EARNINGS MANAGEMENT PRACTICES AND BOARD CHARACTERISTICS AMONG LISTED FIRMS IN NIGERIA

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ABSTRACT

In response to the global trend and the reported cases of earnings management, Security and Exchange Commission (SEC) in Nigeria issued a new code of corporate governance in 2011, and subsequently, in 2018. However, earnings management practices are still being reported in many firms of some of the sub-sectors of the Nigerian Stock Exchange. It is on this basis that this study is conducted to examine: the code of corporate governance review influence on the impact of board characteristics on accrual-based earnings management; the role of IFRS adoption on the impact of board characteristics on accrual-based earnings management. The study employed a panel of 87 firms over a period of 2008 to 2015. Descriptive tools of summary statistics (the Mean and the standard deviation) and inferential tools of panel fixed and random effects models were employed to achieve the study objectives. The findings of this study revealed that accrual-based earnings management was practiced more after the code of corporate governance review of 2011 as well as after IFRS adoption, even though, the review has helped board characteristics reduce earnings management while IFRS adoption has contributed little to the success of board characteristics in reducing earnings management. The study recommends that the minimum number of independent directors should be increased from just one to a higher number. Also the number of board members, board meetings and audit committee meetings should be increased from average of four per annum to a higher number.

Keywords: *Earnings, Management Practices, Board Characteristics, Listed Firms.*

INTRODUCTION

Financial statements are meant to provide information about the financial performance and financial position of the business to which they relate. This information is expected to be provided by the board of directors which is accountable and responsible for the performance and affairs of the company (Alan, 2015). The Board is entrusted with the resources of the business enterprise by its owners (the shareholders) and is expected to give the account of stewardship to the shareholders through the annual financial statements. Apart from the shareholders being the first users of financial statements, the information contained in the financial statements is

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also of use to other user groups such as the employees, the lenders and the tax authorities to make economic decisions. These shareholders therefore depend on the financial statement of companies to make decisions. Hence the quality of their decisions is dependent on the quality of accounting numbers; most importantly earnings. Thus when earnings are managed, stakeholders' decisions are influenced often negatively (Healy & Wahlen, 1999). For example, potential shareholders are interested in the earnings per share (EPS) of a firm to bring in their funds. If earnings are managed, shareholders will automatically be misled. Also, the tax authority determines a firm's tax liability through the taxable income which emanates from accounting income. Thus, if earnings are managed, incorrect tax amount will be collected.

According to Healy and Wahlen (1999), earnings management occurs when managers use judgment in financial reporting and in structuring transactions to alter financial reports to either mislead some stakeholders about the underlying economic performance of the company or to influence contractual outcomes that depend on reported accounting numbers. According to Scott (1997), earnings management refers to the management choice upon accounting policy, or a real activity that affects earnings as such that multiple objectives of the specific earnings reporting can be obtained. This therefore suggests that earnings management is carried out in two ways - accrual-based earnings management (AM) and real-activities-based earnings management (Roychowdhury, 2006).

A central cause of accounting scandals was usually the phenomenon of earnings management (Goncharov, 2005). The role played by earnings management (EM) in the several high-profile corporate and accounting scandals during the early part of the twenty-first century cannot be over emphasized. The scandals that led to the failure and collapse of big corporations such as the Enron, Adelphia, Tyco international, Peregrine systems and the Worldcom made investors around the world lose billions of dollars. For instance, Enron's collapse in 2001 in the U.S made investors lose 74 billion dollars (Newkirk, 2002).

Accrual-based earnings management is possible because Generally Accepted Accounting Principles (GAAP) allows alternative representations of accounting events (Park &Shin, 2004). The alternative representations allowed are evident in the freedom given to firms in the choice of accounting methods, the application of accounting methods, and the timing of asset acquisitions and dispositions. Management usually alters the reported earnings by choosing an accounting method that hastens or postpones the recognition of revenues and hastens or postpones the recognition of expenses. Earnings are also altered through the application of several allowed discretions in the measurement of certain items of financial statement.

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Adjustment of the timing of asset acquisitions and dispositions also makes earnings management possible. On the other hand, in real earnings management, firms try to avoid losses by offering price discounts to temporarily increase sales, engaging in overproduction to lower the cost of goods sold, and reducing discretionary expenditures to aggressively improve margins (Roychowdhury, 2006).

In response to the global trend and the reported cases of earnings management by Cadbury Nigeria Plc. and Lever Brothers Nigeria Plc. (both of which are firms from consumer goods sub-sector of the Nigerian stock exchange), Security and Exchange Commission (SEC) in Nigeria issued a new code of corporate governance in 2011 which became valid on the 4th of April 2011. Also, in 2012, Financial Reporting Council of Nigeria (FRCN) directed that deposit money banks and other significant public listed entities must prepare their financial statement in compliance with IFRS by 31st December 2012. Both the code and the IFRS are expected to influence earnings management. It is therefore expected that the adoption and implementation of IFRS will lead to improvement in earnings quality as there have been recent claims that the adoption of a high-quality accounting standard (IFRS) reduces the management of earnings since it is principle-based and it eliminates accounting alternatives (Barth et al., 2008). However, earnings management practices are still being reported in many firms across different sub-sectors. It is on this basis that this research work is conducted to examine the level of earnings management practices among the firms of the various sub-sectors of the Nigerian Stock Exchange. Therefore, this study asks the following questions:

i. How does code of corporate governance review influence the impact of board characteristics on accrual-based earnings management?
ii. What role does IFRS adoption play in the impact of board characteristics on accrual-based earnings management?

This study is therefore carried out with all the listed firms on the Nigerian stock exchange except the financial institutions, for the period between 2008 and 2015. This period was considered because Nigeria began to feel the effect of global financial crisis in 2008 and as such the relationship among many financial variable changed from what they used to be during the pre-global financial crisis. This time period also embodies both the code of corporate governance review of 2011 and the mandatory adoption of IFRS of 2012 which are the two main events this study focuses on. This period ended in 2015 because there was another review of code of corporate governance in Nigeria in 2016 which already influenced the financial reporting of some of the listed firms.

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LITERATURE REVIEW

Conceptual Review

Definition of Earnings Management

Earnings management occurs when managers use judgment in financial reporting and in structuring transactions to alter financial reports either to mislead some stakeholders about the underlying economic performance of the company or to influence contractual outcomes that depend on reported accounting numbers (Healy & Wahlen, 1999). Earnings management can be for opportunistic or beneficial reason. Opportunistic earnings management refers to the practice of earnings management for managers' desirable goals whereas beneficial earnings management refers to the practice of earnings management for stockholders' incentives (Rezaei, 2012),

Opportunistic Earnings Management

Opportunistic earnings management is earnings management engaged in by managers for the reason of their own personal gains and benefit (Rezaei, 2012).

There have been several studies on why managers engage in earnings management for their own personal interests other than the interests of the shareholders. The empirical evidence in the literature documents that managers engage in opportunistic earnings management when some bonuses are attached to their performance. Healy (1985) provides evidence to show that managers engaged in earnings management to increase their compensations and bonuses. Here they will want to maximize their bonuses by engaging in income increasing earnings accruals and as soon as the bonuses attain its maximum, they tend to manage earnings downwards.

Beneficial Earnings Management

A number of previous studies have documented that earnings management is not always harmful as painted as it may also be beneficial. Jiraporna, Miller, Yoon and Kim (2006) investigated whether or not earnings management is beneficial. They offer agency theory as a tool to distinguish between the opportunistic and beneficial uses of earnings management. They posit that firms where agency costs are more severe should not exhibit a higher degree of earnings management because in such firms managers tend to engage in opportunistic earnings management. On the other hand, Firms where agency costs are milder (i.e. where managers are more likely to act in the interests of the stockholders) should exhibit a higher degree of earning management because it enhances the information content for earning that would be beneficial to the stockholders.

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Theoretical Review

Agency Theory

Agency theory came into existence because of separation of ownership from control in firms. According to Jensen and Meckling (1976), agency theory is defined as a form of contract between a company's owners and its managers, where the owners appoint an agent (the managers) to manage the company on their behalf. Since the shareholders have charged the managers with account of stewardship, then ideally, the managers should act in the best interest of the shareholders. But, in the real world, there are agency problems and complete contracts are infeasible owing to bounded rationality and information asymmetries (Rachagan & Satkunasingam, 2009). Information asymmetry between the agent and principal is why an agent can take advantages from adverse selection and moral hazard, which is the obvious problem in recent accounting scandals **(Leung & Ilsever, 2013).**

There are so many publications in the extant literature about whether or not good corporate governance mechanisms can impact on agency problem. Agency problem in decision process is more pronounced when decision managers who initiate and implement important decisions are not the major residual claimants and they do not bear a major share of the wealth effects of their decisions. Without effective control procedures, such decision managers are more likely to take actions that are deviated from the interests of residual claimants (Haitao, 2010). Recognizing this problem, the principal may want to align his interests with the agents by offering incentives and/or incurring monitoring costs designed to limit the opportunistic behavior of the agent **(Leung & Ilsever, 2013).** However, from the extant literature, earnings management is seen as either opportunistic or beneficial. When earnings is managed to achieve private incentives (managers' desirable goals), it is termed opportunistic earnings management whereas it is termed beneficial earnings management if it is meant to achieve stockholders' incentives (Rezaei, 2012). If, however, earnings management is opportunistic, it will be seen as a potential agency cost since managers manipulate earnings to mislead shareholders and fulfill their own interests (Yousef, Nur & Khairil, 2014). Corporate governance is therefore a control to making sure that managers act in the best interest of the principal (i.e. the shareholders) by not being able to engage in earnings management.

Empirical Review

Corporate governance mechanisms have been documented by previous studies to impact on accounting quality. Corporate governance mechanisms are generally grouped into two types: internal and external. The internal mechanisms are the board of

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directors whereas the external mechanism is audit (Zeghal, Chtourou & Sellami, 2011). Zeghal *et al.* (2011) further argue that board of directors, whose effectiveness depends on characteristics such as its independence and its size, is often considered as one of the most essential and vital control mechanisms. Board of directors is usually responsible for mitigating the agency problems that arise in large corporations due to the separation of ownership and control. Several studies have therefore examined the extent to which the board has been able to perform its function effectively in cases of financial reporting manipulations such as earnings management.

Xie, Davidson and DaDalt (2003) examined the role of the board of directors, the audit committee, and the executive committee in preventing earnings management. Supporting an SEC Panel Report's conclusion that audit committee members need financial sophistication, the study shows that the composition of a board in general and of an audit committee more specifically, is related to the likelihood that a firm will engage in earnings management. Board and audit committee members with corporate or financial backgrounds are associated with firms that have smaller discretionary current accruals. Board and audit committee meeting frequency is also associated with reduced levels of discretionary current accruals. The study concluded that board and audit committee activity and their members' financial sophistication may be important factors in constraining the propensity of managers to engage in earnings management.

Chtourou, Bédard and Courteau(2001) and Bradbury, Mak and Tan (2006) examined the relationship between the board size and earnings management and assert that the size of the board has a negative relationship with earnings management, that is, a large size of the board controls the opportunistic behaviour of the management. On the other hand, Okougbo and Okike (2015) found a positive relationship between the board size and earnings management in their study of the impact of corporate governance and earnings management Nigeria.

Beasley, (1996); Klein, (2002); and Osma and Noguer, (2007) looked into the effectiveness of the board when it includes the independent outside directors and found that the outside members can prevent financial reporting manipulations. Abbott, Parker and Peters (2004) conclude that the presence of independent outside directors on the board improves its effectiveness and constitutes a constraint on fraud.

Dimitropoulos and Asteriou (2010) investigated the impact of board independence on earnings management using a sample of 97 non-financial firms listed on the Athens Stock Exchange in Greece between years 2000 and 2004. The study shows that the board independence is negatively associated with earnings management practices.

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Amer and Abdelkarim (2011) investigated the impact of board independence on earnings management using a sample of 22 listed companies, selected from a population of 46 listed companies at the Palestinian Stock Exchange for the years 2009 and 2010. Linear Multiple Regression indicates that the board independence was positively related with earnings management. Chen and Cheng (2007) investigated the impact of independent directors on earnings management in China and found no significant relationship between the two variables.

Xie et al. (2003) found a negative relationship between earnings management and the meeting frequency of the board in their study carried out in the U.S. Similarly, Bala and Kumai (2015) examined the influence of board meeting on earnings management of listed food and beverages firms in Nigeria. Specifically. The results of multiple regression revealed that there exists an inverse relationship between board meetings and earnings management.

In the investigation of the impact of CEO duality on earnings management, Jensen (1993) and Dechow, Sloan and Sweeney (1996) found that earnings management is more likely to occur when the chief executive officer simultaneously serves as chairman of the board. Daghsni, Zouhayer and Mbarek (2016) examined the effect of the board characteristics (size, independence, the CEO duality and board activity) on the earnings management in companies listed French stock exchange. The results revealed that the CEO duality has a positive relationship with the earnings management.

In summary, the reviewed studies have attempted to examine the effect of board characteristics on earnings management, particularly, accrual-based earnings management, both internationally and in the local context. However, the findings of these studies vary, specifically, in the impact of each of the board characteristics on earnings management. Such variation in findings might stem from methodological issue or the influence of structural intervention which was not controlled for in previous studies and has consequently shaped their findings. This leaves a gap unbridged, particularly, in the Nigerian context, since a number of interventions have been introduced in the structure of corporate governance and accounting practices in general. Such interventions include the 2011 review of code of corporate governance and the 2012 mandatory adoption of IFRS. In the face of such interventions, the behaviour of corporate governance as well as earnings management tend to change, and in the absence of proper control for such might lead to wrong conclusion about the phenomenon. This has motivated the present study to examine the intervening role of the two major events that occur during the period in concern – review of corporate governance and mandatory adoption of IFRS – in the impact of board

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characteristics on earnings management. The study therefore, introduced an interaction of these events with each of the board characteristics to fill this gap.

METHODOLOGY

Models Specification

Accrual-Based Earnings Management Model

This study therefore uses Kothari et al. (2005) model to estimate discretionary accruals. The reasons for the adoption of this model are: (1) most recent studies have adopted it for estimating discretionary accruals (Zéghal et al., 2011) and (2) the model introduced an alternative method to tackle the drawbacks of type I errors in modified Jones model (Essa, Kabir & Nguyen, 2016) . Also, the study uses both Dechow, Kothari and Watts (1998) and Roychowdhury's (2006) models to estimate abnormal cash flows from operations and abnormal production

$$TA_{it} = \beta_0 + \beta_1(\Delta REV_{it} - \Delta AR_{it}) + \beta_2 PPE_{it} + \beta_3 ROA_{it} + \varepsilon_{it} \quad (1)$$

where:

TA_{it} is the total accruals for company i in year t which is calculated by taking the difference between net income before extraordinary items and cash flow from operations.

REV_{it} is the change in revenues for company i in time t which is the difference between revenues in year t and year t−1

AR_{it} is the change in accounts receivable for company i in time t which is the difference between accounts receivable in year t and year t−1

PPE_{it} is the gross property, plant, and equipment for company i in year t;

ROA_{it} is the return on assets for company i in year t.

The regression equation is deflated by lagged total assets in order to reduce heteroskedasticity. Discretionary accrual is the residual of the model above.

However, since total accruals (TA) is the sum of discretionary accruals and non-discretionary accruals (Dechow, Sloan & Sweeney, 1995), discretionary accruals will, therefore, be calculated by subtracting non-discretionary accruals from total accruals. The estimation of regression coefficients in the total accruals model in equation (1) requires the estimation of a cross-sectional regression for each industry of the final sample using ordinary least squares (OLS) method.

Having estimated the coefficients and the constants (that is β_0,β_1, β_2 and β_3) of the total accruals model in equation (1), the estimated values of the coefficients are then used to evaluate the non-discretionary component of total accruals (NDA) for every firm-year using the non-discretionary accruals model in equation (3) below

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$$TA_{it} = DA_{it} + NDA_{it} \quad (2)$$

$$NDA_{it} = \beta_{it} + \beta_1(\Delta REV_{it} - \Delta AR_{it}) + \beta_2 PPE_{it} + \beta_3 ROA_{it} \quad (3)$$

Therefore, discretionary accruals is given as

$$DA_{it} = TA_{it} - \{\beta_{it} + \beta_1(\Delta REV_{it} - \Delta AR_{it}) + \beta_2 PPE_{it} + \beta_3 ROA_{it}\} \quad (4)$$

Impact of Board Characteristics on Accrual-Based Earnings Management

Following Cohen, Dey and Lys (2008) in the investigation of the relationships that exist between earnings management and corporate governance factors, this study specifies its empirical models of the impact board characteristics on earnings management by adapting the model of Cohen et al. (2008) to include board characteristics and also control for firm size. The models of this study were also specified to cater for the major events that occurred during the period which are the review of the code of corporate governance and the mandatory adoption of IFRS disclosure requirements. These models are specified thus:

$$AM_{it} = \beta_0 + \beta_1 BSIZE_{it} + \beta_2 BIND_{it} + \beta_3 BMEET_{it} + \beta_4 DUAL_{it} + \beta_{15} LEV_{it} + \beta_{16} ROA_{it} + \beta_{18} CCGR_{it} + \beta_{19} IFRS_{it} + \varepsilon_{it}$$

Equation (5) specifies the model used to measure the impact of board characteristics on AM without considering the interactive role of code of corporate governance review and mandatory adoption of IFRS. Therefore, to examine the interactive role of both code of corporate governance review and adoption of IFRS in the impact of board characteristics on AM, equations 6 and 7 are used respectively.

$$AM_{it} = \beta_0 + \beta_1 BSIZE_{it} + \beta_2 BIND_{it} + \beta_3 BMEET_{it} + \beta_4 DUAL_{it} + \beta_5 BSIZE * CCGR_{it} + \beta_6 BIND * CCGR_{it} + \beta_7 BMEET * CCGR_{it} + \beta_8 DUAL * CCGR_{it} + \beta_9 SIZE_{it} + \beta_{10} IFRS_{it} + \varepsilon_{it} \quad (6)$$

$$AM_{it} = \beta_0 + \beta_1 BSIZE_{it} + \beta_2 BIND_{it} + \beta_3 BMEET_{it} + \beta_4 DUAL_{it} + \beta_5 BSIZE * IFRS_{it} + \beta_6 BIND * IFRS_{it} + \beta_7 BMEET * IFRS_{it} + \beta_8 DUAL * IFRS_{it} + \beta_9 SIZE_{it} + \beta_{10} IFRS_{it} + \varepsilon_{it} \quad (7)$$

where:
AM_{it} is Accrual-based earnings management of company i and at time t
$BSIZE_{it}$ is Board size of company i and at time t
$BIND_{it}$ is Board independence of company i and at time t
$BMEET_{it}$ is Board meeting of company i and at time t
$DUAL_{it}$ is CEO Duality of company i and at time t
$SIZE_{it}$ is size of company i at time t
CCGR is code of corporate governance review
IFRS is IFRS adoption

Methods of Analysis

This study employed both the descriptive and inferential approaches to data analysis. Descriptive approach is used so as to describe accrual-based earnings management and other continuous variables. Hence, the Mean and standard deviation are presented in table form so as to give a snapshot of these measures. For the inferential approach, the study employed multiple regression analysis. The panel regression analysis employed in this study to estimate the parameters of the models are the heterogeneous panel models of fixed and random effects.

Source of Data Collection and Measurement of Variables

Secondary source of data collection were employed in this study. The data were collected from the Nigerian Stock Exchange, specifically, from annual reports of non-financial firms listed on the Nigerian Stock Exchange between 2008 and 2015. Financial firms were excluded because their financial accounting is fundamentally different from non-financial firms and they also have their own peculiarities and regulations that are different from non-financial firms. This is in line with previous studies (Van Tendeloo & Vanstaelen, 2005; Zeghalet al., 2011). Financial information was therefore extracted from Nigerian listed firms' annual reports in order to estimate the discretionary accruals (the proxy for accrual-based earnings management). Table 3.1 presents the description of variables employed in the models of study regarding their representative symbols, definition and measurements.

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Table 3.1: Description of Variables

S/N	Variable	Symbol	Definition	Measurement
1.	Accrual-based earnings management	AM	Accrual-based earnings management	Discretionary accruals of company i at year t.
2.	Board size	BSIZE	Size of the board of directors	The total number of directors serving on the board in company i at time t.
3.	Board independence	BIND	Independence of the board of directors	A dummy variable given the value 1 if the board comprises 51% and above non-executive directors and at least one of them is an independent director(as contained in the Nigerian code of corporate governance), 0 otherwise.
4.	Board meeting	BMEET	Meeting held by the board of directors	total number of meetings held by the board in company i at year t.
5.	CEO duality	DUAL	Duality of the role of CEO and board chairman	A dummy variable given value of 1 if CEO and Chairman of Board positions were not conducted by the same person, 0 otherwise.
6.	Leverage	LEV	Leverage	Total liability divided by total assets.
7.	Return on assets	ROA	Return on assets	Net income divided by total assets.

EMPIRICAL RESULTS AND DISCUSSIONS

The focus of this section is presentation of results of both the descriptive and inferential analysis of this study. The descriptive analysis describes the accrual-based earnings management and other continuous variables employing summary statistical tools of mean and standard deviation. Dichotomous variables such as board

independence and CEO duality were omitted in this analysis. The inferential analysis entails the use of multiple regression, employing the fixed and random effects model.

Average value of accrual-based earnings management is presented alongside its standard deviations. These statistics are presented across three sample periods – all sample period, post-code of corporate governance review period, and post-IFRS adoption period. All sample period combines all selected period of this study, the post-CCG period is the period after the review of code of corporate governance while the post-IFRS period is the period after the adoption of IFRS in Nigeria in 2012.

Table 1: Summary of Earnings Management and Corporate Governance Indicators

Variable	All Sample		CCGR Period		IFRS Period	
	Mean	SD	Mean	SD	Mean	SD
Accrual-based EM	-0.35	1.34	-0.03	0.22	-0.04	0.23
Board size	9.31	2.44	9.35	2.14	9.37	2.15
Board meeting	4.43	1.41	4.96	1.37	4.94	1.29

Source: Author's Computations, 2019

Table 1 shows that accrual-based earnings management averaged -0.35 with standard deviation of 1.34 for all sample period, it averaged -0.03 with standard deviation of 0.22 for post-review of code of corporate governance period, and averaged -0.04 with standard deviation of 0.23 for post-adoption of IFRS period. This indicates that accrual-based earnings management was much lower but more dispersed for all sample period than for post-review of code of corporate governance period and in turn higher than it was for post-adoption of IFRS. This implies that earnings management practices that relate to accruals were relatively lower for all sample period than for post-2011 code of corporate governance review, however, these practices were further minimized post-periods of IFRS.

Average number of directors in a board is the same across the sample periods considered. This is shown by board size of about nine directors with sample spread of about two directors for all sample periods, about nine directors with sample spread of about two directors after the code of corporate governance review, and about nine directors with sample spread of about two directors after adoption of IFRS.

The number of meetings held by board members is also almost the same across the sample periods. Average board meeting was about four meetings with sample spread of about one meeting for all sample period, about five meetings with sample spread of about one meeting after the code of corporate governance review, and

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about five meetings with sample spread of about one meeting after the adoption of IFRS.

In order to make necessary inference as to accrual-based earnings management practices of listed firms in Nigeria, the analysis presented here is the fixed and random effects results.

Table 2: Results of Impact of Board Characteristics on Accrual-based Earnings Management

VARIABLES	(1) Board Characteristics only		(2) Board Characteristics with CCGR		(3) Board Characteristics with IFRS	
	Coefficient	p-value	Coefficient	p-value	Coefficient	p-value
Bsize	-0.0615**	0.043	-0.0262	0.399	-0.0203	0.486
	(0.0302)		(0.0310)		(0.0291)	
Bind	0.0329	0.862	-0.322*	0.068	-0.177	0.297
	(0.190)		(0.176)		(0.170)	
Bmeet	0.0474	0.242	0.155***	0.003	0.0925**	0.032
	(0.0404)		(0.0524)		(0.0432)	
Ceodual	0.234	0.638	0.545**	0.019	0.363*	0.082
	(0.498)		(0.233)		(0.209)	
Logfsize	0.0336	0.415	-0.00737	0.824	0.0520	0.107
	(0.0411)		(0.0321)		(0.0323)	
bsizeccg			-1.341**	0.039		
			(0.0331)			
Bindccg			0.347**	0.047		
			(0.174)			
bmeetccg			-0.187***	0.001		
			(0.0581)			
ceodualccg			-0.335*	0.094		
			(0.200)			
Ccg			0.913**	0.015		
			(0.375)			
bsizeifrs					-0.0202	0.540
					(0.0330)	
Bindifrs					0.179	0.306
					(0.175)	
bmeetifrs					-0.123**	0.028
					(0.0563)	
ceodualifrs					-0.109	0.533
					(0.176)	
Ifrs					0.763**	0.042
					(0.375)	
Constant	-0.445	0.578	0.0425	0.186	-1.305**	0.040
	(0.798)		(0.651)		(0.637)	
Observations	388		388		388	
Number of firms	72		72		72	
R-squared	0.040		0.052		0.058	
Wald Chi^2 stat	8.38	0.136	27.02	0.003	16.10	0.097
F-Test	4.94	0.000	4.96	0.000	4.79	0.000
Hausman Test	2.51	0.775	11.5	0.320	13.81	0.182

Source: Author's Computations, 2019.

*Note: Standard errors in parentheses; *** p<0.01, ** p<0.05, * p<0.1*

The result in the column labelled (1) indicates the impact of board characteristics on accrual-based earnings management. With the Hausman test result in favour of the random effects model, the result indicates that only CEO duality significantly affect accrual-based earnings management. Its effect is positive, indicating that duality of CEO and board chairman is associated with more practices of accrual-based earnings management. However, the model statistics do not totally validate the result. Even though, the F-test of homogeneity strongly favours a heterogeneous panel model, the low value of R-squared and insignificant Wald Chi-squared statistics raised questions about the statistical fitness of the result.

In the column labelled (2), the results of the impact of board characteristics alongside code of corporate governance review (CCGR) on accrual-based earnings management were reported. Interactions of CCG review and each of the board characteristics were also included to examine the role of CCG review in the impact of board characteristics on accrual-based earnings management. The result shows that all four characteristics are statistically significant, with the coefficients of board size, board meeting and CEO duality (all interacted with CCG review) having negative signs and board independence having positive sign. This shows that the former characteristics after CCG review help reduce the practice of accrual-based earnings management while the latter characteristic promote it. Therefore, increasing board size by a director reduces earnings management by 1.3 points, increasing board meeting by a sitting reduces earnings management by 0.19 points, and having different individuals serving as CEO and board chairman commands lower practice of earnings management by 0.33 points. These indicate that the review of code of corporate governance has played a relevant role in assisting the board characteristics to reduce the practice of earnings management. The significant positive coefficient of CCG review also indicates that, generally, the practice of earnings management is higher in the post CCG review than before. The model diagnostics are well behaved. Wald Chi-squared statistic is significant, guaranteeing the statistical fitness of the model.

In column (3), the results of the impact of board characteristics with the adoption of IFRS on accrual-based earnings management were reported. Interactions of IFRS adoption and each of the board characteristics were also included to examine the role of IFRS adoption in the impact of board characteristics on accrual-based earnings management. The result shows that only board meeting (interacted with IFRS) is statistically significant with positive coefficient. This indicates that board meeting after IFRS adoption help reduce the practice of accrual-based

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earnings management. Therefore, increasing board meeting by a sitting, after IFRS adoption, reduces earnings management by 0.12 points (lower than that of CCG review). These indicate that the IFRS adoption has contributed minimally to make board characteristics to reduce the practice of earnings management. The significant positive coefficient of IFRS adoption also indicates that, generally, the practice of earnings management is higher in the post IFRS adoption than before. The model diagnostics are also well behaved. Wald Chi-squared statistics is significant, guaranteeing the statistical fitness of the model.

The findings of this study from its results are, therefore, in line with those of Bala and Kumai (2015); Daghsni et al. (2016); Bamahros and Wan-Hussin (2015); Kamran and Shah (2014); Becker, Defond, Jiambalvo and Subramanyam (1998) and Van Tendeloo and Vanstraelen (2005).

CONCLUSION

The findings of this study from the descriptive perspective revealed that the periods of the review of code of corporate governance have witnessed greater practice of accrual-based earnings management. This revealed a tentative submission that the review has not been able to prevent the practice of accrual-based earnings management among firms.

The general conclusion from the findings of this study is that the review of code of corporate governance has reinforced board characteristics to better reduce the practice of accrual-based earnings management among the firms while IFRS adoption has done a little in this regard.The study, therefore, recommends that the recommendations of the reviewed code of corporate governance, as to the required level of board size, meeting, independence and CEO duality should be adhered to in order to have a reduced practice of accrual-based earnings management among firms.

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