

CORPORATE GOVERNANCE AND REAL EARNINGS MANAGEMENT IN NIGERIAN LISTED FINANCIAL FIRMS

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Abstract: *The focus of the study is the examination of the relationship that exists between corporate governance and real earnings management in Nigerian listed financial firms, with attention on three corporate governance variables (board tenure, board expertise and CEO ownership). The study adopts a longitudinal research design. Descriptive statistics, correlation analysis and panel regression analysis technique, with emphasis on the random effect model, were used for data analysis. A purposive sample of thirty seven (37) firms, out of the Forty nine (49) financial firms listed on the Nigerian Exchange Group, at year end 31st December, 2022 was studied for a period of seven years, 2016 to 2022. Findings from data analysis revealed that board expertise and CEO ownership have insignificant but positive relationships with real earnings management. In addition, board tenure was found to be significantly but negatively related to real earnings management. The correlation analysis revealed that there is a negative correlation between the variables board expertise, CEO ownership and real earnings management. Also, board tenure has a positive correlation with REM. The study recommends that directors of companies should be encouraged to spend longer time on the board as this will serve as incentive to avoid unfavourable earnings management.*

Keywords: Corporate Governance, Earnings Management, Real Earnings Management, Board Tenure, Board Expertise, Chief Executive Officer Ownership.

JEL classification: M4, M41

1. Introduction

Globalisation, advances in technology and increased competition have necessitated corporate organisations to become more competitive, generate profit, create long term value for their shareholders, have funds for investments and also meet operating costs in order to continue in to the future. Organisations are therefore sometimes pushed to take extreme measures such as real earnings management (REM) involving manipulation of operating cash flow, production costs and discretionary expenses, in their need to achieve these basic objectives (Suffian et al., 2023).

The use of REM activities like financial statement manipulation are major ways in which corporate management can manipulate the performance of their organisations (Gong,

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<http://doi.org/10.47535/1991ojbe201>.

Young and Zhou, 2023) Corporate management takes very great interest in their corporation's financial statement showing a profit. Profit, being one of the major criteria which shareholders use in making investment decisions in firms and also a criteria through which shareholders evaluate the performance of the corporation (Mellado and Sauna, 2020). This creates an incentive for managers to carryout REM.

Effective Corporate Governance (CG) in companies can reduce this incentive to a very bare minimum. Corporate governance, being the process, by which corporate organisations are controlled and directed, thus has a major role to play in minimising REM. Hence, though, managers can use REM to achieve a desired earnings level, with certain corporate governance measures this activity can be reduced.

Studies such as Musa, Latif and Majid (2023) and Abubakar, Ishak and Chandren (2017) have studied the relationship between CG and REM among Nigerian listed firms. This study contributes to the existing body of knowledge by using the model of Attia, Ismail and Mehafdi (2022), which examines REM more robustly than the models used to study REM among Nigerian financial listed firms.

2.1. Theoretical Framework

Agency theory evaluates the dynamics of the relationship between corporate owners and the management of a company. The owners of the company are the principal who invest their funds and take risk for economic benefits while the management is the agents who manage the company (Panda, 2017). In this relationship problems arise, which are caused by the separation of owners from managers.

Corporate management is given the power to manage the corporation for the owner/shareholders. Agency problems occur because managers have more corporate information than the owners. So there is the need for managers to provide corporate information to the owners (Widiasmara, 2021). Agency theory emphasises the need to implement various CG mechanisms, in order to control the actions of the management who are agents (Panda, 2017).

In relation to EM, there is the need to ensure the accuracy and reliability of financial reports. Instituting good CG mechanisms can ensure reliability and accuracy of these reports. This can also help to align the interest of management to shareholders which is the dominant theme of agency theory. This can help prevent agency problems of non-alignment of interest between the owners and the managers, which can prevent the occurrence of EM practices where management may try to manipulate the earnings of the corporation for their benefit personal benefit. Good CG in companies can therefore, help to mitigate EM.

2.2. Concept of Earnings Management

According to Sianturi et al. (2020), Earnings Management (EM) is the act of implementing deliberate, improper accounting methods and the abuse of accounting standards. Earnings management is also defined by Suffian and Sanusi (2015) to be the deliberate act of attaining a level of desired earnings within the limits of the standards of generally accepted accounting principles. EM is thus seen as actions carried out by an individual to change the accounting numbers in order to present a corporation as having a good performance (Suffian et al., 2023).

Earnings management is a very frequent cause of corporate failure. However it is seen as having both merits and demerits for corporations (Suffian et al., 2023). Good EM activity is to be developed and protected while EM with negative corporate impact such as loss of investors and public confidence has to be eliminated. While EM has merits and demerits, it is generally seen as a problem causing activity by regulators of companies (Egiyi, 2022). This is because EM is seen to reduce the reliability of a company's financial report and this

is deemed to have a significant negative impact on the quality of a corporation's earnings (Egiyi, 2022).

Due to earnings being a major aspect of corporate financial reports, it is usually used by corporate stakeholders especially owners and investors to evaluate the performance of a company's management in carrying out its corporate stewardship (Crawford et al., 2018). Suffian et al., (2023) opines that corporate earnings is the measure used by corporate stakeholders to evaluate corporate management's performance, determine management's compensation, assess corporate prospects, allocate resources and make decisions on corporate valuation. This major role of earnings thus gives most management the incentive to carry out EM.

2.2.1. Real Earning Management (REM)

These are EM practices that involve the use of operating, investing and financing decisions that do not align with the optimising of corporate strategy. REM is less easily detectable and has greater impact as it is considered more costly to firms in the long run (Kothari, Mizik and Roychowdhury, 2016). REM involves making changes to normal business operations. REM reduces firm value because manipulation by decisions taken on current real activity is a practice that deviates from normal operation of the period can have negative effect on cash flows in future periods (Mellado and Sauna, 2020).

REM is a practice that deviates from normal operations of the company motivated by desire of managers to mislead stakeholders. Due to the long-lasting effect of REM and the fact that its practice is widely employed by managers of firms and developed countries to improve reported earnings, REM deserves attention from researchers (Mellado and Sauna, 2020).

REM is carried out through three basic approaches which are manipulation of operating cash flow, production costs and discretionary expenses. These are economic activities that deviate from normal operational policies (Gong, Young and Zhou, 2023). Gao and Gao (2016) also buttress this point by stating that REM is achieved by manipulating an enterprise real activities e.g. sales, production & discretionary measures by abnormal operating activities, net cash flow, abnormal product cost & abnormal discretionary expenses.

2.3. Concept of Corporate Governance

Corporate governance (CG) is defined as of rules that guides the relationship that exist between shareholders, management, creditors, government, employees and holders of other material and external interest relating to rights and obligations (Susanto and Pradipta, 2016). Miran (2022) also defined corporate governance to be the means through which a corporation's stakeholders exert control over corporate executives and management in terms of protecting their interests.

CG uses mechanisms which can be external or internal to the corporation. External ones include a strict regulatory environment while internal CG include the board of directors and how the various levels of executive provide checks and balances in the corporation and its decision making (Cheng, Lee and Shelvin, 2016). CG mechanisms are therefore the ways through which a corporation's management effectively and efficiently governs their corporations.

In Nigeria CG practices are regulated through the Nigerian Corporate Governance Code 2018, along with the Nigerian Securities Exchange Commission's guidelines and regulations for the Nigerian Securities Market and the Companies and Allied Matters Act 2020. The board of directors is the major corner stone of CG. The board is charged with the responsibility of supervising the operations of the company, monitoring and avoiding risk, failure and loss which can cause loss for shareholders and preventing opportunistic behaviour from staff and making key decisions (Miran, 2022).

2.4. Corporate Governance and Real Earnings Management

The board of directors is the key component of CG that is seen as providing effective control over EM (El Diri, Lambrinoudakis and Alhadab, 2020). The CEO is also a major determinant of financial reporting quality (Cheng, Lee and Shelvin, 2015). Senior executives' of corporations such as CEOs hold meetings regularly for important decision making on the corporation activities and these decisions are made to ensure the corporations achieves its corporate goals.

Directors of corporations are therefore, authorised to oversee and control a corporations operations. The director's ensure that corporations maintain corporate credibility, are open in their corporate disclosures and include integrity when reporting. Thus, senior corporate executives are a major and potent factor that has great impact on a firm's corporate report and also the extent of EM practices in a corporation.

Corporate directors also have the responsibility of ensuring reliability and relevancy of the information which firms provide to users of corporate information. Thus, financial reporting quality can be impacted on by the extent of corporate director's participation in EM.

2.4.1. Board Tenure and Earnings Management

Board tenure is defined as the average number of years a company's directors have served on its board (Hambrick and D'Aveni, 1992). Members of the board of directors with long term employment, usually have very vast extensive knowledge and experience of the company. Livnat et al. (2020) notes that members of a company's board of directors who have short termed employment, have insufficient understanding of their corporate responsibilities and this makes their behaviour limited, Also, directors with longer tenure on corporate board have a strong reputation, which has been built over time, thus they are more likely to protect their hard earned reputation, by not engaging in practices such as EM. Bouaziz, Salhi and Jarboui (2020), however, viewed that the longer a company board tenure the higher the practice of EM because, these very experienced directors take advantage of their experience and familiarity with the corporation's governance framework, to carry out EM undetected.

Khan et al. (2022) studied the effect of board of directors on earnings manipulation. The results revealed that there is no relationship between board independence and expert direction with real activity manipulation. Board independence and expertise are also negatively related to discretionary accruals while there is positive relationship of female directors with discretionary accruals, which is same for real activity manipulation. Dokas (2022) studied the effect of board characteristics on REM in different sized European firms. Oversized boards were deemed a restricting determinant to REM, board tenure was also negatively correlated with REM. In smaller firms, board size had a positive association with REM. CEO duality was negatively related to REM. Usman, Nwachukwu and Ezeani (2022) examined the impact of board of directors' characteristics on EM among non-financial UK companies and found a non linear association between board characteristics and discretionary accrual. Empirical results also revealed that board mechanisms reduce the existence of EM among UK firms with higher discretionary accrual then firms with low and medium discretionary accrual levels. Board gender diversity, board tenure were negatively related to EM, board independence was positively but insignificantly associated with EM. CEO duality was significantly and positively associated with EM and number of board meeting is significantly and negatively associated with EM. Board tenure was also significant at the lower percentile of quantile, while it was insignificant at the top percentile.

Ahmed et al. (2022) examined the impact of CEO characteristics on EM. Results showed that CEO tenure and presence of an independent audit committee have a positive and significant impact on EM. CEO duality also has a positive and significant impact on EM. CEO tenure without audit committee independence result showed an inverse relationship, same for CEO duality. CEO age is negatively linked to EM. Flowing from the discussion, we expect that board tenure should have a significant relationship with REM.

2.4.2. Board expertise and Earnings Management

Board expertise or board financially literate directors are persons who are members of a recognised professional accounting body or have a higher degree in finance (Khan et al., 2023). Board members' having financial literacy is important because, board members with accounting and finance knowledge are equipped with the framework of financial reporting and have broader and deeper understanding of financial reporting (Githaiga, Kabete and Bonareri, 2022).

Musa, Latif and Majid (2023) examined the relationship between CEO attributes, board independence and REM. CEO financial expertise, compensation and CEO nationality were found to have a negative and significant relationship with REM, CEO gender had a positive relationship with REM and board independence had a negative relationship with REM. Khan et al. (2022) studied the effect of board of directors on earnings manipulation. No relationship was found between board independence and expert direction with real activity manipulation. As compared with the pre period of CCG-2017 in post period CCG-2017, board independence and expertise were negatively related to discretionary accruals while a positive relationship was found between female directors and discretionary accruals, which is same for real activity manipulation. Adewale, Kolawale and Emmanuel (2021) showed that board composition had a significant and positive effect on EM. Board independence also had a negative significant relationship with EM. Financial expertise of the board members had a positive significant relationship with EM. Board gender has no significant relationship with EM.

Githaiga, kabete and Bonareri (2022) examined the relationship between board characteristics and EM by studying whether firm size moderates the relationship between them. Board independence, board gender diversity, board financial expertise had a negative significant relationship with EM. Flowing from the discussion, we expect that board expertise should have a significant relationship with REM. Abubakar, Ishak and Chandren (2017) examined the relationship between board attributes and REM of Nigerian listed financial companies. Results show that board meeting and board expertise have a significant positive impact on REM. Female directors have a significant negative influence on real earnings management also.

2.4.3. CEO Ownership and Earnings Management

Share ownership of CEOs is the amount or number of shares which is owned by a company's CEO. Zhang, Zhou and Chuntao (2016) reveal that CEO ownership in a coy is connected to making some very vital decision in the company such as remuneration in the company. However, Qawasmeh and Mohammed (2020) are of the opinion that CEO ownership is a very major factor that enables a CEO to manipulate the earning of their corporation.

Farouk and Ahmed (2023) therefore, studied the impact of executive compensation and share ownership with bank size as moderator, on EM. Findings reveal that CEO pay increases the bank level of earnings management. EM has positive association with CEO pay. Executives owning corporate shares and bank size had a correlation that was positive with EM, but weak association. The variables were significant. O' Callaghan et al. (2018) studied large UK firms. The regression results revealed that there is no statistically significant relationship between managerial ownership and EM. Qawasmeh and Mohammed (2020) investigated the association between CEO characteristics and EM. EM practices were seen to be higher in CEO's early years than in their later years. CEO ownership was also important in increasing EM. Age and expertise of CEO did not have any role in increasing or decreasing EM. Thus, fixed effect regression revealed that CEO ownership is positive and significantly associated with EM. Firm age is positive and significantly linked with EM, firm size is also negatively associated with EM. Flowing from the discussion, we expect that board expertise should have a significant relationship with REM.

3. Methodology

3.1. Research Design and model

This study uses a longitudinal design. This enables the study to examine empirically the relationship between corporate governance and REM among financial firms that are listed on the NGX and also how changes in corporate governance attributes affect REM over a period of seven (7) years (2016-2022).

A population of forty-nine (49) financial companies listed on the NGX as at 31st December 2022 is used. A purposive sample of thirty-seven (37) financial companies was selected. Data was derived from the published financial reports of the sampled companies.

This study is anchored on the agency theory for its theoretical framework and used an adapted version of the model of *Dokas (2022)*. The adapted model is;

$$REM_{i,t} = \beta_0 + \beta_1(Tenure_{i,t}) + \beta_2(Expertise_{i,t}) + \beta_3(COwnership_{i,t}) + \beta_4(FPerf) + \beta_5(FSize) + \varepsilon_{i,t}$$

Where; REM= Real Earnings Management; Tenure- Board Tenure; Expertise- Board Expertise; COwnership- CEO Ownership; FPerf= Firm Performance (Control variable 1); FSize= Firm Size (Control variable 2); ε = Error term; I = Cross Section (1...11); T = Time Frame (1...7)

3.2. Operationalisation of Variables

Board Tenure =Average number of years each board members has been on the board (*Dokas, 2022*). Board Expertise = Number of directors with financial qualification (*Bala and kumai, 2015*). CEO Ownership =Percentage of shares owned by CEO at start of year (*Qawasmeh and Mohammed, 2020*). Firm Performance = Return on Asset (ROA) (*Fariha, Hossain and Ghosh, 2021*). Firm Size = Log value of total Assets (*Yadav, Pahi and Gangakhedkar, 2021*).

Real Earnings Management = REM1 +REM2 +REM3 + REM 4 +REM5 + REM6 (*Attia, Ismail and Mehafdi, 2022*). Based on the agency theory, we expect all the variables to have a negative relationship with earnings management ($\beta_1, \beta_2... \beta_3 < 0$)

3.3. Method of Data Analysis

Descriptive statistics including; mean, maximum and minimum, are for data analysis. Correlation analysis is also used to analyse the relationship of the variables. Panel regression analysis used for model estimation.

4. Data Analysis and Presentation

4.1. Descriptive Statistics

This section provides a descriptive analysis of the relationship between the variables. It's deals with the mean, median, maximum, minimum, standard deviation and other descriptive measures.

Table 1: Descriptive Statistics

	REM	TENURE	EXPERTISE	COWNERSHIP	FPERF	FSIZE
Mean	0.499	3.145	0.269	0.109	0.536	16.771
Median	0.363	3.105	0.222	0.004	0.032	17.176
Maximum	15.797	7.375	3.8	6.55	116	21.595
Minimum	-1.395	0.1	0	0	-1.430	10.956
Std. Dev.	1.141	1.559	0.302	0.765	7.224	2.390
Skewness	9.899	0.183	6.351	7.885	15.862	-0.339
Kurtosis	128.706	2.293	73.086	64.354	253.981	2.395
Jarque-Bera	174759.1	6.845	54750.53	43307.26	690641.5	8.893
Probability	0	0.033	0	0	0	0.0117
Sum	129.324	814.596	69.541	28.323	138.762	4343.608
SumSq. Dev.	335.803	627.274	23.603	151.164	13463.16	1474.244
Observations	259	259	259	259	259	259

Source: Researchers' Compilation (2024)

The mean and median value of the Real Earnings Management (REM) of listed financial entities in Nigeria has a value of 0.499 and 0.363 respectively indicating that the average REM of 49.9% persists within the listed firms under review. The kurtosis value of 128.706 which measures the how peaked or tailed of a distribution tends to be leptokurtic or long tailed, that is, it has extreme values or outliers because this value is less than the bench mark of 3. The positive JarqueBera value of 174759.1 expresses a goodness of fit of the REM distribution. The mean and mean value of the Board Tenure that measures corporate governance of 3.145 and 3.105 respectively shows that the average tenure of a board member within the financial sector in Nigeria is 3 years.

The Kurtosis value of 2.293 and a low JarqueBera value of 6.845 for board tenure show's a short-tailed distribution or a platykurtic distribution with few extreme values'. The board expertise mean and median value of 0.269 and 0.222 respectively indicates that averagely, 26.9% of listed financial entities board members are equipped with the requisite financial knowledge. The kurtosis coefficient of 73.086 and the JarqueBera values of 54750.53 indicate a long-tailed distribution which tends to be Leptokurtic because the Kurtosis is greater than 3. The chief executive officer ownership with an average and median value of 0.109 and 0.004 which shows the fact that averagely, chief executive officers own 10.9% of the ownership structure of listed financial entities in Nigeria. The Kurtosis value of 64.354, with JarqueBera value of 43307.26, indicates a leptokurtic long tailed test with outliers or extreme values.

4.2. Correlation Matrix

This study explores the relationship between variables through the use of Pearson product moment correlation method. The results are presented in the table below:

Table 2: Correlation Matrix

	REM	TENURE	EXPERTISE	COWNERSHIP	FPERF	FSIZE
REM	1	0.008	-0.066	-0.09	0.055	-0.038
TENURE	0.008	1	0.034	0.04	0.174	0.001
EXPERTISE	-0.066	0.034	1	0.237	0.071	0.071
COWNERSHIP	-0.09	0.04	0.237	1	0.188	0.092
FPERF	0.055	0.174	0.071	0.188	1	-0.055
FSIZE	-0.038	0.001	0.071	0.092	-0.055	1

Source: Researchers' Compilation (2024)

The variables interdependence is displayed in table 4.3 above. The correlation coefficient of a variable with itself is 1.000 which indicate that multicollinearity does not exist among variables that is the problem of an independent variable predicting another independent variable is eliminated. The correlation or association between the exogeneous variables and endogenous variable (REM) are expressed as follows: board expertise and chief executive officer ownership which are independent variables have a negative association with real earnings management of listed financial firms in Nigeria with values of -0.066 and -0.09 respectively. The independent variables of board tenure have a positive association with real earnings management with coefficient value of 0.008.

4.3. Multicollinearity Test

This is used to examine how much the variance of an independent variable is influenced by its correlation with other independent variables through an econometric method of variance inflation factor (VIF).

Table 3: Variance Inflation Factor estimates

Variance Inflation Factors			
Date: 02/24/24 Time: 12:29			
Sample: 1 259			
Included observations: 259			
	Coefficient	Uncentered	Centered
Variable	Variance	VIF	VIF
C	0.287	56.416	NA
TENURE	0.002	5.315	1.045
EXPERTISE	0.057	1.830	1.022
COWNERSHIP	0.009	1.098	1.076
FPERF	9.845	1.009	1.004
FSIZE	0.001	51.709	1.026

Source: Researcher's Computation (2024)

The center variance inflation factor values of 1.045, 1.022, 1.076, 1.004, 1.026 with respect to board tenure, board expertise, chief executive officer ownership, firm performance and firm size in which their values are less than 5 which implies that multicollinearity problem does not exist. This implies that the selected proxies for corporate governance can explain the variation in the dependent variable of real earnings management.

4.4. Diagnostic Test

These include Breusch-Godfrey serial correlation LM test to test autocorrelation in the errors in a regression model. If the P-value is greater than 0.05, then there is no evidence of autocorrelation. The ARCH heteroskedasticity test is used to assess the null hypothesis that a series of residuals exhibit no conditional heteroskedasticity. if the P-value is greater than 0.05; it implies that the model is not heteroskedastic but homoskedastic.

Table 4: Diagnostic Test Estimates

Diagnostic test	P-value	Significance Level	Decision
Breusch-GodfreySerialCorrelation LM Test:	0.909	0.05	No autocorrelation
Heteroskedasticity Test: ARCH	0.833	0.05	Homoskedastic

Source: Researcher's Computation (2024)

The Breusch Pagan LM test with P-value of 0.909 and Heteroskedasticity ARCH test P-value of 0.833 is greater than the 0.05 level of significance indicate that there is no autocorrelation and the model is homoscedastic that is the explanatory variables can explain the dependent variables reliably.

4.5. Hausman test for fixed or random effect model

This enables the study to choose the model that suit the predictive reliability of the exogeneous variables on the endogenous variable based on the criteria that if the P-value estimated exceed the P-value critical value accept the null hypothesis of a random effect; otherwise use the fixed effect model.

Table 5: Hausman correlated random effect test

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	2.726	7	0.742

Source: Researcher's computation 2024

Evidence from Table 5 show's that a random effect model will be constructed, because the P-value of the hausman test of 0.742 is greater than P-critical value of 0.05. The random effect implies that the unique errors are uncorrelated with the regressors therefore random effect helps to distribute randomly the error term across the cross-sectional sample which impact the dependent variable.

4.6. Panel Least Square Regression Result

This is used to predict the behaviour of the endogenous variables which indicate the line of best fit that enhances prediction with significant accuracy. The rejection or acceptance of the null hypothesis is based on the estimates in Table 6.

Table 6: Panel Least Squares Regression Estimates

Dependent Variable: REM			
Method: Panel Least Squares			
Variable	Coefficient	Std. Error	Prob.
C	0.776	1.019	0.447
TENURE	-0.073	0.093	0.031
EXPERTISE	0.024	0.318	0.94
COWNERSHIP	0.041	0.142	0.773
FPERF	-0.002	0.011	0.868
FSIZE	-0.003	0.054	0.951
R-squared	0.279		
Adjusted R-squared	0.024		
Log likelihood	-375.632		
Durbin-Watson stat	2.019		

Source: Researcher's computation 2024

4.7. Test of Hypothesis

The Durbin-Watson statistics of 2.019, which is lower than 2.5, implies that the auto-correlation is within the normal region which aid co-integration and enhance the relationship between the dependent and exogeneous variables. The log likelihood that measures the goods of fit of the model with a value of -375.632 which is high indicate that the panel least square regression is a good model that will enhance the explanatory variable prowess to explain the dependent variable. The corporate governance measure of board tenure (TENURE) shows a negative association and has a significant impact on real earnings management of listed financial entities in Nigeria with a coefficient value of -0.073 and P-value of 0.031. Based on this fact, the alternative hypothesis is accepted. This finding is in line with our expectation of a negative relationship and also studies like Usman, Nwachukwu and Ezeani (2022) and Dokas (2022), who found a negative relationship, but against Ahmed et al. (2022) who found a positive relationship.

Board expertise (EXPERTISE) shows a positive relationship but an insignificant impact on real earning management which is exhibited by its coefficient value of 0.024 and P-value of 0.94. Due to this result the null hypothesis is accepted. This positive relationship implies the prevalence of earnings management as a result of board experts. This finding is in line with Abubakar, Ishak and Chandren (2022) and Adewale, Kolawale and Emmanuel (2021), but against the study of Musa, Latif and Majid (2023), which found a negative relationship. The finding also negates our expectation of a negative relationship.

Chief executive officer ownership (COWNERSHIP) has a positive coefficient value of 0.041006 and a P-value of 0.773 which is greater than 0.05 level of significance; therefore, the null hypothesis is accepted which implies that chief executive officer ownership (COWNERSHIP) does not have a significant impact on real earning management of listed financial firms in Nigeria. Therefore, this finding supports the study of O'Callaghan et al. (2018) who found a positive relationship but negates our expectation of a negative relationship. The control variables of firm performance (FPERF) and firm size (FSIZE) with negative coefficient values of -0.002,-0.003 and significant P-values of 0.868, 0.951 respectively indicate that firm performance and firm size have an insignificance impact on real earnings management.

5. Conclusion and Recommendations

The study examined the relationship between corporate governance and real earnings management, with specific focus on board tenure, board expertise and CEO ownership as

independent variables and real earnings management as dependent variable. Firm performance and firm size were used as control variables. The study contributes to knowledge and general practice by using panel regression analysis with random effect model, to reveal that board expertise and CEO ownership have an insignificant but positive relationship with REM and are against our expectation. However, the independent variable board tenure was significantly but negatively related to REM and supports our expectation. The correlation analysis also revealed that there is a negative correlation between the variables board expertise, CEO ownership and real earnings management. Board tenure also has a positive correlation with REM. The study recommends that CEOs should not be encouraged to own large shares in corporate organisations, as CEO ownership is insignificant but positively related to real earnings management and can increase the practice. Directors should be encouraged to spend more years on the board as board tenure has a significant and negative relationship with real earnings management. Also, the number of directors with financial expertise should not exceed half of the total number of directors on the board. This is because board expertise has a positive though insignificant relationship with real earnings management and are therefore, likely to increase it. The study also recommends for further study, the need to use the model of Attia, Ismail and Mehafdi (2022) to investigate other corporate governance variables and real earnings management.

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