

# Effect of Board Physiognomies on Earnings Management of Nigerian Banks

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## ABSTRACTS

This study examines the relationship between board physiognomies and earnings management of banks in Nigeria for ten years period (2010-2019). Study's comprise of all the 14 deposit money banks listed on Nigerian Exchange Group as at December 31, 2019. All 14 banks were used as sample by adopting census sampling technique. The technique of analysis employed was Multiple regression technique. Result of the analyses revealed that board control minimizes manager's tendencies to manage earnings while board independence increases earnings management. It is therefore concluded that board independence have the tendencies of perpetuating earnings management while board control reduces earnings management banks in Nigeria. It is thus recommended that the Central Bank of Nigeria (CBN) and Financial Reporting Council (FRC) should in their codes encourage ownership concentration investment because of the role they play in checkmating unwanted discretionary accruals in listed Nigerian deposit money banks.

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## Introduction

The stormy effects of the universal financial crisis have brought out the vital importance of trustworthy as well as high quality financial reportage. Accomplishing the goal of quality financial reporting depends on the expected functions that the board of directors play when monitoring management who are responsible for producing a quality financial report of companies. The Board is an integral part of the regulation and is expected to oversee the activities of managers opportunistic tendency that leads to agency problem (Haruna, Kwanbo & Hassan, 2018). The sinking of top profile firms like the Italian company named Parmalat, Unites States Worldcom, Xerox and Enron, Nigerian Cadbury and Oando and several more giant firms around the globe as a result of financial scandals affirmed that there was a yet to be explored financial reporting opacity (Nwaiwu & Joseph, 2018). This brought about the popularity of earnings management in accounting literature. Additionally, the elasticity of corporate financial reportage where mostly "Generally Accepted Accounting Principles" (GAAP) is used leaves room for managers to adopt financial management which usually leads to earnings management (Ghazali, Shafie, & Sanusi, 2015).

Earnings are vital elements in influential decisions on dividends as well as investment; firm performance measures provide standard for stocks valuations and are the foundation for financial prediction (Mohammady, 2012). Managing earnings in the present-day businesses has become of great concern due to its explanatory power to the noticeable financial scams (Kapkiyai, Cheboi & Komen, 2020). Earnings management (EM) is a frequent term in the world of business today. EM is an accounting treatment used by managers in their choice to

smooth or manipulate earnings in financial statements as a kind of business “language” reports. Generally, EM practices are done purposely to accomplish a specific objective or goal; either to maximize managers’ benefit or shareholders’ wealth. Presuming EM as fit or unfit for companies and shareholders merely considers one aspect of EM (Chanderen, 2016). The key reason of EM activities is to portray a reflection of good standing as well as profitability to the marketplace (Bortoluzzo et al., 2016) and also to have effect on agents’ understanding of risk (Balboa, Lopez-Epinosa & Rubia, 2013; El Sood, 2012).

Researches on EM in financial institutions, banks especially were not in the past given the desired attention because of the fundamental differences in their characteristics with firms in other sectors e.g. consumer goods (Oosterbosch, 2010). Banks were mostly removed out of samples in researches of EM because their financial reporting setting is not the same as non-financial companies, e.g. industrial goods firms. Their accrual methods is essentially different and are not expected to be accounted for properly by models of total accruals (Oosterbosch, 2010). It would then imply that a definite accrual must have existed by which earnings could be manipulated by bank management through utilization of discretion. Attention of banks EM researches in accounting literature is Loan Loss Provisions (Meisel, 2020). Loan loss provisions are a rather bank's massive accrual and thus have a substantial impact on earnings as well as bank's authorized capital. The aim of the provision is to regulate banks loan loss reserves to be able to highlight from their loan portfolios the impending losses (Bortoluzzo et al., 2016).

The physiognomies of the board of directors are important parts of the corporate governance system, and they are widely regarded as effective tools for EM (El Diri et al., 2020, Haruna et al., 2023; Bala et al., 2023). This is to make the relationship between a company's board of directors, chief executive officers, and shareholders, as well as other related parties, more harmonious (Ahmed et al., 2021). According to Miko and Kamardin (2015) the board of directors composition and structure ought to have diversity. Board holding is the fraction of equity held by board directors (Miko & Kamardin, 2016). Share ownership in firms can lead to different expectations. Board of directors consist of various types of directors ranging from non-executive director, executive directors, institutional directors, foreign directors etc. They serve as representatives of all shareholders and are expected to checkmate the opportunistic tendency of management to manage earnings.

An effective mechanism for checkmating the accounting processing is Independent board (Hashim & Devi, 2008). According to Fama and Jensen (2019) it is the believe of agency theory that boards having more outside members decreases agency conflicts which offer an efficient checkmating instrument to the board. The study contends that the presence of independent member enhances the capacity of the board for more effective monitoring of higher management as well as ensures the absence of conflict with top management to mismanage wealth of stakeholder because they have an incentive to protect their status as authorities in controlling decisions.

Board control is another factor that may influence the EM of firms. The strategic associations involving insiders and outsiders, decisions of the board and therefore value of shareholders are affected by board control. For example, insiders may refuse to provide complete or full correct information where outsiders control the board. This can clearly have an adverse effect on the decisions of the board and may reduce the value of the shareholder (Harris & Raviv, 2008). It is therefore obvious that those who control the board always have their ways in terms of decision taken. Ownership concentration and institutional ownership are example of board control. Where the two-ownership structure align with each other it is only natural that they will always have their way on the board.

Financial information are expected to provide to the external parties of the organization value relevant information and the board characteristics are envisaged to assist in attaining this objective (Haruna et al., 2018). Nonetheless, accounting standards grant management option

for applying their judgment in financial reporting, instance is choice of approach for impairment of assets, depreciation technique, techniques for recognition of income, and receivables application (Kapkiyai et al., 2020). According to Ohwovori (2017) many shareholders of the defunct Skye bank were caught off guard and several of their investments were lost when the operating license of the bank was revoked in 2016 and its assets and liabilities were handed over to a bridge bank. KPMG's forensic audit revealed that two sets of accounts were kept by the bank: the one that show the true position and another that EM was carried out, thus misleading stockholders. This takes place despite the presence of board holding, board independence and board control (that are expected to be mechanism for checkmating the managements tendency to perpetuate earnings management) on the board.

A number of empirical work have been done on the link between board physiognomies and management of earnings both in advanced and developing economies. For instance, Kankanamge (2016) and Rajeevan and Ajward (2019) in Srilanka; Hanim et al., (2012), Cho et al. (2017), and Al-Dhamari and Ismail (2014) in Malaysia; Stockmans et al. (2013) in Belgium; Bataineh et al. (2018) was conducted in Jordan; Gulzar and Zongjun (2011) in China; Kapoor and Goel (2017) and Kumari and Pattanayak (2014) in India; Boulila Taktak and Mbarki (2014) and Talbi et al. (2015) in Tunisia. Outcome of these studies may not be appropriate in Nigerian perspective as a result of variations in economic structure, regulatory framework as well business context. In Nigeria, empirical works that tested the association between board physiognomies and EM were: Haruna et al. (2018), Bala and Kumai (2015), the domain of these studies were non-financial services sector of Nigeria which render their outcome hard to generalized to Nigerian deposit money banks because of their differences in regulations. Studies done in banks include Lin et al. (2018); Boulila Taktak and Mbarki (2014), and Hamdan (2020). These investigations, though, were carried out outside of Nigeria. The focus of Osemene et al. (2018) was Nigerian banks; however, the period of time did not include the revocation of Skye Bank's license.

In line with the stated problem and gaps, this study seeks to address the research question of to what extent does board characteristics affect EM of listed Nigerian deposit money banks? Examining the impact of board attributes on the EM of Nigerian banks is the primary goal of the research.

- i. To examine the relationship between board holding and EM of Nigerian banks
- ii. To ascertain the influence of board independence on EM of Nigerian banks
- iii. To determine the influence of board control on EM of Nigerian banks

The study's theoretical and practical contributions include, but are not limited to, providing empirical evidence on the effects of board characteristics on EM in Nigerian deposit money banks. Information for assessment and administration will also be made available to the Security and Exchange Commission (SEC), which sets corporate governance policies. Once more, it will serve as a useful resource for practitioners and academics conducting related research.

Results of this work are anticipated to direct listed deposit money banks policy makers in undertaking decisions that are fruitful as well as crucial towards managing as well as investment on material and human resources through ensuring proper directors selection.

Reminder of this article is split into four sections starting with argument on the review of literature and theoretical background, the method of research adopted and specification of the model, result and discussions and finally conclusion and commendation.

## **Literature Review and Theoretical Background**

This section analyses the literature that are relevant and related to this work. Literature on board holdings and earnings management (EM), board independence and EM and board control and earnings management were reviewed. Also captured was the theoretical framework.

### **Board Holdings and Earnings Management**

Rose, Mazza, Norman and Rose (2013) reported that directors holding were less likely to accept managers aggressive reporting in a situation where the discussions on the board were more open, in comparison to transparency that is small. However, it is of no gains for improved transparency for directors with no stake, and therefore management of earnings are likely to be supported by director with no stake in a situation of high transparency. Therefore, when directors perform their functions efficiently, they are anticipated to influence management to invest in a less risky capital structure (Ghosh & Moon, 2010). Valipour and Moradbeygi (2011) found that effective directors and boards who supervised firm risk vigorously were more likely to supervise management from adopting unnecessary leverage which resulted in high quality reporting. However, directors with high shareholdings can develop gradually narrow-minded when they operate the company for gains that are immediate gains instead of creation of value as well as competitiveness for long-term (Lin et al., 2018). The context of the studies is outside Nigeria. A similar study in Nigeria might produce a different result. This study hypothesized that:

**H<sub>1</sub>:** Board holding has significant negative influence on EM of Nigerian banks

### **Board Independence and Earnings Management**

Al-absy et al. (2019) in their research work entitled Corporate Governance Mechanisms, Whistle-Blowing Policy and EM Practices of Firms in Malaysia studied sample of Malaysian firms for three years. The study categorized the firms into those with whistle blowing policy and those without whistle blowing policy. Among the researcher's outcome is that independent board is less related with EM as evidenced in both sets of firms. This study conducted in Malaysia used a period of only three years. Changing the domain to Nigeria and improving the period of the study is expected to give a more reliable result in our context. Hence our study period is ten years and the period of the study is extended to 2019. Jaggi et al., (2009) established that where independent director's percentage is great in non-family owned firms efficiently checkmate management of earnings than in firms owned by family. In the same vein, A great number on board of directors that are independent are better efficient checker (Alves, 2014; Swai & Mbogela, 2016; Vafeas, 2000) so therefore increase earnings quality through decreasing the chances for EM as well as firm's insiders from committing frauds (Marra et al., 2011). Conversely, Mansor, Ahmad, Zaluki and Osman (2013) separated companies into family owned companies and firms of non-family ownership. For the family owned companies, independent director was discovered to be significant and positively associated to EM. Similarly, (Al-absy, Ismail, et al., 2019) found a significantly positive influence of independent director with EM when interacted with family ownership. Current studies period is extended 2019. The study hypothesized that:

**H<sub>2</sub>:** Board independence has significant negative association with EM of Nigerian banks

### **Board Control and Earnings Management**

Sarkar, Sarkar and Sen (2013) investigated the impact of the structure of ownership difficulty on management of earnings and noticed that associated companies with group ownership (pyramidal groups) possesses a U-shaped association with activities of EM. Furthermore, other researchers examined the cross-holding instruments for improving the control (Yakura & Guo, 2012) as well as clarified the influence of structure of cross-holding in Chinese companies. These studies recommended a number of setbacks of mechanisms of cross-holding as (i) capital over-inflation; (ii) cross stockholding brings about issues in corporate governance like powerlessness of stockholders to supervise the managers of companies, which promotes the insiders control; and (iii) a undesirable consequence is left on the capital market. Bodnaruk, Massa and Yadav (2017) have discovered that shareholders with influenced control obtain private gains as well as promote behavior that is opportunistic at the detriment of stockholders with smaller holdings (Type II agency problem). Shaikh et al. (2019) studied Control-

Enhancing Mechanisms and Earnings Management in Pakistan. The study scrutinized both types of earnings manipulation practices (accrual and real EM). Outcome of the study explained that the pyramid control and multiple control chain mechanisms have a constructive and significant link with accruals EM and real EM. Our study hypothesized that:

**H<sub>3</sub>:** Board control has significant negative effect on EM of Nigerian banks

### Theoretical Framework

Current study is using as underpinning theory, the theory of agency. Consequently, this study of board physiognomies and EM utilizes the theory of agency to underpin it as suggested by (Haruna et al., 2018). The theory of agency was proposed by Berle and Means (1930) and Ross (1973) developed it. Jensen and Meckling (1976) who expanded the theory suggested that separation of ownership and control may result to EM by managers for their selfish interest which renders the shareholders victims. A situation where the agents fail to act in the interest of the owners and as a result the firm's share price is affected gives rise to agency theory (Brennan, 1995). Agency particularly exists in the company whose manager's interest is to at the disadvantage of shareholders accomplish their benefits (Agrawal & Knoeber, 1996). The essence of the board of directors is to act as shareholders agent so that accuracy of the financial reporting that disclose the actual financial situation of the firm is certain. Therefore, the function of the board is necessary to checkmate "opportunistic behavior of management" that involves decision taking that is of their private gain which comes at the detriment the of the benefits of stockholders' (Donaldson & Davis, 1991). The independent variables as well as the dependent variable of our study are developed on the agency theory. In this instance an agent is appointed on behalf of the owners to manage the day to day firm's activities. This division between control and owners creates the possibility of principal and agent conflicts, that leads to associated cost in conflicts resolution (Jensen & Meckling, 1976 and Eisenhardt, 1989). Presence of board characteristics is expected to checkmate the agents activity which lead to cost of agency reduction. Current study's theoretical framework is depicted in figure 2.1.

**Fig 1 Conceptual framework**

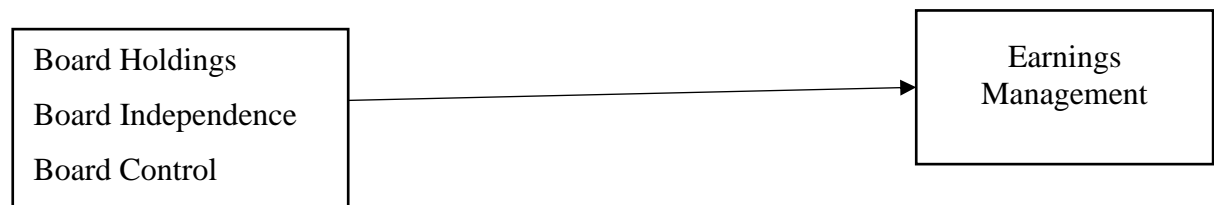


Fig 1 gives the pictorial view of the study. The study has three independent variables (board holding, board independence and board control) while EM is the dependent variable of the study (i.e. main variable of the study). The essence of creating the board of directors is to monitor the affairs of management to ensure that the interests of the shareholders are protected both in the short and long run. Hence it is expected that board physiognomies proxies used in this current study will enhance the quality of the earnings and confirm the assertion of the agency theory.

### Methodology

The research design employed in current study is correlational designs. The design's choice is as a result of the positivism framework. Correlational research design allows researcher study the link among the variables of the study. The study used secondary data extracted from the Nigerian banks' audited published account for the period of ten years (2010-2019). The study's population comprises of all the 14 banks listed on the Nigerian Stock Exchange as at 31<sup>st</sup>

December, 2019. The study used the entire population as sample using census sampling technique.

Firms' individual heterogeneity were accounted for using panel data. Multiple regression is adopted in determining the EM of the Nigerian listed banks using Beatty et al. (2002) loan loss provision model. The residuals for the model after inserting the sampled firms' data represent EM in the study's specified second regression model. The higher the residuals, the higher the EM and vice versa. Stata 13 was used to estimate heteroscedasticity as well as run the regression. Conducted also were series of tests, multicollinearity test as well as normality test. The selection of this is as a result that both the tool as well as technique are more informative (that is more variability, less collinearity, more degrees of freedom), as estimates are more efficient under it. Similarly, they allow the study of individual dynamics. Also the tools as well as the techniques afford the individual unobserved heterogeneity to be controlled in addition to providing information on the time-ordering of events.

### Model Specification

EM was measures using discretionary loan loss provision of (Beatty et al, 2002)

$$\text{LOSS}_{it} = \alpha_{it} + \beta_1 \text{LOGTA}_{it} + \beta_2 \text{NPL}_{it} + \beta_3 \text{Allowances}_{it} + \beta_4 \text{RE Loans}_{it} + \beta_5 \text{CI Loans}_{it} + \beta_6 \text{DI Loans}_{it} + \beta_7 \text{AG Loans}_{it} + \beta_8 \text{Cons Loans}_{it} + \beta_9 \text{FG Loans}_{it} + \epsilon_{it} \quad (i)$$

Where:

Industry (i) and Time of Year (t)

Scaling loan loss provisions by the total number of loans is LOSS.

LOGTA refers to the whole assets' natural log;

NPL is the percentage of total loans that are nonperforming;

Scaled by the total number of loans, allowances equal loan loss allowance;

Real estate loans as a percentage of overall loans is called RE Loans.

Commercial and industrial loans as a percentage of total loans is known as CI Loans.

DI Loans is the percentage of total loans that are loans to depositary institutions;

AG Loans is the percentage of overall loans that are agricultural loans.

Cons Loans: the percentage of total loans that are consumer loans; FG Loans: the percentage of total loans that are loans to foreign governments;

$\epsilon$  stands for residual.

The model that examines the hypotheses of the study is presented as follows:

$$\text{EM}_{it} = \beta_0_{it} + \beta_1 \text{BHOL}_{it} + \beta_2 \text{BIND}_{it} + \beta_3 \text{CON}_{it} + \mu_i \quad (ii)$$

Where:

EM = Earnings Management

BHOL = Board Holdings

BIND = Board Independence

BCON = Board Control

$\beta_1 - \beta_7$  = Slope of predictor variables

$\beta_0$  = Constant or Intercept

$\mu$  = Error Term

**Table 1: Variable Measurement**

Variables	Nature	Proxies	Measurement
Earnings Management	Dependent.	Absolute value of the Discretionary Loan Loss Provision (DLLP)	Discretionary Loan Loss Provision (Beatty et al. 2002).
Board Physiognomies	Independent.	Board Holding (BHOL)	Proportion of equity shares held by members of the board to total share listed (Cheng & Warfield, 2005; Del Guercio et al., 2003; Shaheen et al., 2023)
Board Control	Independent.	Board Independence (BIND)	Proportion of independent directors to total number of directors on the board (Al-absy et al., 2019b; Hashim & Devi, 2008; Bala et al., 2022)
	Independent	Board Control (BCON)	Proportion of block shareholding to total shareholding (Alves, 2012; Hashim & Devi, 2008)

Source: Author, 2023

## Result And Discussion

The section analyses variables behaviour using descriptive statistics. It is followed by the correlation matrix results. In addition the model estimations results as well as the drawn inferences from the hypotheses tests are also discussed. Discussed finally, are the study's finding as well as the analysis of its implications on policy..

### Descriptive Statistics

This section presents and describes the nature of the study's variables using descriptive statistics. Table 1 presents the descriptive statistics displaying the minimum, maximum, mean as well as the standard deviation of the data in respect of the study's variables.

**Table 1: Descriptive Statistics**

Variables	Mean	Std. Dev	Min	Max
<b>EM</b>	0.0169	0.0131	0.0008	0.0912
<b>BHOL</b>	0.0580	0.1205	0.0001	0.7200
<b>BIND</b>	0.6257	0.1471	0.1400	0.9200
<b>BCON</b>	0.1070	0.1736	0.0000	0.9400

The average mean value of earnings management (EM) for Nigerian banks is 0.017 in Table 1, which indicates that 17% of earnings were managed during the time. Because the standard deviation is slightly smaller, the value of the standard deviation indicated 0.013, indicating a not too large data dispersion from the mean. The table also shows a maximum EM of 0.091 and a minimum of 0.0008, indicating that the Nigerian banks managed their profits for the time at a minimum of less than 1% and a maximum of 9%.

Indicated in table 1 is board holding (BHOL) average proportion of 0.0581 representing 6% and standard deviation of 0.1205. This indicates that the representation of the BHOL on the board of Nigerian banks is 58% on the average. The maximum as well as minimum values stood at 0.7200 and 0.0001 respectively. This shows that the proportion of directors'

shareholding of Nigeria banks within the period of current research is up to 72% at maximum and 1% at the minimum level. The standard deviation shows that the BHOL data dispersion is 12%, signifying that the BHOL data did not deviate from the mean far away.

Finally, board control (BCON) revealed a minimum value of 0.000 and a maximum value of 0.9400 signifying that within the period of the study there was at least a bank that no shareholder had controlling shares and 94% had controlling shares in the Nigerian banks within the period. The mean value of 0.1070 revealed that, averagely, there were, at least, 11% of members of the board with 5% and above share. The standard deviation of 0.090 for this variable signifies that it is not far away from the mean as there was a deviation of about 9%.

### Correlation Analysis

Table 2 presents the Correlation analysis between the dependent and the independent variables. It likewise display the relationship between and amongst the independent variable themselves. It additionall presents the coefficients of the correlation between all the pairs of the variables.

**Table 2: Correlation Matrix**

Variables	EM	BHOL	BIND	BCON
<b>EM</b>	1.000			
<b>BHOL</b>	0.058	1.000		
<b>BIND</b>	0.675	0.0180	1.000	
<b>BCON</b>	-0.023	0.113	-0.073	1.0000

Table 2 is the table of the correlation matrix. It indicates that earnings management (EM) is positively correlated with board holding (BHOL) with a coefficients value of 0.06 (6%). This implies that EM has a positive correlation with board holding. Board independence was discovered to have positive association with EM to the tune of 67%: suggesting a direct correlation between the two variables. Finally, the association between board control (BCON) and earnings management (EM) was found to be of negative magnitude of 2% (-0.02). The implication is that an association that is indirect exists between EM and BCON to the tune of -2%.

Table 2 showed that the relationship between board holding (BHOL) and each of the independent variables, (board independence and board control) were positive. This is evidenced by positive coefficients between BHOL and all the dependent variables as reported in Table 4.2. Association between BIND and BCON is negative relationships -0.07 as table 2 depicts.

Correlation among the research's independent variables themselves were revealed to be moderate (less than + 0.8) indicating that no multicollinearity is present. According to Casey, Anderson, Mesak and Dickens (1999) to determine the presence of multicollinearity or not Variance Inflation Factor (VIF) and Tolerance Values (TV) Collinearity diagnostic test ought to be conducted of which was established to be less than 10 and less than 1 respectively as shown in table 3.

**Table 3: Multicollinearity test**

Variables	VIF	1/VIF
<b>BHOL</b>	1.25	0.80
<b>BIND</b>	1.31	0.76
<b>BCON</b>	1.14	0.88
<b>Mean VIF</b>		<b>1.50</b>

Source: Stata Output, 2021

The multicollinearity test for the study's independent variables is given in Table 3 above. Each variable's outcome is within the acceptable range, according to the arguments made by (Casey et al., 1999; Wooldridge, 2013). Thus, for every explanatory variable in the regression result, VIF and TV consistently displayed values less than 10 and less than 1, respectively. Likewise, this assertion is further supported by the mean VIF of 1.50. Thus, the current investigation confirms that multicollinearity is not a hazard (Tobachnick & Fidell, 1996).

### Regression Results

The analysis of the result of the study's regression models is shown and presented in this section as provided in table 4

**Table 4: Regression Result**

<b>Variables</b>	<b>Coefficients</b>	<b>z-values</b>	<b>p-values</b>
<b>BHOL</b>	0.101	1.50	0.134
<b>BIND</b>	0.547	7.52	0.000
<b>BCON</b>	-0.147	-2.32	0.020
<b>CONSTANT</b>	-0.397	-6.39	0.000
<b>R-Square</b>			<b>0.750</b>
<b>Wald chi2</b>	<b>182.43</b>		<b>0.000</b>

The multiple coefficient of determination, or cumulative R<sup>2</sup>, of 0.750 for variables indicates the percentage of the overall variance in the dependent variable (earnings management) that can be collectively explained by the explanatory variables (board holding, board independence, and board control). Consequently, it is shown that the combined influence of board holding, board independence, and board control accounts for 75% of the overall variance in EM of Nigerian deposit money institutions. The model with a p-value of 0.000, indicating statistical significance at the 1% level of significance, had a Wald Chi2 Statistics value of 182.43, indicating that the explanatory factors were properly selected and utilized to predict the dependent variable of the study. Therefore, the model is suitable for the study and that there is a very high likelihood that the relationships among the variables of the study were not incidental. Also, the explanatory variables reliably explained the dependent variable as revealed by table 4.. Henceforward, the individual explanatory variable analysis as against explained variable is presented as below

### Board Holding and Earnings Management

As shown in table 4 the board holding coefficient value was 0.101 and an associated z-value of 1.50 with a p-value of 0.134 (which is not significant at 10%). This reveals that as the directors proportion with shareholding on the board of Nigerian banks increase, it will lead to 1.34 insignificant increase in the EM. The findings contradict the findings such as Lin et al. (2018); Miko and Kamardin (2015); Rose et al. (2013). It however supports the findings of Rose et al. (2013). As a result this finding failed to provide an evidence of accepting hypothesis one of the study

### Board Independence and Earnings Management

In the case of board independence and EM, the model's statistical result shows a coefficient value of 0.547, a z-value of 7.52 with its associated significant p-value of 0.000 at 1% level of significance. This result indicated that as the proportion of independent and non-executive directors on a board of Nigerian banks increase, the EM increase by 0.547. This is surprising as the wisdom behind appointing independent directors and non-executive directors on a board of corporate entity is to express independent opinion capable of protecting minority interest and checkmating unethical accounting practices by managers which usually increases the quality of the earnings (Nigeria, 2018). A review of the banks in Nigeria shows that a number

of non-executive director and independent directors do not have accounting or finance background which justifies the result. This reason may limit independent director's influential power over company managers. The finding is in line with that of Mansor et al. (2013) but contrary with the result of (Al-absy, et al., 2019; Arun et al., 2015; Saona et al., 2020a; Swai & Mbogela, 2016). This finding therefore, failed to provides an evidence of accepting hypothesis two of the study

### **Board Control and Earnings Management**

With respect to board control and EM, the result in table 4 shows a coefficient figure of -0.147 and a z-value of -2.32 and its associated p-value of 0.020 (5% significance level). This result indicated that the presence of ownership concentration together with institutional shareholders determine the extent to which EM can be checkmated. The result further implies that for every proportionate increase in the ownership concentration and institutional shareholding the earnings quality improves by 0.152. The result gives reason to support hypothesis three of the study. The result support the outcome of Alhadab et al. (2015). However, the outcome is contrary with that of Baiewe and Al-mashhadani (2020); Bodnaruk et al. (2017); Shaikh et al. (2019) .

### **Conclusion**

Based on the findings as presented, it is concluded that high proportion of directors with shareholding on the board does not assure reduction in the management of earnings in Nigerian banks. Similarly, independent as well as non-executive directors existence do not assure the reduction of EM of Nigerian banks. However the presence of ownership concentration and institutional ownership was confirmed to be valuable in reducing EM.

It is therefore recommended that directors shareholding should be discourage. Likewise non-executive directors should be discouraged except those with financial literacy. However, ownership concentration and institutional ownership are to be encouraged in Nigerian bank because of the role they play in reducing EM in the banks.

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