

Board Exclusive and Income Administration in Deposit Money Banks in Nigeria

Shamsuddeen Shehu Saeed, Usman Umar, Aminu F. Aliyu and Shehu, H.I.

College of Business and Management Studies, School of Business and Financial Studies, Kaduna, Polytechnic.

Corresponding author: saeedkakaki@gmail.com

Abstract

This study investigates the effects of board attributes income administration among Nigerian banks where income administration is measured using Chang, Shen and Fang model extracted from the annual reports of 14 Deposit Money Banks on Nigerian Stock Exchange over five years period ranging from 2015 to 2020. Panel corrected standard error regression analysis was used to examine the results. The findings indicate that board size, board independence and women directors have significant relationship with income administration. In conclusion, the findings show that, while board independence has positive influence on incomes administration, board size and women directors have negative impact on income administration of banks in Nigeria. Based on the findings obtained, this study therefore recommends that governance codes regulators in Nigeria should emphasize on more board members, more women directors and less non-executive directors provided the aim is to reduce financial manipulation otherwise known as income administration of banks in Nigeria. This is because, strengthening the gender and size of the board could play a role in ensuring effective monitoring of the board and ultimately enhances the reliability and credibility of information reported to the stakeholders which could improve earnings management of banks in Nigeria.

Keywords: Board Attributes, income administration, women directors, board side, Nigerian.

Introduction

A number of multinational organisations such as Enron, WorldCom, Nortel, Parmalat and Tyco experienced corporate failure as a result of inefficient and ineffective corporate governance and accounting malpractices. Nigeria has experience corporate failures in 2009, where many banks such as intercontinental bank, oceanic among others became distressed despite reporting high profit and being audited by big audit firms. In line of that, is what motivated us to carry out the study. In the same line the study was actually taken because of what happened in Skye bank Nigeria Plc in 2016 where the Central bank of Nigeria (CBN) ordered for the revocation of the licence of Skye bank Nig plc and changing the name to Polaris Bank as reported by one of the credible media channels TV, and it is believed that the central bank of Nigeria (CBN) as a regulatory body will not for no reason ordered for the takeover of the bank. Though the central bank of Nigeria publicly declare that sky bank is not in distress. The injection of N786 billion Naira depicted that Skye bank was in a serious crisis before the central bank of Nigeria have to intervene. This caught my attention and also considering what happen to oceanic bank and others in 2009, before the central bank of Nigeria intervened.

In Nigeria, series of frauds happened mainly in the banking sector. A typical example includes the cases of Oceanic bank, Afri Bank PLC, and Skye Bank. As for the case of Oceanic bank PLC, a managing director turned the bank's customer deposits to seemingly own personal monies and at the same time maintaining a superb financial statement. In which case, the aforesaid used the bank's resources to purchase estates and super markets abroad (Ju et al., 2020) Not until the special investigation was made into the bank, the bank consistently reported unqualified reports to its shareholders. Income administration 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 (Healy & Whalen, 1998). Managers have the motivation to conduct earnings management for his/her own interests which may be inconsistent with the interest of the shareholders and investors (Jensen and Meckling, 1976; Bergstresser, Philippon, 2006 as cited in Olawoye, 2018). Corporate governance is a mechanism that is employed to reduce the agency cost that arises as a result of the conflict of interest that exists between managers and shareholders (Shehu and Abubakar, 2012 as cited in Olawoye, 2018). The main reason for the interest in income administration lies in the fact that the net incomes recorded in books are used for many purposes, including asset valuation and executive remuneration. Managers need to meet their possible needs and thus reporting better results through different content. Decisions based on operating activities impact firm cash flow. One method of managing earnings is by controlling accruals without cash-flow results, hereafter referred to as accrual manipulation (Shubita, 2020).

The trust theory has a shared element of a degree of trust, which is transferred to a firm's managers from its shareholders. The trust bestowed upon the firm's managers by the shareholders is broken when the managers commit fraud. The trust theory argues that the pressure to ensure that a company remains highly profitable leads managers to search for opportunities to manipulate and rationalise the company's net incomes. This study therefore adopted loan loss provision (LLP) model of Change, Shen and Fang (2008) considering the domain of the study. The main objective of this study is to examine the effect of board exclusive on income administration in Deposit Money Banks in Nigeria, other specific objectives are;

To examine the effect of board composition on income administration of quoted Deposit Money Banks in Nigeria, to identify the extent to which board size influences income administration in Deposit Money Banks in Nigeria, to investigate the impact of board meeting on income administration in Deposit Money Banks in Nigeria, to evaluate the influence of board independence on income administration of quoted Deposit Money Banks in Nigeria and to examine the impact of women directorship on Management in Deposit Money Banks in Nigeria.

In line with the objectives of the study, the following hypotheses were formulated in null form:

H01: board composition has no significant effect on the income administration of listed deposit money banks in Nigeria.

H02: board size has no significant impact on the income administration of listed deposit money banks in Nigeria.

H03: board meeting has no significant effect on the income administration of listed deposit money banks in Nigeria

H04: board independence has no significant influence on the income administration of listed deposit money banks in Nigeria.

H05: women directorship has no significant influence on the income administration of listed deposit money banks in Nigeria.

This research gains its weight from the increasingly strategic business activities in the financial sector, which allows banks to be more strategic in their business approach, and enables them to play its financial intermediation role in an efficient and profitable manner.

Literature Review

Conceptual Review

This subsection reviews and discusses the concepts of income administration and board exclusive as used in the study. The segment further reviews related empirical evidences and the theories that hinge the variables of the study.

Income administration refers to the manipulation of financial reporting process by management in an attempt to achieve certain incentives (Olaoye & Adewumi, 2019). Researchers like Healey and Wahlen (1999) refer income administration as a reported earnings situation that involves the use of managerial discretion to structure transactions in such a way that will tamper with financial statements with intention to mislead the users or influence its contractual outcomes. The alarming cases of reported income manipulation have been an issue of great concern to investors and regulators in the world over particularly in Nigeria and has raised investors scepticism on the credibility of financial reports of companies . This act has also affected the sustainability development of hitherto viable business enterprises. Copeland (1968) defines the income administration to involve a repetitive selection of accounting or reporting rules in a particular pattern, which is aimed at reporting a stream of income with a smaller variation from trend than what have appeared. For the purpose of this study, the definition given by Copeland (1968) is adopted for the study .

According to Jensen (1993), the board of directors is responsible for a firm's internal control system and has the crucial responsibility for the overall operation of the firm. They define and set the rules for the CEO regarding hiring, firing, and compensation plans and providing strategic advice. These characteristics make for effective for monitoring of top management on behalf of stakeholders. The characteristics of the board of directors can be defined in terms of board size, board independence/composition, CEO Duality, gender

diversity, board age, board education and board activity among others. Our characteristics of interest are board composition and board size.

The Nigeria code of corporate governance states some demands for the structure of board participants in firms. The regulation defines that the board ought to be made up in such a means regarding making a certain variety of experience without jeopardizing compatibility, stability, accessibility, and independence. It states that the board must consist of a mix of executive and nonexecutive supervisors, to be headed by a chairman of the board. Participants of the board ought to be people with upright individual qualities and pertinent core proficiencies, ideally with a document of real success, understanding aboard issues, a feeling of liability, stability, dedication to the job of corporate governance, and organization structure. For the purpose of this study it is defined as the number of foreign Directors in the board over the total number of members on the board (Kreder, 2016) .

This comprises the executive and non-executive/ independent directors sitting in corporate boardrooms. According to Fama and Jensen (1983), board size should be determined in such a way that will reflect the scope and complexity of its production process implying that larger and complex organisations will require larger board size and vice versa. There exist two main opposing views on board size and board effectiveness. The first group argues that smaller board size is more effective than larger ones due to difficulty of coordination (Yermack, 1996), which may in turn affects presentation of quality financial reporting. The opposing view suggests that a large board is more effective as they are able to leverage on informational and expertise of members (Dalton et al., 1999 and Xie, Davidson & DaDait, 2003).

Board meeting is the frequency at which the board of directors hold meetings to deliberate on important issues of concern to the entity. As financial reporting is among the core responsibility areas of management, frequency of meetings can help in improving financial reporting quality. This will ultimately reduce to some extent the occurrence of manipulation of financial statements and achieving a sustainable development of business enterprises.

The structure of the board that is dominated by sufficient non-executive directors, who bring independent judgement to the foray, is generally believed to be associated with lesser income administration practices. Shafi, Adamu, Obi and Kwong (2020) stress that non-executive directors are independent of managers and they contribute their wealth of experience to the firm by diligently carrying out their oversight functions. For effective board functioning, the board must be balanced. A balanced board is one that is not dominated by executive directors but also comprise of non- executive directors who are independent of managers and shareholders. Independent board, according to Klein (2002), is one of the effective tools in monitoring the accounting process. This is expected to enhance accounting quality by reducing all forms of financial reporting malfeasance to the barest minimum, thereby achieving sustainable growth of the corporation.

Women are generally perceived to be associated with less fraudulent practices. The inclusion of women on corporate boards may likely reduce the opportunistic tendency of

appointed managers and enhance accounting quality. In corporate management, women are found to be more risk averse as they are less likely to take risks and act unethically in a bid to gain private benefits (Gul, Fung & Jang, 2009). The inclusion of women on the board may therefore serve as a control mechanism towards reducing earnings management from occurring and improving the quality of financial statements and enhancement of sustainable development of corporate entities.

Empirical Review

Shanmugavel and Roshan (2019) investigated the association between designated corporate governance attributes and the degree of earnings management in selected quoted companies in Sri Lanka. In total, 70 listed companies in Colombo Stock Exchange (CSE) were selected based on the highest market capitalisation for the period covering from 2015 to 2017 and representing beverage, food and tobacco, diversified, hotel and travel, manufacturing, oil palms and health care sectors, which accounted for 59.9 percent of the total market capitalisation of CSE. The study found a positive relationship between CEO-Chair duality and earnings management. This study extends the extant research on board characteristics and real earnings management by adopting prominent research design and modernised data. This study offers evidence on how selected audit and board committee's characteristics influence real earnings management practices.

Furthermore, Adamu, Umar, Aliyu, Monday & Lawal (2020) examined audit quality, governance mechanism and earnings management of listed deposit money banks in Nigeria for the period of eleven years from 2009-2019. The population of the study consists of all the 14 listed deposit money banks in Nigeria as at 31st December, 2019. The study adopted expo-factor and correlation research designs, and multiple regression was employed as technique of data analysis. The findings of the study revealed that audit independence, managerial ownership and board independent have significant negative impact on earnings management of quoted Nigerian banks while auditor size and audit tenure have insignificant influence on earnings management of listed deposit money banks in Nigeria.

Additionally Abdu, Yunusa, Busari & Mohammed (2020) empirically analysed board make-ups and earnings management of listed deposit money banks (DMBs) in Nigeria for the period 2009-2019. The listed deposit money banks were fourteen (14) as at 31st December, 2019 and a census sampling was employed in the study. Specifically, the study analysed the influence of women directorship, board composition, board size and board meeting on the earnings management. The study employed correlation and data were analyzed with the aid of multiple regression technique. Using 154 firm-year panel observations, Robust OLS regression model was used. Quantitative approach was adopted in the study and the study aligns itself to positivist paradigm. The study reveals that women directorship, board size and board meeting are negatively and significantly influencing the earnings management.

However, board composition was found to be positively associated with earnings management.

In another development Ibama&ibama (2021) investigated the effect of corporate governance on earnings management of quoted deposit money banks in Nigeria. Research design that is used in the study is the descriptive research and longitudinal method specifically the cohort study. Therefore, from their findings it was drawn that; there is a substantial correlation involving board size composition and earnings management of quoted deposit money banks in Nigeria. There is a substantial correlation involving corporate monitoring quality and earning management of quoted deposit money banks in Nigeria. There is no substantial correlation involving Leadership Structure and earning management of quoted deposit money banks in Nigeria. Thus, the research concludes that there is a substantial correlation involving corporate governance and earning management of quoted deposit money banks in Nigeria.

In another development, Joel & Ramat (2018) examine the effects of audit quality and corporate governance on earnings management of quoted deposit money banks (DMBs) in Nigeria. This study specifically investigates the influence of audit tenure, audit fee, board independence, and board size on earnings management of DMBs. Explanatory research design was employed in carrying out the study while secondary data were sourced from the annual reports and accounts of all the 15 quoted DMBs in Nigerian Stock Exchange as at December 31, 2015 for a period of 10 years covering from 2006 to 2015. The data obtained for the study were analysed using panel regression analysis approach. The findings reveal that board independence has a negative significant effect on earnings management at a 5% level of significance ($p=0.002$), while audit fee has a positive significant effect on earnings management at a 5% level of significance ($p=0.013$) and audit tenure has a negative significant effect on earnings management of DMBs at a 5% level of significance ($p=0.003$). Surprisingly, board size was statistically not significant at a 5% level of significance ($p=0.086$). The study concludes that high audit quality and sound corporate governance could improve the earnings quality of DMBs. Hence, the study recommends that the authorities saddled with the responsibility of banking supervision in Nigeria such the Securities and Exchange Commission (SEC) and CBN to advise the National Assembly in Nigeria to pass into law the three years professional requirement for audit tenure.

the effect of corporate governance on earnings management of listed deposit money banks in Nigeria for five years (2006- 2015). The data for the study were extracted from the annual reports and accounts of the sampled banks for the study period. Descriptive statistics, Pearson correlation and regression technique were used to analysed the data with the aid of SPSS version 21. A panel data regression technique was employed since the data has both time series and cross sectional attributes. It was unexpectedly found that reputable audit firms has a positive but insignificant effect on the earnings management of the sampled banks while board size has negative but insignificant effect on the income administration of the sampled firms. However, independent directors on the board and

leverage have a negative and significant effect on income administration of Deposit Money Banks in Nigeria.

Manukaji (2018) examine the relationship between corporate governance mechanism (CEO duality, board size, ownership concentration and audit committee) and income smoothing. Firm size and leverage were introduced as control variables. This study is anchored on agency theory. The study adopted ex post facto research design. Four deposit money banks were studied for the period ranging from 2012 to 2016. Eckel (1981) index was employed in determining income smoothing. Multiple regression analysis was employed in analysing the data. The study suggests that income smoothing of deposit money banks largely depends on the corporate governance mechanisms, particularly in the form CEO duality, ownership concentration and the existence of audit committee. Banks with ownership concentration may have higher propensity to smooth income. The empirical results also demonstrate that board size is not effective in monitoring income smoothing. The study concludes that corporate governance has significant relationship with income smoothing in Nigeria deposit money banks. The study contends that corporate governance mechanism should be strictly adhered to by the banks in order to reduce the incidence of artificial income smoothing.

Janeth & Cosmath (2016) examine whether ownership structure has impact on both accrual-based and real income administration. Using a sample of 44 non-financial East African listed firms for years from 2003 to 2013, they found little evidence to suggest that ownership structure has any impact on accrual-based income administration in East Africa. However, they found that ownership concentration and institutional ownership has significant negative effect on real earnings management.

Theoretical Framework

This study is premised on agency theory and the trust theory. The agency theory which is the theoretical postulation most frequently employed by studies to underpin the relationship between board exclusive and firm value (Carter, Simkins & Simpson 2003). The Agency theory view board of directors as the agent of the shareholders and as such there is need for it (board of directors) to act in the best interest of the shareholders. In this situation, sometimes the agent may not act in the best interest of the shareholders which often results in an agency loss situation. Advocates of the agency approach view the manager (directors) as an economic institution that will mitigate problems and serve as guardian to shareholders (Hermalin & Weisbach 2003). Based on the relevance and usefulness of agency theory in resolving conflict between principal (owners) and agent (managers) of organization it was therefore adopted as one of theory to underpin the study. The trust theory has a shared element of a degree of trust, which is transferred to a firm's managers from its shareholders. The trust bestowed upon the firm's managers by the shareholders is broken when the managers commit fraud (Mohammed, 2020). The trust theory argues that the pressure to ensure that a company remains highly profitable leads

managers to search for opportunities to manipulate and rationalise the company's net earnings as such it was also adopted to explain the study. In other to relate the theory with the variables, this study provides the diagrammatical presentation of the relationship between the independent variables and the dependent variable of the study as follows:

Research Methodology

The population of the study is all the 14 listed deposit money banks in Nigeria as at 31st December, 2020. However, the study employs adjusted population with aid of filter based on some criteria. First, any bank that has not been on listing of the Nigerian stock exchange throughout the period of the study was filtered out, and second, any bank whose data was not accessed in any year of the period of the study was filtered out automatically leaving us with a sample of fourteen (14) listed deposit money banks. Listed deposit money banks were considered more suitable for investigation considering their role in propelling the economy as well the governance issues being experienced in the banking industry in Nigeria, for instance, the cases of Oceanic bank PLC, Skye bank PLC (now Polaris bank PLC) to mention a few. Quantitative data were extracted from the audited annual reports and accounts of the fourteen (14) listed deposit money banks in Nigeria. Data were analysed based on multiple regression model with aid of STATA software package and the study aligns itself with positivist paradigm.

With view to evaluating influence of Board Composition, Board Size, Board Meeting, Board Independence and Women Directorship on income administration of the Nigerian banks, linear regression model is used. However, in order to determine the value that represents the income administration proxy, Chang, Shen and Fang (2008) model is adopted by the study. The models are presented below: Chang, Shen and Fang (2008) model:

$$DLLPi/TAt-1 = LLPi/TAt-1 - \{\alpha_0 1/TAt-1 + \alpha_1 LCOi/TAt-1 + \alpha_2 BBALi/TAt-1\} \text{-----(1)}$$

$$EMit = \alpha + \beta_1 BODCit + \beta_2 BSIZEit + \beta_3 BMEETit + \beta_4 BINDit + \beta_5 WDIRit + \epsilon \text{----- (2)}$$

Note: α : constant, $\beta_1 - \beta_5$ are the coefficients of the explanatory variables, it: panel data indicator, ϵ : the error term. The acronyms in the first model DLLP= Discretionary Loan Loss Provision; LLP= Loan Loss Provision; LCO= Loan Charge off; BBALL= Beginning Balance of Loan Loss; TAt-1= Lagged Total Asset and α_0 =Constant. For the second model, it is presented in Table 1 below:

Result Presentation and Discussion

This section presents the results of the study. It contains descriptive statistics, correlation matrix and inferential statistics

Table 1 Descriptive Statistics

Variable	Obs	Mean	Std.Dev	Min	Max
EM	70	0.49	0.131	0	0.500
BODC	70	0.45	0.771	0	4

BSIZE	70	8	1.827	4	11
BMEET	70	3.5	2.001	3	6
BIND	70	0.587	0.112	0	0.500
WDIR	70	0.141	0.097	0	0.375

Source: summary of STATA OUTPUT

From Table 1 above, it can be seen that the average level of income administration in Nigeria is 0.49 with 0 and 0.5 as minimum and maximum respectively which means that within the period under review there is a company that has zero level of income administration. The average size of the board of the companies under review is 8 with 4 as minimum and 11 as maximum. Furthermore, the average board independence is 0.587 with 0 and 5 as minimum and maximum respectively. Also, the average board gender is 0.141 with 0 and 0.375 as minimum and maximum respectively. The standard deviations of all the variables in the table do not vary significantly from the mean meaning the data elements are not far away from the means of the observations.

Table 2 Correlation Matrix

Variable	EM	BODC	BSIZE	BMEET	BIND	WDIR
EM	1.000					
BODC	0.337	1.000				
BSIZE	0.425	-0.014	1.000			
BMEET	0.568	0.265	0.391	1.000		
BIND	0.350	0.368	0.448	0.321	1.000	
WDIR	0.232	0.266	0.167	0.324	0.254	1.000

Source: Stata Output

From the above table the correlation between the independent variables and the dependent variables all have values less than 0.8 which shows the unlikelihood of multicollinearity. However, it cannot be concluded except a multicollinearity test is conducted. Gujarati (2004) states that a correlation of greater than 0.8 may amount to multicollinearity however it cannot be confirmed until multicollinearity test is conducted.

Panel Corrected Standard Error (PCSE) Result

The study presents the panel corrected standard error regression result in Table 3 below.

Table 3: Panel Corrected Standard Error Regression

EM	Coef.	St.Err.	Z-value	P-value	VIF
BCOM	0.4300	0.6355	0.677	0.270	1.40
BSIZE	-0.1630	0.0679	-2.39	0.017	1.28
BMEET	0.6221	0.5456	1.14	0.156	2.65
BIND	0.3077	0.1434	2.15	0.039	1.19
WDIR	-0.5452	0.2113	-2.58	0.010	1.09
Constant	0.1836	0.0774	2.37	0.018	
R-squared	0.4081		Hettest p-value	0.000	
Number of obs	63.000		Hausman p-value	0.000	
Chi-square	29.990		Shapiro-Wilk	0.370	
Prob > chi2	0.0000				

*** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

Source: summary of Stata output

After all relevant tests had been conducted, the study settled on Panel Corrected Standard Error. The result shows that the independent variables; board composition, board size, board meetings, board independence and women directors/board gender put together explain the dependent variable which is income administration about 40% from the R-square while the remaining is accounted for variables that had not been incorporated into the model. The chi-square value of 29.99 is significant at 1% significance level which means that the model is of good fit.

The study established the relationship between board size and earnings management, board independent and income administration, women directorship and earnings management however, the study could not established any relationship between board composition and income administration and board meetings and earnings management. This is because, the results of the first scenario are significant while the latter are insignificant. Thus, board size has a negative and significant coefficient of 0.163 at 5% level of significance meaning that for any increase of one director, the income administration would decrease by 0.163 other things being equal. For board independence, there is sufficient evidence to suggest that board independence influence income administration positively with coefficient of 0.30772 at 5% level of significance meaning that for any increase in independent director by one, the level of income administration would increase by 0.3077 *ceteris paribus*. Furthermore, the coefficient of board gender is 0.5452 is statistically significant at 5% signifying that for any increase in female director by one, the level of income administration would decrease by 0.5452 other things remain unchanged.

Conclusion and Recommendations

There have been agitations for by critical stakeholders on firm's failure which could be attributed to the income administration firms including banks caused by their operations and these agitations are due manipulations by management in the form of income administration in Nigeria as it is considered lawful in the country and in the world at large. The main objective of the current study is investigating the relationship between board exclusive and income administration of listed banks in Nigeria. In summary, it is shown from the study that effective board attributes which include board size, board independence and women directors on board individually influence the income administration of banks in Nigeria significantly. However, composition of board and board meetings has no any relationship with income administration of banks in Nigeria. Findings from the study showed that higher the number of board members the lower the earnings management which in turn reduce the manipulations on their financial reporting, in addition, women directors on board could negatively and significantly affect income administration which could reduce the firms manipulations. However, independent non-executive directors improve the earnings management base on the result of the study. The study recommends that critical stakeholders that are concerned with income administration should ensure that

there are adequate board members and more women directors provided the objective of the firm is to reduce the financial manipulations. In the case of the board independence, the management or the authority concern should reduce the number of non-executive directors since this study established positive relationship. This is because, the aim is to reduce the manipulations of financial reporting by banks since is misrepresenting the financial position of the banks.

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