of financial reporting (Boata et al., 2025; Igbru & Ekokotu, 2024). In response, regulators and policymakers in several developed economies introduced new governance frameworks to rebuild investor confidence in capital markets and strengthen the integrity of the accounting and auditing professions (Alduais et al., 2023).

Among the core components of corporate governance, the board of directors plays a vital role in ensuring accountability and strategic oversight. The board functions as a bridge between management and shareholders, helping to minimize agency conflicts and align organizational objectives (Khidmat et al.,

2025; Agubata et al, 2021). Through its monitoring and supervisory responsibilities, the board oversees operational efficiency and ensures that financial statements accurately represent the firm's performance. Key attributes that determine board effectiveness include independence, size, and ownership structure. Independent directors, in particular, serve as unbiased monitors of management activities, ensuring transparency and protecting shareholder interests (Fama & Jensen, 1983).

Parallel to the evolution of corporate governance, earnings management (EM) has become a central issue in financial reporting research. EM has been linked to corporate failures and financial misconduct, attracting substantial attention in accounting literature (Velte, 2023). Managers may manipulate reported earnings either through accrual-based adjustments or real activity manipulation to portray favorable financial outcomes and conceal poor performance (Christensen et al., 2022). While much of the existing research emphasizes accrual-based earnings management, the role of real activities manipulation has been less explored (Nguyen et al., 2023; Luo, 2020; Cohen & Lys, 2022).

In the Nigerian background, corporate governance challenges mirror those identified globally, with a growing recognition of the need to strengthen oversight mechanisms to enhance financial transparency (Efunniyi et al., 2024; Manginte, 2024; Sari, 2023; Igbru et al, 2025). Given Nigeria's developing institutional environment, the influence of board characteristics on real activities–based earnings management may differ from their impact on accrual-based manipulation. This study therefore explores how board size, audit committee independence, and ownership structure affect earnings management practices in Nigerian listed industrial goods firms. The objective is to provide insights into how corporate governance mechanisms can limit opportunistic behavior and foster investor confidence, which is crucial for maintaining economic stability.

The remainder of this research is organized as follows: Section 2 reviews the relevant literature; Section 3 discusses the research methodology; Section 4 presents and interprets the empirical findings; and Section 5 concludes with recommendations and suggestions for future research.

2. 0 Literature Review

This section presents relevant literature that explains concepts of dependent variable and its explanatory variables, such as earnings management and corporate governance.

2.1.1 Earnings Management

Managers often aim to present their organizations in the best financial light to maintain reputation and meet stakeholder expectations. However, this may lead to opportunistic behaviors, such as inflating earnings to maximize bonuses or minimize tax liabilities, a practice known as earnings management (Al-Hawtmeh et al., 2024). EM involves the deliberate selection of accounting methods or disclosure choices that serve managerial interests rather than reflecting the company's true performance. Al-Hawtmeh et al (2024) provided one of the most widely accepted definitions, describing earnings management as the use of managerial judgment in financial reporting and transaction structuring to mislead stakeholders about the firm's economic performance or influence contractual outcomes dependent on reported accounting figures (Abolo, 2022).

Although EM does not necessarily violate accounting standards, it exploits the flexibility allowed within these frameworks to achieve desired results. For example, management may defer revenue recognition, adjust depreciation rates, or alter expense timing, all technically legitimate actions but ethically questionable (Fowler, 2023). Consequently, while earnings management may not be illegal, it is often viewed as unethical because it distorts the true economic position of a firm and misleads stakeholders.

There are two major forms of earnings management namely: accrual-based earnings management and real activities manipulation. Accrual-based earnings management manipulates accounting estimates and timing differences. Under the accrual concept, revenues and expenses are recognized when earned or incurred, not necessarily when cash is exchanged Nguyen et al., 2023). The modified Jones (1991) model is widely used to distinguish between discretionary accruals (potentially manipulated) and non-discretionary accruals (outside managerial control). Real activities manipulation, following the Sarbanes-Oxley Act (2002), which enhanced scrutiny of accrual-based earnings manipulation, firms increasingly turned to real activities manipulation operational decisions designed to alter reported earnings while

remaining difficult to detect (Nguyen et al., 2023; Christensen et al., 2022). Examples include accelerating sales through discounts, overproducing to reduce per-unit costs, and cutting discretionary expenses like R&D or advertising (Elmadhoun & Reddy, 2021). Though these actions may appear operationally legitimate, they can harm long-term firm value and distort cash flows.

2.1.2 Corporate Governance

Corporate governance is a critical framework for ensuring transparency, accountability, and ethical conduct in business operations (Younas, 2024). It facilitates trust between management, boards, shareholders, and other stakeholders by establishing clear mechanisms for oversight and control (Usman et al., 2024). Strong governance structures are essential to prevent opportunistic managerial behaviors such as earnings manipulation and to ensure accurate financial reporting.

Board Size

According to Arsh et al. (2025), larger boards may be more effective because they bring diverse expertise, distribute workload efficiently, and enhance oversight capacity. Broader perspectives enable better decision-making and monitoring, thereby reducing the risk of earnings manipulation. Conversely, El Beshlawy and Ardroumli (2021) argue that excessively large boards can hinder swift decision-making and create coordination challenges. They found that medium-sized boards, typically consisting of four to six members, are more efficient in managing corporate decisions. Therefore, while larger boards may provide greater oversight, optimal board size depends on the balance between diversity and decision-making agility.

Audit Committee Independence

Drawing on agency theory, Fama and Jensen (1983) emphasize that having independent, non-executive directors on audit committees reduces conflicts of interest and improves monitoring effectiveness. Independent audit committees act as a safeguard against managerial opportunism by objectively reviewing financial statements and ensuring compliance with regulations. Prior research supports that independence strengthens corporate accountability and protects shareholders' interests (Babalola et al., 2025, Ezekwere et al, 2022).

Ownership Structure

Ownership structure refers to the distribution of equity among managers, directors, and external shareholders. When directors hold shares in the company, their interests align more closely with shareholders, encouraging effective oversight and discouraging earnings manipulation (Saona et al., 2020). Likewise, non-executive ownership increases directors' commitment to the company's success by incentivizing close monitoring (Rajhi,2022). However, excessive ownership concentration among board members can have negative consequences. Dominant shareholders may exercise undue influence, leading to self-serving decisions that compromise report quality and minority shareholder rights (Cappellieri et al., 2024). Thus, while moderate ownership promotes alignment and accountability, excessive concentration can undermine transparency.

2.2 Theoretical review

2.2.1 Institutional Theory

Institutional theory, originally advanced by Meyer and Rowan (1977), provides a framework for understanding how external environmental forces such as cultural norms, regulatory policies, and societal expectations shape corporate behavior. The theory suggests that firms seek legitimacy and survival by aligning their internal practices with institutional pressures rather than purely pursuing operational efficiency (DiMaggio, 1988; Rezai & Ehsani, 2020). In the context of corporate governance and earnings management, institutional theory explains how organizations adopt governance structures, such as independent audit committees, board diversity, and disclosure practices, to conform to accepted norms of transparency and accountability. These mechanisms serve as institutional responses to external demands for ethical financial reporting and sound governance. However, critics argue that institutional theory is somewhat static and difficult to measure empirically (Ibrahim et al., 2019). Despite these limitations, the theory remains relevant in explaining why firms in emerging markets adopt formal governance structures to gain legitimacy and reduce earnings manipulation.

2.2.2 Agency Theory

Agency theory, introduced by Jensen and Meckling (1976), examines the inherent conflicts between principals (shareholders) and agents (managers). The theory posits that managers, driven by self-interest, may engage in opportunistic behaviors such as earnings manipulation to achieve personal goals at the expense of shareholders. To minimize such agency problems, firms implement governance mechanisms, including board oversight, audit committees, and ownership structures , that align managerial interests with those of the owners (Fama & Jensen, 1983). In relation to earnings management, agency theory provides a foundation for understanding how effective monitoring systems reduce information asymmetry and constrain managerial opportunism. Although the theory has been widely applied in accounting and corporate governance research, it has been critiqued for overlooking power dynamics between majority and minority shareholders and for offering a narrow focus on economic efficiency (Kapkiyai et al., 2020). Nonetheless, agency theory remains central in explaining how strong governance structures, such as independent boards and active audit committees, mitigate the tendency of managers to manipulate earnings.

2.2.3 Stakeholder Theory

Stakeholder theory, proposed by Freeman (1984), expands the scope of corporate responsibility beyond shareholders to include all parties affected by a firm's decisions — such as employees, customers, suppliers, regulators, and the wider community. The theory challenges the traditional profit-maximization view (Friedman, 1962) and advocates for governance practices that balance the interests of multiple stakeholders. Within the framework of corporate governance and earnings management, stakeholder theory underscores the importance of transparent and ethical financial reporting to maintain trust and accountability. Audit committees and boards play crucial roles in ensuring that managerial actions do not harm stakeholder interests through earnings manipulation or misleading disclosures (Jeffrey et al., 2015). This perspective is particularly pertinent in emerging economies like Nigeria, where stakeholder confidence is essential for sustainable corporate performance and market stability.

2.2.4 Theoretical Discussion and Justification

This study is anchored on three theoretical perspectives: institutional, agency, and stakeholder theories, as they collectively provide a multidimensional understanding of the relationship between corporate governance and earnings management. Institutional theory emphasizes the influence of external pressures, such as regulatory frameworks and societal expectations, on governance practices designed to enhance transparency. Agency theory, on the other hand, focuses on internal organizational dynamics, particularly the mechanisms employed to align the interests of managers and shareholders, thereby mitigating opportunistic financial reporting. Stakeholder theory offers a broader perspective, highlighting the importance of governance systems that safeguard the interests of all parties affected by corporate decisions and promote long-term corporate integrity.While institutional theory may underemphasize firm-specific motivations, and agency theory primarily addresses shareholder-manager relationships, stakeholder theory provides a more inclusive explanation of governance effectiveness. Consequently, integrating insights from these three theories offers a robust framework for examining how governance mechanisms, such as board independence, audit committee effectiveness, and ownership structure, affect earnings management practices, particularly within the context of listed manufacturing firms in Nigeria.

2.3 Empirical Review

This section presents the extant studies that reveal the effect of independent variables on the dependent variables.

Board Size and Earnings Management

Alknani (2025) explored the association between independent outside directors, board size, and earnings management in Saudi family firms before and after the COVID-19 pandemic. The analysis covered 42 firm-year observations from 21 family-owned businesses listed on the Saudi Stock Exchange between 2019 and 2020, using fixed effects, random effects, and OLS regression models. The results revealed that both board size and the presence of independent directors were related to earnings management during the study period. However, when the sample was divided into pre- and post-pandemic periods, a negative and

significant relationship between board size and earnings management emerged before COVID-19, implying that larger boards effectively constrained earnings manipulation in 2019. Conversely, this relationship became insignificant in the post-pandemic era, possibly due to changes in board operations and governance practices.

Usman et al. (2024) assessed how various board attributes, including gender and educational diversity, nationality, experience, and size, influence earnings management among companies listed on the Pakistan Stock Exchange. The study analyzed 369 non-financial firms across 14 sectors, with specific focus on the cement, automobile, and pharmaceutical industries from 2010 to 2020. Using secondary data, the results indicated that board gender diversity and the inclusion of foreign directors significantly and negatively affected earnings management, supporting the stewardship theory by suggesting such diversity limits managerial opportunism. However, board size showed an insignificant negative impact, and board experience was also statistically insignificant, while educational diversity was positively associated with earnings management.

Fitrasari (2023) examined how board size and independence affect both accrual and real earnings management using data from S&P 500 companies between 2010 and 2019. Employing a random-effects regression model, the study found that board size alone does not significantly reduce earnings manipulation, whereas higher board independence contributes to limiting such practices. Interestingly, the interaction between larger boards and greater independence showed a positive relationship with earnings management, suggesting that independence moderates the influence of board size. The study concluded that smaller boards with a balanced number of independent directors may be more effective in constraining earnings manipulation.

In a related study, Ulfah et al. (2022) investigated the impact of board structure, including size, independence, gender representation, and CEO duality, on earnings management in Indonesian listed firms before and during the COVID-19 pandemic. Using panel regression analysis on 539 companies from 2019Q1 to 2020Q4, the study found that board size was the only significant factor influencing earnings management. The results indicated that larger boards were less effective in constraining earnings manipulation before the pandemic but became more effective during it, as firms increased monitoring intensity to address financial uncertainty.

Sangjun and Chung (2022) analyzed Vietnamese firms between 2012 and 2017 to explore how board characteristics and ownership structures affect earnings management. Using discretionary accruals as a proxy for earnings manipulation, their results showed that board size, CEO ownership, and the ownership stakes of outside directors were negatively associated with earnings management, while board ownership was positively related. The proportion of outside directors, however, was found to be statistically insignificant. Shahwan and Almubaydeen (2020) examined Jordanian industrial firms between 2010 and 2018 to assess the relationship between board characteristics and real earnings management. Using a structural model, the findings showed that both board size and composition had a positive and significant relationship with real earnings management, indicating that larger and more diverse boards might encourage rather than mitigate manipulation in this context.

Audit Committee Independence and Earnings Management

Ibrahimi et al. (2025) analyzed how audit committee characteristics affect earnings management in firms listed on the Casablanca Stock Exchange between 2018 and 2022. Using the generalized method of moments (GMM) on a sample of 34 companies, the study found a significant negative relationship between audit committee independence and earnings management, meaning that more independent audit committees help curb manipulative practices. Multiple directorships among committee members also had a negative and significant influence, while gender diversity was positively associated with earnings management. The findings emphasized that independent, experienced, and gender-balanced audit committees effectively reduce managerial opportunism. In a broader regional study, Almarayeh (2024) explored audit committee independence and its link with earnings management across emerging MENA economies using OLS regression on 3,206 firm-year observations between 2007 and 2017. The results confirmed a negative association between audit committee independence and accrual-based earnings management but found no significant link with real earnings management.

Ali (2024) examined insurance companies in Ethiopia between 2015 and 2022 using a GMM model and discovered that various audit committee features, including independence, expertise, frequency of meetings, gender composition, and size, were all positively and significantly associated with earnings management. This suggests that, in the Ethiopian context, audit committees may not yet serve as effective governance mechanisms for constraining earnings manipulation. Zadeh et al. (2023) investigated the relationship between audit committee characteristics and earnings management and reported mixed results. Their multivariate panel regression analysis found that audit committee size and members' financial expertise significantly influenced accrual-based earnings management, while independence and gender diversity showed no meaningful effect. The study highlighted the importance of distinguishing between accrual and real earnings management when evaluating audit committee effectiveness.

Ownership Structure and Earnings Management

Al-Matari (2025) studied how ownership structure affects earnings management and whether environmental sustainability moderates this relationship. Using OLS regression on 917 firms' data collected from Bloomberg and DataStream, the findings showed that foreign ownership was negatively associated with earnings management, suggesting external owners discourage manipulation. Although government, institutional, and family ownership were also negatively related to earnings management, these effects were statistically insignificant. Environmental sustainability slightly strengthened the negative relationship between ownership and earnings management, showing its potential moderating role.

Shittu et al. (2022) analyzed ownership structure and real earnings management in 76 Nigerian non-financial firms from 2010 to 2020 using the GMM estimator. The results indicated that ownership concentration and institutional ownership significantly and negatively affected real earnings management, while managerial ownership had a positive but insignificant effect, implying that concentrated ownership helps reduce manipulation. Debnath et al. (2021) examined firms in an emerging economy and found that both insider and foreign ownership negatively affected real earnings management, while institutional ownership showed a positive relationship. Likewise, Abubakar et al. (2020) reported similar findings for Nigerian firms between 2014 and 2018, showing that managerial ownership tends to encourage earnings manipulation, whereas foreign ownership mitigates it. Institutional ownership, however, displayed no significant relationship with real earnings management.

3. RESEARCH METHODOLOGY

3.1. Population and sample

The study's sample covers all industrial companies listed on the Nigerian Exchange Group with a total of 11 companies at the end of 2024. It is noted that the data consists of cross-sectional data and time series, which allows us to analyze it in the form of (panel data). The annual financial reports, from 2014 to 2023, of industrial companies were used to complete the empirical part of this study.

3.2 Model Specification

The econometric model was adapted from Aleqab and Ighnaim (2021) and expressed in the following simplified linear form:

$$REM = \beta_0 + \beta_1 BSIZE_{it} + \beta_2 BIN_{it} + \beta_3 BFEXP_{it} + \beta_4 BMEET_{it} + \beta_5 MULTDIR_{it} + \beta_6 MBOWN_{it} + \xi$$

Where: Board size (BSIZE, Board independence (BIN, Financial experience of board members (BFEXP, The number of board meetings (BMEET, Multiple directorships (MULTDIR and Managerial ownership board (BOWN.

Thus, the revised model is expressed in the following linear form:

$EM_{it} = f$ (BSIZE, ACINPED, OWNERSHIP…, ε)

The model is expressed as:

$$EM_{it} = \beta_0 + \beta_1 BSIZE_{it} + \beta_2 ACINDEP_{it} + \beta_3 OWNERSHIP_{it} + \xi_{it}$$

Where: EM = Earnings management, Bsize= Board Size and ACINDEP = Audit Committee Independence, i = Company, t = Time, ξ = error term, β_0 = represents Intercept of the regression line, regarded as constant, $\beta_1 - \beta_4$ = represents Coefficient or slope of the regression line or independent variables.

3.3. Measurement of study variables

The dependent variable is represented by earnings management (*EM*). *EM* has been measured differently from previous literature, such as manipulating sales (Sales manipulation, *S*), reducing discretionary accruals, and increasing production (Abnormal production, *A*). This study adopts the most common approaches: Sales manipulation and Abnormal production. Each scale, respectively:

$$CFO_t/(A_{t-1}) = \alpha_0 + \alpha_1(1/(A_{t-1}) + \beta_1(S_t/(A_{t-1}) + \beta_2(\Delta S_t/(A_{t-1}) + \varepsilon t \quad (1)$$

CFOt represents the cash flow from operations during the *t* period; *St* represents the net sales of the company during the *t* period; ΔS_t represents the change in sales during the period $S_t = S_t - S_{t-1}$; A_{t-1} represents the company's total assets at the end of the *t-1* period; εt is random error.

$$COGS_t/A_{t-1} = \alpha_0 + \alpha_1(1/A_{t-1}) + \alpha_2(S_t/A_{t-1}) + \varepsilon t \quad (2)$$

$COGS_t$ represents the cost of goods sold during the period *t*.

Independent variables:

4. RESULT AND DISCUSSION

Table 4.1 Descriptive Statistics

	EM	BSIZE	ACINDEP	OWNWERSHIP
Mean	3.941818	5.127273	0.550931	3.807273
Median	4.000000	5.000000	0.500000	3.800000
Maximum	5.000000	7.000000	1.000000	5.000000
Minimum	1.000000	5.000000	0.000000	1.000000
Std. Dev.	0.704557	0.385734	0.264388	0.686930
Skewness	-1.567348	3.144301	0.429729	-1.412147
Kurtosis	6.967472	12.72448	2.681784	7.167191
Jarque-Bera	117.1828	614.6798	3.849673	116.1514
Probability	0.000000	0.000000	0.145900	0.000000
Observations	110	110	110	110

Source: Researcher's computation with E-Views 10 (2025)

Table 4.1 displays the analysis of the descriptive statistics reveals that firms in the sample generally display a moderate tendency toward earnings management, with an average value of 3.94 and a median of 4.00. This suggests that while manipulation of earnings exists, it is not excessively high across most firms. The negative skewness indicates that a larger proportion of companies report relatively higher levels of earnings management, whereas only a few maintain very low figures. The high kurtosis value further suggests that most observations are concentrated around the mean, with some extreme cases. These features, confirmed by a significant Jarque-Bera result, point to a non-normal distribution of the data.

Regarding board size, the average number of directors is about five, indicating that most firms operate with moderately sized boards. The small standard deviation implies minimal variation among firms, yet the substantial skewness and kurtosis suggest that while a majority maintain compact boards, a few have notably larger ones. This irregularity causes the distribution to deviate from normality, possibly due to differences in organizational structure, firm size, or governance preferences. Audit committee independence averages around 0.55, meaning that more than half of audit committee members are independent in most firms. The distribution of this variable appears balanced and fairly close to normal, as shown by the kurtosis value near three and a non-significant Jarque-Bera test. This indicates a consistent pattern among companies, reflecting general compliance with accepted corporate governance standards for independent oversight.

Ownership structure shows an average value of 3.81, suggesting moderately concentrated ownership across the sampled firms. The negative skewness signifies that a majority of firms exhibit higher

ownership concentration, while a few display broader ownership dispersion. The high kurtosis value indicates that most firms cluster near the average, with a few extreme cases. The significant Jarque-Bera statistic, however, confirms non-normality in ownership distribution, implying diverse ownership patterns within the sample.

Overall, the descriptive results highlight noticeable variations in corporate governance practices among the firms. While ownership structure, board size, and earnings management show heterogeneity and non-normality, audit committee independence appears to be the most stable and consistent variable, suggesting strong adherence to governance standards across most firms.

Table 4.2 Pearson Correlation Matrix Analysis

	EM	BSIZE	ACINDEP	OWNWERSHIP
EM	1.000000			
BSIZE	0.081509	1.000000		
ACINDEP	-0.143654	0.070795	1.000000	
OWNWERSHIP	0.484637	0.044948	-0.031765	1.000000

Source: Researcher's computation with E-Views 10 (2025)

Table 4.2 displays the correlation analysis; it reveals that most relationships among the study variables are weak. Earnings management shows a slight positive correlation with board size (r = 0.0815), indicating that larger boards do not necessarily reduce earnings manipulation. It has a weak negative relationship with audit committee independence (r = -0.1437), suggesting that greater independence in audit committees may help curb earnings management, though the effect is minimal. The strongest association is observed between earnings management and ownership structure (r = 0.4846), implying that firms with concentrated ownership are more prone to earnings manipulation. The relationships between board size and audit committee independence (r = 0.0708), board size and ownership (r = 0.0449), and audit committee independence and ownership (r = -0.0318) are all weak, indicating limited interaction among governance variables.

In general, the results show minimal multicollinearity and suggest that ownership concentration plays a more significant role in influencing earnings management than other governance mechanisms.

Furthermore, since all correlation coefficients are below 0.8, multicollinearity is not a concern, consistent with guidelines from prior studies (Gujarati & Porter, 2020; Shrestha, 2020).

4.1.1 Multicollinearity Check

Table 4.3: Variance Inflation Factor (VIF)

Variable	VIF	Tolerance 1/VIF
BSIZE	1.007294	0.993
ACINDEP	1.006275	0.994
OWNWERSHIP	1.003258	0.997
Mean VIF	1.007	

Source: Researchers' Computation from E-view 10

Table 4.3 shows The Variance Inflation Factor (VIF) test was conducted to assess the presence of multicollinearity among the independent variables — board size (BSIZE), audit committee independence (ACINDEP), and ownership structure (OWNERSHIP). The results show VIF values of 1.007 for board size, 1.006 for audit committee independence, and 1.003 for ownership structure, with a mean VIF of 1.007. Since all VIF values are well below the critical threshold of 10 (and even below the conservative limit of 5), this indicates that there is no multicollinearity problem among the explanatory variables. Likewise, the tolerance values, which range from 0.993 to 0.997, are all close to 1, confirming that each independent variable is statistically distinct and not excessively correlated with the others. This result suggests that the independent variables can be reliably included in the regression model without the risk of inflated standard errors or biased coefficient estimates. Therefore, the model is suitable for further analysis of the impact of corporate governance mechanisms on earnings management. According to

Gujarati and Porter (2020), multicollinearity is not problematic if VIF is below 10 and tolerance exceeds 0.10.

4.2 Estimate

Table 4.4 Regression

Dependent Variable: EM
Method: Panel Least Squares
Date: 11/10/25 Time: 16:04
Sample: 2014 2023
Periods included: 10
Cross-sections included: 11
Total panel (balanced) observations: 110

Variable	Coefficient	Std. Error	t-Statistic	Prob.
BSIZE	0.126947	0.153568	0.826649	0.4103
ACINDEP	-0.355527	0.223937	-1.587620	0.1154
OWNWERSHIP	0.489522	0.086060	5.688122	0.0000
C	1.623054	0.842829	1.925720	0.0568

R-squared	0.256136	Mean dependent var	3.941818
Adjusted R-squared	0.235083	S.D. dependent var	0.704557
S.E. of regression	0.616202	Akaike info criterion	1.905203
Sum squared resid	40.24873	Schwarz criterion	2.003402
Log likelihood	-100.7861	Hannan-Quinn criter.	1.945033
F-statistic	12.16637	Durbin-Watson stat	1.807338
Prob(F-statistic)	0.000001		

Source: Author's computation (2025)

In the pooled regression model, board size shows a positive but statistically insignificant coefficient (β = 0.1269, p = 0.4103). This indicates that an increase in the number of board members is associated with a slight rise in earnings management, although the effect is weak and not statistically meaningful. The finding suggests that merely increasing the size of the board does not necessarily enhance financial oversight or mitigate earnings manipulation. In some cases, larger boards may face coordination challenges that reduce their monitoring effectiveness. Audit committee independence exhibits a negative but insignificant relationship with earnings management (β = -0.3555, p = 0.1154). This negative sign implies that firms with more independent audit committees tend to engage less in earnings manipulation. However, the lack of statistical significance suggests that while independence in the audit committee aligns with good governance principles, it may not be sufficient on its own to deter earnings management, possibly due to variations in the effectiveness or activeness of audit committee members across firms. Ownership structure demonstrates a positive and statistically significant impact on earnings management (β = 0.4895, p < 0.01). This finding indicates that firms with more concentrated ownership are more likely to engage in earnings management. The result supports the view that dominant shareholders may exert control to influence managerial decisions in ways that favor their interests, even at the expense of transparent financial reporting. This relationship is consistent across both pooled and fixed-effects estimations, highlighting ownership structure as a key determinant of earnings management behavior.

The diagnostic statistics show an R-squared value of 0.256, meaning that about 25.6% of the variation in earnings management is explained by the independent variables in the pooled model. When the fixed effects were introduced, the coefficient of determination improved to R² = 0.350, and the adjusted R-squared increased to 0.262, indicating that the model fit improved after accounting for firm-specific effects. The F-statistic of 3.98 (p = 0.0015) confirms that the overall model is statistically significant, implying that the explanatory variables jointly influence earnings management. The Durbin–Watson statistic of 2.07 suggests that there is no serious problem of autocorrelation in the residuals, confirming the reliability of the results.

Dependent Variable: EM
Method: Panel Least Squares
Date: 11/10/25 Time: 16:13
Sample: 2014 2023
Periods included: 10
Cross-sections included: 11
Total panel (balanced) observations: 110

Variable	Coefficient	Std. Error	t-Statistic	Prob.
BSIZE	0.199865	0.226838	0.881092	0.3805
ACINDEP	-0.406130	0.233382	-1.740195	0.0850
OWNWERSHIP	0.480047	0.086675	5.538481	0.0000
C	1.313131	1.200287	1.094015	0.2767

Effects Specification

Cross-section fixed (dummy variables)

R-squared	0.350248	Mean dependent var	3.941818
Adjusted R-squared	0.262261	S.D. dependent var	0.704557
S.E. of regression	0.605156	Akaike info criterion	1.951752
Sum squared resid	35.15652	Schwarz criterion	2.295450
Log likelihood	-93.46638	Hannan-Quinn criter.	2.091158
F-statistic	3.980675	Durbin-Watson stat	2.068119
Prob(F-statistic)	0.000035		

Dependent Variable: EM
Method: Panel Least Squares
Date: 11/10/25 Time: 16:13

the regression estimates. The Akaike and Schwarz information criteria further validate the model's adequacy and fit.

4.2.1 Fixed Effect (LSDV) and Random Effects

Table 4.4: Summary of Fixed and Random Effects Models Results

Fixed Effects Model – CONSUMER GOODS					Random Effects Model- CONSUMER GOODS				
Dependent Variable = EM					Dependent Variable = EM				
Variable	Coefficient	Std. Error	t-Statistic	Prob.	Variable	Coefficient	Std. Error	t-Statistic	Prob.
BSIZE	0.199865	0.226838	0.881092	0.3805	BSIZE	0.147105	0.175177	0.83975	0.4029
ACINDEP	-0.406130	0.023338	-17.40195	0.0000	ACINDEP	-0.374581	0.225167	-1.66356	0.0992
OWNWERSHIP	0.480047	0.086675	5.538481	0.0000	OWNWERSHIP	0.484752	0.085468	5.67173	0.0000
C	1.313131	1.200287	1.094015	0.2767	C	1.548354	0.947714	1.63377	0.1053
R-Squared			0.35024		*R-Squared*			0.25925	
F-Statistic			3.98067		*F-Statistic*			12.366	
Prob(F-statistic)			0.000035		*Prob(F-statistic)*			0.000001	
Durbin-Watson stat			2.068119		*Durbin-Watson stat*			1.805501	

Source: Author"s computation (2025).

In the Fixed Effects Model, the coefficient of board size ($\beta = 0.1999$, $p = 0.3805$) is positive but statistically insignificant, indicating that variations in board size across firms have little effect on the extent of earnings management. This suggests that increasing the number of directors on the board does not necessarily strengthen financial oversight or reduce manipulative reporting practices.

Audit committee independence exhibits a strong and significant negative relationship with earnings management ($\beta = -0.4061$, $p < 0.05$). This implies that firms with more independent audit committees tend to engage less in earnings management activities. The result supports the view that independent committees play a crucial monitoring role in enhancing transparency and curbing opportunistic financial behavior by management.

Ownership structure shows a positive and highly significant coefficient ($\beta = 0.4800$, $p < 0.05$), suggesting that concentrated ownership leads to greater earnings manipulation. This indicates that when a few shareholders hold dominant control, they may influence management decisions in ways that distort reported earnings for personal advantage.

The fixed effects model records an R-squared value of 0.3502 and an F-statistic of 3.9807 ($p < 0.001$), demonstrating that the independent variables jointly explain a significant proportion of the variation in earnings management. The Durbin–Watson statistic of 2.07 indicates that there is no serious autocorrelation problem, confirming the reliability of the results.

In contrast, the Random Effects Model also shows similar directional relationships. Board size remains positive and insignificant ($\beta = 0.1471$, $p = 0.4029$), while audit committee independence retains a negative relationship ($\beta = -0.3746$, $p = 0.0992$), though with slightly reduced significance. Ownership structure continues to have a positive and statistically significant effect on earnings management ($\beta = 0.4848$, $p < 0.01$). The R-squared value of 0.2593 in the random effects model is lower than that of the fixed effects model, suggesting that the fixed effects model explains more variation in the dependent variable. Both models exhibit significant F-statistics, confirming that the explanatory variables collectively influence earnings management.

To determine which of these models, fixed effects or random effects, was more suitable, the study applied the Hausman Test.

4.2.2 The Hausman Test

Table 4.5: Hausman Test Result

Correlated Random Effects - Hausman Test
Equation: Untitled
Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	45.15390	3	0.0092

Source: Researchers' Computation from E-view 10

To determine the most appropriate model between the fixed and random effects estimations, the study conducted the Hausman Test. The test examines whether there is a significant difference between the coefficients estimated by the two models. The null hypothesis (H_0) assumes that the random effects model is appropriate, while the alternative hypothesis (H_1) favors the fixed effects model.

As shown in Table 4.5, the Hausman Test produced a Chi-square statistic of 45.1539 with 3 degrees of freedom and a p-value of 0.0092. Since the p-value is less than the 5% significance level, the null hypothesis is rejected. This indicates that the differences between the fixed and random effects estimates are systematic and significant. Therefore, the Fixed Effects Model is considered more suitable for the analysis. The implication of this result is that firm-specific characteristics significantly influence the relationship between corporate governance mechanisms and earnings management. Hence, the fixed effects model provides a more reliable estimation by accounting for unobserved heterogeneity across firms.

4.3 Post Estimate

Table 4.6

Breusch-Godfrey Serial Correlation LM Test:

F-statistic	0.587520	Prob. F(2,104)	0.5575
Obs*R-squared	1.228946	Prob. Chi-Square(2)	0.5409

Breusch-Godfrey Serial Correlation LM Test:

F-statistic	0.587520	Prob. F(2,104)	0.5575
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4.3.1 Test for Serial Correlation

The Breusch–Godfrey Serial Correlation LM test was performed to determine whether the residuals from the regression are serially correlated. The result shows an F-statistic of 0.5875 and an associated probability value of 0.5575, while the Obs*R-squared value of 1.2289 yields a Chi-square probability of 0.5409. Since both p-values are greater than the 5 percent significance level, the null hypothesis of no serial correlation cannot be rejected. This implies that the model's residuals are independent across time, confirming that the estimates are not biased due to autocorrelation. The absence of serial correlation validates that the model is dynamically well specified and that the explanatory variables capture the systematic components of earnings management adequately.

4.3.2 Test for Heteroskedasticity

Table 4.7

Heteroskedasticity Test: Breusch-Pagan-Godfrey

F-statistic	0.871526	Prob. F(3,106)	0.4584
Obs*R-squared	2.647929	Prob. Chi-Square(3)	0.4491
Scaled explained SS	4.901826	Prob. Chi-Square(3)	0.1791

The Breusch–Pagan–Godfrey test was applied to verify whether the error terms exhibit constant variance. The results show an F-statistic of 0.8715 with a p-value of 0.4584, and an Obs*R-squared statistic of 2.6479 with a Chi-square probability of 0.4491. All values are above the 0.05 threshold, indicating that the null hypothesis of homoskedasticity cannot be rejected. Therefore, the variance of the error term remains constant across observations, suggesting that the model does not suffer from heteroskedasticity. This outcome confirms that the standard errors of the estimated coefficients are reliable and that hypothesis testing results are valid.

4.4 DISCUSSION OF FINDINGS

The findings from this study provide valuable insights into how corporate governance mechanisms, specifically board size, audit committee independence, and ownership structure, affect earnings management in listed consumer goods firms. The discussion below aligns the empirical outcomes with prior research evidence from different settings.

4.4.1 Board Size and Earnings Management

The regression results reveal that board size exerts a positive but statistically insignificant effect on earnings management. This implies that increasing the number of directors on the board does not necessarily enhance the board's monitoring capability or reduce managerial discretion over financial reporting. The result suggests that larger boards may face coordination challenges, slower decision-making, and diluted accountability, limiting their ability to effectively constrain opportunistic behavior. This finding aligns closely with Fitrasari (2023), who reported that larger boards among S&P 500 firms were ineffective in mitigating both accrual and real earnings management, implying that the quality of board interaction matters more than its size. Similarly, Usman et al. (2024) found board size to be negatively but insignificantly associated with earnings management among non-financial firms listed on the Pakistan Stock Exchange, reinforcing the notion that size alone does not determine board effectiveness.

However, the result contrasts with Alknani (2025), who documented a negative and significant effect of board size on earnings management in Saudi family businesses before the COVID-19 pandemic. His study emphasized that a larger board enhanced oversight and mitigated manipulation when firms operated in a stable economic environment. Likewise, Ulfah et al. (2022) found that board size significantly constrained earnings management during the pandemic in Indonesia, suggesting that larger boards can be effective under heightened uncertainty, when management monitoring intensifies. Other studies have also demonstrated mixed outcomes. Sangjun and Chung (2022) discovered that in Vietnamese firms, board size was negatively related to earnings management, implying stronger governance where larger boards operate with active participation. Conversely, Shahwan and Almubaydeen (2020) found a positive and significant relationship between board size and real earnings management in Jordanian industries, suggesting that larger boards may provide managers with more room to conceal opportunistic actions. Githaiga et al. (2022), in their East African study, also confirmed a positive and significant association between board size and earnings management, proposing that larger boards might suffer from internal inefficiencies and reduced cohesion, which allow manipulation to persist.

While this study's result indicates that board size does not significantly affect earnings management, the literature demonstrates that its impact is context-dependent. Factors such as institutional environment, board composition, cultural norms, and crisis conditions (such as COVID-19) appear to influence whether a larger board strengthens or weakens financial reporting integrity.

4.4.2 Audit Committee Independence and Earnings Management

The results reveal a negative and significant relationship between audit committee independence and earnings management, suggesting that firms with more independent audit committees tend to report more transparent and less manipulated earnings. This finding underscores the essential monitoring role that independent audit committees play in promoting financial accountability and safeguarding shareholder interests. The result corroborates Ibrahimi et al. (2025), who found a similar negative and significant association between audit committee independence and earnings management among Casablanca Stock Exchange-listed firms. Their study highlighted that independent committees reduce opportunistic financial behavior and enhance compliance with corporate governance codes. Likewise, Almarayeh (2024) confirmed a negative relationship between audit committee independence and accrual-based earnings management across MENA countries, emphasizing that independence strengthens oversight over financial reporting.

However, the current finding diverges from Ali (2024), who reported a positive relationship between audit committee independence and earnings management in Ethiopian insurance companies. His study argued that despite formal independence, committee members may lack sufficient expertise or authority to challenge management decisions effectively. Similarly, Zadeh et al. (2023) reported mixed results, noting that audit committee independence did not consistently influence either accrual or real earnings management. Overall, the evidence from this study aligns with the mainstream view that audit committee independence is a crucial deterrent to earnings manipulation, reinforcing the importance of genuine independence rather than mere compliance with formal governance requirements.

4.4.3 Ownership Structure and Earnings Management

The results show that ownership structure has a positive and statistically significant relationship with earnings management. This indicates that firms with higher ownership concentration are more likely to engage in manipulative financial reporting, possibly due to dominant shareholders' ability to influence managerial decisions for private benefit. This finding implies that concentrated ownership may weaken minority shareholder protection and reduce transparency. This outcome is consistent with Shittu et al. (2022), who found that ownership concentration positively influenced real earnings management among Nigerian listed firms. Similarly, Abubakar et al. (2020) observed that managerial ownership increased the tendency to manipulate earnings, suggesting that excessive insider control can undermine objectivity in financial reporting.

In contrast, Al-Matari (2025) reported a negative but statistically insignificant relationship between ownership structure and earnings management, indicating that dispersed ownership may promote accountability and align managerial actions with shareholder interests. Debnath et al. (2021) further showed that foreign ownership was inversely related to real earnings management, suggesting that the presence of foreign investors could enhance transparency through stricter monitoring.

Taken together, these findings suggest that the impact of ownership structure on earnings management depends largely on the distribution of control and investor type. Concentrated ownership, especially by insiders or families, may encourage opportunistic practices, whereas institutional or foreign ownership often promotes stricter oversight and reporting discipline.

4 CONCLUSION AND RECOMMENDATIONS

The study concludes that corporate governance mechanisms influence earnings management in distinct ways. A larger board does not automatically strengthen oversight, while independent audit committees substantially reduce the tendency toward earnings manipulation. Ownership concentration remains a major driver of opportunistic financial behavior, as dominant shareholders may pressure management to alter reported earnings for personal gain. Firm-specific attributes also significantly shape these relationships, confirming the relevance of the fixed-effects model. The overall evidence supports the argument that stronger governance frameworks enhance reporting credibility and protect investor confidence in Nigeria's industrial sector.

Regulators and firms should ensure that audit committees consist mainly of independent and financially competent members capable of objectively overseeing financial reporting. The Nigerian Exchange and

policy institutions should promote broader shareholding to prevent excessive influence from dominant investors and enhance transparency.Firms should prioritize members' expertise, diversity, and commitment over merely expanding board numbers.

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