Impact of Board Characteristics on Earnings Management Practices of Listed Consumer Goods Firms in Nigeria

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Abstract- ***This study examined the impact of board characteristics on earnings management of Nigerian listed consumer goods firms for the period 2014–2023. Two research objectives and research questions guided the study. The board characteristics variables used in the study were board size, board composition. The study population comprised twenty-one consumer goods firms listed on the Nigerian Exchange Group, out of which fourteen were selected through purposive sampling. A correlational research design was employed, and multiple regression analysis was conducted using the Ordinary Least Squares (OLS) method. Earnings management was measured using discretionary accruals based on the Modified Jones (1995) model. The findings of the study revealed, among others, that board size has a positive and significant effect on earnings management of listed consumer goods firms in Nigeria, indicating that larger Zboards may face coordination challenges that facilitate earnings manipulation. The study also found that board composition, measured by the proportion of independent directors, has a positive and significant effect on earnings management, suggesting that a higher proportion of independent directors helps in curbing earnings manipulation. Based on these findings, it was recommended, among others, that consumer goods firms in Nigeria should maintain an optimal board size of between 8 and 12 members to ensure effective decision-making and monitoring. In addition, firms should increase the proportion of independent directors on their boards as a strategy to strengthen oversight and reduce earnings manipulation.***

Keywords— Board Size, Board Composition, Earnings Management, Discretionary Accruals

I. INTRODUCTION

Earnings management—the strategic manipulation of financial reports to meet certain objectives—has long attracted scholarly and regulatory attention across global financial markets. While not always illegal, such practices compromise transparency and comparability of financial statements, thereby undermining stakeholders' ability to make informed decisions (Healy & Wahlen, 1999; Dechow et al., 2010). Firms engaging in earnings manipulation face long-term risks, including regulatory sanctions, reputational damage, and financial instability (Martens, 2024). Evidence from corporate scandals in the United States (Enron, WorldCom), Japan (Toshiba), and South Africa (Steinhoff) highlights that earnings management is a global phenomenon shaped by governance structures, managerial incentives, and institutional environments (Leuz et al., 2003; Amiram et al., 2018).

In Nigeria, despite adopting International Financial Reporting Standards (IFRS) in 2012 to strengthen transparency, earnings management remains a persistent concern (Iyoha & Faboyede, 2011; Odia & Ogiedu, 2013). Weak enforcement, limited auditor independence, and governance inefficiencies continue to create loopholes for managerial discretion in financial reporting. The consumer goods sector, one of the country's most critical industries, is particularly exposed to this challenge. With a population exceeding 200 million and a growing middle class driving demand for food, beverages, and household products, the sector plays a pivotal role in economic growth (World Bank, 2023). However, intense competition, volatile exchange rates, and supply chain disruptions provide strong incentives for firms to manipulate earnings to smooth income, meet targets, or sustain investor confidence (Nzekwe et al., 2021).

Empirical evidence demonstrates that several leading Nigerian companies have faced allegations of earnings manipulation. Nigerian Breweries Plc was accused in 2019 of inflating revenues to meet market expectations (Alabi & Oyebamiji, 2022). Cadbury Nigeria Plc's financial scandal in 2015 led to restated results after misrepresenting its financial position (Ezeani & Udeh, 2021). During the COVID-19 pandemic, Forte Oil Plc and Unilever Nigeria Plc

reportedly manipulated inventory valuations, while Dangote Sugar Refinery Plc faced allegations of misstating revenue and expenses (Ojo, 2019; Adegbite, 2021). These recurring scandals have heightened skepticism among investors and raised questions about the reliability of financial reporting in Nigeria's consumer goods industry. Such manipulations not only distort company valuations and temporarily boost executive compensation but also erode investor trust, destabilize share prices, and in severe cases, threaten corporate survival—as seen in the global collapse of Enron and WorldCom.

These realities underscore the critical role of corporate governance in curbing earnings management. The board of directors, in particular, has been identified as a central mechanism of oversight. However, board attributes—such as size, composition, skills, and gender diversity—can either strengthen or weaken monitoring effectiveness. For example, excessively large boards may suffer coordination problems, while smaller boards may lack expertise (Uadiale, 2010; Kusnadi, 2011). Similarly, while a higher proportion of independent directors is expected to enhance oversight, in Nigeria, their true independence has been questioned due to affiliations and weak tenure transparency (Egbunike & Okoye, 2021). The skills and competence of directors are vital for detecting financial irregularities, yet political and network-based appointments often undermine board effectiveness (Adegbite, 2015; Kantudu & Ishaq, 2015). Gender diversity has been linked globally to improved oversight (Adams & Ferreira, 2009), but women remain underrepresented in Nigerian boardrooms, with some appointments appearing symbolic rather than substantive (Nnadi et al., 2022; Hili & Affes, 2012).

Despite increasing attention in the literature, existing studies remain limited in scope. Many focus on developed economies or Asian markets (Zhang & Chen, 2022; Ali & Rehman, 2023), leaving African contexts underexplored. Others emphasize single attributes such as board independence or gender, overlooking interactions between multiple governance variables (Ghosh & Chakraborty, 2023). Moreover, variations in model design, proxies for earnings management, and control variables across studies have led to inconsistent findings (Miller & Wright, 2024).

Against this backdrop, the persistence of earnings management in Nigerian consumer goods firms raises a pressing question: to what extent do board characteristics mitigate or exacerbate these practices? This study, therefore, seeks to assess the impact of board size, board composition, board skills and competence, and gender diversity on earnings management in listed consumer goods firms in Nigeria. By employing a longitudinal approach and robust analytical framework, the research contributes to a deeper understanding of how governance mechanisms function in emerging markets and their implications for financial reporting integrity.

II. LITERATURE REVIEW

The discussion in the literature review will be organized under three (3) subheadings, namely: Earnings management, board size, and board composition. In addition, this section will cover the theoretical framework, hypothesis development, and the conceptual framework of the study, as explained below.

Earnings Management

Earnings management refers to the deliberate use of accounting choices or operational decisions by managers to influence reported financial outcomes (Dechow et al., 2010; Akins & Sun, 2023). It has attracted wide scholarly attention due to its implications for corporate transparency, investor confidence, and the credibility of financial reporting (Jones et al., 2020; Chavez & Lee, 2024).

The literature presents two main perspectives. From the opportunistic view, earnings management is seen as a self-serving tool used to manipulate earnings in order to mislead stakeholders, meet performance targets, or secure managerial benefits, often at the cost of reporting quality (Ado et al., 2021; Thompson & Rodriguez, 2024). Conversely, the informational view considers it a communication mechanism, enabling managers to signal private information about the firm's prospects, especially during major corporate events, while remaining within legal and ethical limits (Graham et al., 2020; Donaldson & Davis, 1991; Abdullah et al., 2022).

In practice, earnings management often involves discretionary accounting estimates, the timing of transactions, or operational adjustments to achieve desired outcomes (Williams & Green, 2023; Miller &

Zhao, 2023). While such practices may reduce earnings volatility or provide useful market signals, they can also distort the true economic reality of firms (Schipper, 1989; Wu, 2014).

In the Nigerian context, the relevance of earnings management is heightened by corporate governance reforms, evolving financial reporting standards, and growing scrutiny of board characteristics as tools for enhancing reporting quality (Okolie & Izedonmi, 2021; Uwuigbe et al., 2023).

Board Size

Board size refers to the total count of directors who make up a company's board. The optimal board size has been a subject of debate among scholars. Lipton and Lorsch (2019) define board size as "the number of directors that constitutes the governing body of an organization," emphasizing its significance for effective decision-making. Similarly, Nawaz and Kousar (2022) define board size as the aggregate number of directors on the board, emphasizing its influence on governance quality and oversight effectiveness.

Studies show varying perspectives on how board size impacts earnings management. Lipton and Lorsch (2019) argue that larger boards can lead to coordination problems and reduced accountability, creating opportunities for management to engage in earnings manipulation. Larger boards may experience diluted responsibility, resulting in less effective oversight of financial reporting.

Conversely, Zhang et al. (2021) indicate that a larger board can enhance resource availability and diversity of thought, contributing to improved decision-making and reduced instances of earnings management. Their study indicates that the complexity of modern business environments necessitates a wider range of perspectives that larger boards can provide.

Nawaz and Kousar (2022) propose a nonlinear relationship between board size and firm performance. They argue that both excessively small and large boards can hinder effective governance, suggesting an optimal range that fosters accountability while ensuring diverse input.

Board Composition

Board composition refers to the mix of independent and non-independent directors on the board. Gonzalez and Jamal (2020) define board composition as "the percentage of independent directors relative to the total number of directors," highlighting its importance in effective governance. Ali and Hamid (2021) further emphasize that "the composition of the board influences its ability to monitor management effectively."

Findings suggest that board composition significantly affects earnings management practices. Gonzalez and Jamal (2020) highlight that a higher proportion of independent directors can mitigate agency problems, thereby reducing the likelihood of earnings manipulation. Independent directors are generally seen as more likely to challenge management's decisions and advocate for transparency.

Conversely, Ali and Hamid (2021) caution that an over-reliance on independent directors may lead to a disconnect from the operational realities of the firm. This disconnection might inhibit their ability to scrutinize management effectively, allowing for potential earnings manipulation.

Mok and Kwan (2023) advocate for a balanced board composition, where a mix of independent directors and knowledgeable insiders fosters better decision-making. Their research suggests that boards with diverse perspectives are more effective in preventing earnings management by ensuring thorough oversight and accountability.

Theoretical Framework

This study is anchored on two main theories: Agency Theory and Stewardship Theory, both of which provide insight into how board characteristics influence earnings management.

Agency Theory was first introduced by Ross (1973) and further developed by Jensen and Meckling (1976). It highlights the conflict of interest and information asymmetry between principals (shareholders) and agents (managers). Managers may prioritize personal gain over shareholders' interests, often engaging in practices such as earnings management. In this context, board characteristics—such as size, composition, and skills—serve as governance mechanisms to reduce agency costs,

enhance oversight, and limit earnings manipulation in Nigerian listed consumer goods firms.

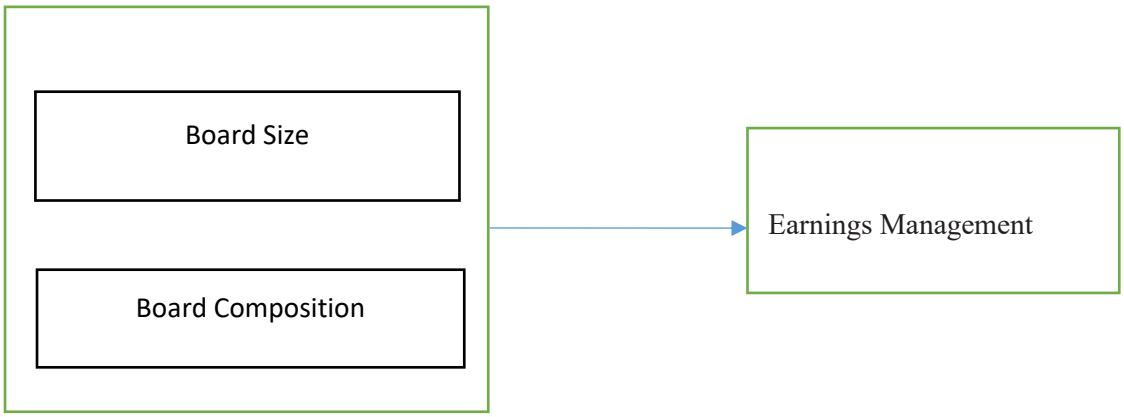
Stewardship Theory, proposed by Donaldson and Davis (1991) and further expanded by Davis et al. (1997), presents an alternative view of managerial behaviour. It posits that managers, as stewards, are motivated to act in the best interest of shareholders and the organization, driven by intrinsic goals such as sustainability and long-term performance. Here, the board's role extends beyond monitoring to supporting and empowering management. Effective board structures, through appropriate size, composition, diversity, and competence, can foster trust and alignment of objectives, thereby reducing the tendency for earnings manipulation.

Together, these theories provide a balanced framework for examining how board characteristics shape corporate governance effectiveness and influence the extent of earnings management in Nigerian consumer goods firms.

Conceptual Framework

The conceptual framework illustrates the relationships between the variables examined in this study. Specifically, the focus is on how board size and board composition influence earnings management in listed consumer goods firms. By examining these governance attributes, the framework provides insight into how board structures contribute to the quality of financial reporting and the extent of managerial discretion.

The figure below presents the relationship between board size, board composition, and earnings management.



III. METHODOLOGY

This study adopted a correlational research design to examine the relationship between board characteristics and earnings management. The population comprised 25 consumer goods companies listed on the Nigerian Stock Exchange (NSE) as of April 20, 2023. From this, a sample of 14 firms was selected using purposive sampling. Firms were excluded if they lacked complete financial data for the study period (2014–2023) or were newly listed/delisted, ensuring data consistency and reliability.

The study relied on secondary data obtained from annual reports and financial statements of the sampled firms, consistent with prior studies. Data were analyzed using descriptive statistics, Pearson correlation, and regression analysis, following the approaches of earlier research.

The model is specified as:

$DACCit=\beta0+\beta1BSit+\beta2BCit+\epsilon it$

Where; BS represents board size, BC denotes board composition, i refers to firm, t denotes time, ϵ is the error term.

IV. RESULTS AND DISCUSSION

Descriptive Statistics Result

Table 3 presents the descriptive statistics for the variables of the study, including the minimum, maximum, mean, and standard deviation values derived from the data of fourteen (14) consumer goods firms listed on the Nigerian Stock Exchange over ten (10) years (2014–2023), given a total of 140 observations. These variables measure board characteristics and earnings management proxies.

Table 3: Descriptive Statistics of the Variables

Variable	N	Mean	Std. Deviation	Minimum	Maximum
DA	140	-7.690509	2.920000	-1.620000	6.880000
BS	140	2.350809	0.2893321	1.791759	2.833213
BC	140	19.66294	18.45009	0.000000	100.00000

Source: STATA output 13.1 based on data collected (2014-2023)
Note: DA = Discretionary Accruals; BS = Board Size; BC = Board Composition;

The descriptive statistics table provides an overview of three variables DA (Discretionary Accruals), BS (Board Size), BC (Board Composition). The data comprises 140 observations for each variable and includes key metrics such as mean, standard deviation, minimum, and maximum values. Below is a detailed discussion of each variable.

The mean value for Discretionary Accruals is -7.69, indicating that, on average, sampled firms exhibit a negative accrual pattern. This suggests that many firms may be engaging in income-reducing earnings management practices or facing financial inefficiencies and performance challenges. The standard deviation of 2.92 highlights a considerable degree of variability across firms. With values ranging from -1.62 to 6.88, the dataset shows that while some firms report less negative or even positive discretionary accruals, others are significantly more aggressive in managing earnings downward. This widespread could reflect varying motivations or external pressures affecting firms' financial reporting behavior.

Board Size has an average of 2.35 with a relatively narrow standard deviation of 0.29, suggesting limited variation in board structure across firms. The minimum and maximum log-transformed values of 1.79 and 2.83, respectively, indicate that the original board sizes (in numbers) are generally consistent, pointing to a trend toward moderately sized boards. Such consistency may align with industry norms or regulatory guidelines. Smaller or mid-sized boards are often praised for their efficiency and clarity in decision-making, though they may also pose limitations in terms of diversity and breadth of expertise.

The mean value for Board Composition is 19.66, with a high standard deviation of 18.45, indicating substantial variability in the proportion of a specific type of board members across firms, likely independent or non-executive directors. The values range from 0 to 100, illustrating a wide divergence in governance practices: some boards are entirely composed of such members, while others have none. This disparity might be influenced by company policies, industry practices, or regional governance codes. Such variation warrants further analysis into how different board compositions impact decision-making, transparency, and firm performance.

Correlation Result

Table 4, shows the correlation coefficients indicating the relationships between Discretionary Accruals (DA), the dependent variable and the explanatory variables: Board Size (BS), Board Composition. The matrix also reveals the interrelationships among the independent variables.

Table 4: Correlation Matrix of the Dependent and Explanatory Variables

Variable	DA	BS	BC	BSC	BGD	FS
DA	1.000					
BS	0.0117	1.000				
BC	0.1536	-0.2207	1.000			

Source: STATA output 13.1 based on data collected (2014-2023)
Note: DA = Discretionary Accruals; BS = Board Size; BC = Board Composition;

The correlation results between the dependent variable, Discretionary Accruals (DA), and the independent variables provide several notable insights. The relationship between DA and Board Size (BS) is extremely weak and positive (r = 0.012), indicating that changes in board size exert almost no influence on discretionary accruals. Similarly, DA and Board Composition (BC) demonstrate a weak

positive correlation (r = 0.154), suggesting that a more balanced board structure may be marginally associated with higher levels of earnings management.

Examining the independent variables, Board Size (BS) shows a weak negative correlation with Board Composition (BC) (r = -0.221). This implies that as boards increase in size, the balance or independence within the board may decline slightly, potentially due to the inclusion of more insiders or executive members.

Overall, the correlations are weak and remain well below the critical threshold of multicollinearity ($|r| \geq 0.80$). This suggests that the variables are sufficiently independent to be included in further regression analyses. However, for robustness, diagnostic tests such as the Variance Inflation Factor (VIF) should be conducted. The observed weak associations highlight that while board characteristics show some linkages to earnings management, deeper structural and firm-level factors may play a more significant role.

Regression Analysis

This section presents the regression test results, which were conducted to examine the hypotheses of the study. It includes all relevant diagnostic tests, such as the normality test of residuals, multicollinearity test, and heteroskedasticity test, followed by the Ordinary Least Squares (OLS) regression analysis.

Robustness Test of Independent and Dependent Variables

The robustness test provides credible evidence that the regression results are not affected by violations of the classical linear regression assumptions. Three major diagnostic tests were conducted: the normality test of residuals, the multicollinearity test, and the heteroskedasticity test. The results of these tests are presented in Table 5, and further details can be found in Appendix I.

Table 5: Diagnostic Test for the Models

Model	Normality	Multicollinearity	Heteroskedasticity
1	0.0000	1.42	0.0000

Source: STATA output 13.1based on data collected (2014-2023).

Normality was assessed using the Skewness/Kurtosis tests. The joint probability (Prob > χ^2) for the residual variable (DA) was 0.0000, which is statistically significant and indicates that the residuals are not normally distributed. This outcome violates the assumption of normality (D'Agostino & Pearson, 1986; Jarque & Bera, 1980). As a result, the study employed robust regression estimators to correct for this violation and ensure valid statistical inference.

To test for multicollinearity, the Variance Inflation Factor (VIF) was used. As shown in Table 5, the mean VIF value was 1.42, which is well below the commonly accepted threshold of 10. This confirms the absence of multicollinearity among the independent variables (Diebold, 2016). Therefore, the regression results are not biased due to intercorrelation among predictors.

The Breusch-Pagan/Cook-Weisberg test was used to examine the presence of heteroskedasticity. The test produced a p-value of 0.0000, which is below the 0.05 significance threshold. This result implies the presence of heteroskedasticity, indicating a violation of the constant variance assumption. Consequently, the study applied robust standard errors in the regression analysis to correct this issue and ensure more reliable estimates (Beck & Katz, 2011; Moundigbaye et al., 2018).

Regression Results

This part presents the regression results for the study. Statistics such as R-squared, F-statistic, and coefficient values, t-statistics, and probability values were used to demonstrate the direction and strength of the relationship, as well as the cumulative effect of the independent variables on the dependent variable. These statistical measures also help in ascertaining the fitness and predictive power of the study model. Therefore, the interpretation, analysis, and discussion of the results were carried out using the Ordinary Least Squares (OLS) panel regression technique, which is appropriate given the diagnostic test results indicating no violation of key regression assumptions such as multicollinearity and heteroskedasticity.

Ordinary least squares (OLS) panel regression was carried out on the data of the study. First of all, random and fixed effects were conducted, followed by a Hausman test, which was insignificant. Consequently, the Langaragian multiplier effect was carried out, and was significant. This justifies why OLS was considered.

Table 7: Regression Result

DA	Coefficient	Std. Err.	Z	P>|z|	[95% conf. Interval]	
BS	2.40	8260404	2.91	0.004	7674182	4.04
BC	205214.7	89340.66	2.30	0.023	28502.34	381927.1
_CONS	5385679	1.70	0.32	0.752	-2.83	3.91

Source: Result Output from STATA 13.1

The regression analysis investigates the relationship between Discretionary Accruals (DA) and selected board characteristics, including Board Size (BS), Board Composition (BC). The model estimates each variable's effect on DA using coefficients, standard errors, t-values, p-values, and 95% confidence intervals. Statistical significance is evaluated at the 5% level ($p < 0.05$), with values below this threshold considered significant.

Board Size (BS) has a coefficient of 24,000,000 with a p-value of 0.004, indicating a statistically significant positive relationship with discretionary accruals. This means that as board size increases, so does the level of DA. The implication is that larger boards may exercise more discretion in financial reporting, possibly due to diluted accountability or coordination challenges. The significance of this result underscores the governance impact of board structure on financial outcomes.

Board Composition (BC) shows a coefficient of 205,215 and a p-value of 0.023, which is also statistically significant. This positive relationship suggests that as the proportion of non-executive or independent directors increases, discretionary accruals also rise. While this may seem counterintuitive, it could reflect the complexity in monitoring by outside members or the possibility that greater independence does not automatically translate to effective oversight. The result points to the need for a deeper examination of the qualitative attributes of board members.

In summary, the regression identifies Board Size (BS) and Board Composition (BC) as statistically significant determinants of discretionary accruals. These findings suggest that structural aspects of governance (like board size and composition) play critical roles in influencing financial reporting behavior.

These insights have practical implications. Organizations may need to reconsider assumptions about board size and independence, and pay closer attention to how these attributes affect financial discretion. Future research might benefit from refined measures of board characteristics or exploring interactive effects better to capture the complexity of corporate governance and financial integrity.

V. CONCLUSION

This study examined the impact of various board characteristics, such as board size, board composition, on earnings management among listed consumer goods firms in Nigeria. The findings provide key insights into how structural attributes of corporate boards influence financial reporting behavior in the Nigerian context.

Firstly, the study found that board size has a positive and statistically significant relationship with earnings management (p-value = 0.004). This suggests that as the number of board members increases, the likelihood of earnings manipulation also increases. This finding contradicts several prior studies, including Jessie and Jeyaraj (2019), Hosan et al. (2019), and Adeola and Emeka (2020), which reported no significant relationship or a negative association. The result implies that merely increasing board size may lead to diminished oversight and diluted responsibility, thereby creating opportunities for discretionary accounting practices. Nigerian firms should therefore prioritize board effectiveness over size expansion.

Secondly, the findings on board composition, measured by the proportion of independent directors,

show a positive and statistically significant impact on earnings management (p-value = 0.023). This indicates that increasing board independence does not necessarily reduce earnings manipulation and may, in fact, correlate with greater discretionary accruals. This result is inconsistent with governance expectations and prior evidence from Wang and Li (2021), Nwachukwu and Salihu (2025), and Smith and Zhang (2023), who found a mitigating effect of independence. However, it aligns with Jessie and Jeyaraj (2019) and Joseph et al. (2023), who argued that independence without empowerment or active oversight may be ineffective. This finding suggests that Nigerian firms need to strengthen the functional authority and commitment of independent directors, rather than relying solely on their nominal presence.

In conclusion, the study highlights the nuanced and sometimes unexpected effects of board characteristics on earnings management in Nigerian consumer goods firms. Among the variables studied, board size and board composition were statistically significant predictors, both positively influencing earnings management. These findings emphasize that structural board reforms alone may be insufficient; effectiveness depends on how these characteristics are operationalized and embedded within broader governance practices. Future research should consider integrating qualitative perspectives and exploring interactions between board dynamics and other governance mechanisms such as audit committees, regulatory oversight, and organizational culture.

VI. RECOMMENDATIONS

Based on the findings, it is recommended that the listed consumer goods firms in Nigeria adopt an optimal board size (8–12 members) to balance diversity and effective decision-making. Such boards can enhance governance efficiency, strengthen oversight of financial reporting, and reduce opportunities for earnings manipulation. Regulatory bodies like the FRCN should also emphasize compliance with optimal board size to promote transparency and accountability.

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