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RESEARCH ARTICLE

Corporate Governance and Earnings Management of Consumer Goods Manufacturing Firms in Nigeria

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ABSTRACT

The study investigated effect of corporate governance on earnings management of listed consumer goods manufacturing firms in Nigeria. It examined how corporate governance mechanisms of board composition, board size and audit committee size helped to control earnings management which was proxied by discretionary accruals, of consumer goods manufacturing firms in Nigeria. Secondary data obtained from the annual financial reports of six manufacturing firms in Nigeria from 2011 to 2020 were used for the study. Multiple Regression analysis was employed to analyze the data. The findings of the study revealed that board composition and audit committee size have negative and significant effect on the discretionary accruals of manufacturing firms in Nigeria while board size has a positive and non-significant effect on discretionary accruals of manufacturing firms in Nigeria. The study recommended that board composition should comprise higher number of non-executive directors and that audit committee size should be robust enough to accommodate more experts in the committee to be able to carry out their duties efficiently in order to combat earnings management in the manufacturing firms in Nigeria.

Keywords: *Corporate Governance; Earnings Management of Consumer Goods; Manufacturing Firms*

Introduction

Corporate organizations are established mainly to generate earnings. Earnings refer to the profits a company produces in a given period measured either on quarterly or yearly basis. Earnings are important when assessing company's profitability and forms a critical factor for determining Company's stock price. Investors are interested in knowing how well their companies are performing. As opined by Tolulope (2018), earnings to stakeholders of any organization serve as the faith of the firm which the stakeholders depend on to make returns on investment.

Managers can use accruals to manage earnings in order to meet or beat financial analysts' expectations or other incentives (Chi-Keng, 2013). According to Omoye (2014), earnings management refers to a systematic misrepresentation of the true income and assets of corporations or other organizations. Management of earnings have led to a couple of corporate crises in the world of which Nigeria is no exception. Several international frauds and accounting scandals such as Enron, WorldCom in United States as well as Cadbury, Xerox, Oceanic Bank and others in Nigeria have drawn public attention towards manager's opportunistic utilization of earnings management. In a bid to protect stakeholder's interest from the harmful consequences of earnings management, the financial reporting of corporate organizations incorporated several mechanisms to curb the activities of managers and hence enhance the quality of financial reports. One of the steps employed to ensure effective monitoring of the boards of companies in Nigeria is the establishment of a Code of Best Practices for Corporate governance by the Securities and Exchange Commission (SEC) in collaboration with the Corporate Affairs Commission. In 2003, the corporate governance code in Nigeria was issued with the notion that it would be adhered to by Nigerian companies so as to increase the economy's level of confidence Adegbite (2012). This would in turn boost the level of confidence attached to financial reports of organizations and also translate to an increase in the investment rate in the economy. A well-planned corporate governance will lead to the success of the company as well as steady economic growth.

Statement of the Problem

Investors expect the managers to oversee the activities of the company to ensure that adequate earnings are generated to sustain the growth of the company. However, most unscrupulous managers manipulate the financial report through earnings management for their own incentive. Earnings management takes place when managers in the use of judgements, structure transactions to alter financial reports in such a way that they mislead stakeholders about the underlying economic performance. Investors generally believe that managers manipulate earning for self-gratification rather than for firms' growth.

Corporate governance helps to improve investor's perception of the reliability of a firms' performance as measured by the earning. A company with poor corporate governance will find it difficult to achieve its goals and this could lead to the eventual collapse of the company. Corporate failures which resulted from weak corporate governance and poor financial reporting quality in Nigeria companies necessitated this research work to investigate the effects of some corporate governance variables on earnings management of listed consumer goods manufacturing firms in Nigeria.

Objectives of the Study

The main objective of this study is to investigate the effect between three corporate governance mechanisms and earnings management in consumer goods manufacturing firms in Nigeria. However, the specific objectives of this study are;

I. To examine the extent to which board composition affects earnings management in consumer goods manufacturing firms in Nigeria.
II. To investigate how audit committee size influences earnings management in consumer goods manufacturing firms in Nigeria.
III. To determine if there is any relationship between board size and earnings management in consumer goods manufacturing firms in Nigeria.

Statement of Hypotheses

I. board composition has not helped to monitor earnings management in consumer goods manufacturing firms in Nigeria.
II. audit committee size has no significant effect on earnings management in consumer goods manufacturing firms in Nigeria.
III. board size has no effect on earnings management in consumer goods manufacturing firms in Nigeria.

Review of Related Literature
Conceptual Review
Corporate Governance

Corporate Governance is the process of controlling the activities of the organization to help provide transparent information (Fitri, 2018). It helps to align the investor's interest with that of the managers, thereby enhancing the reliability of the accounting earning and the integrity of the financial reporting process. A weak corporate governance structure may provide an opportunity for managers to engage in behavior that would eventually result in lower quality of reported earnings, which is a strong indication of a serious decay in business ethics (Jesus, 2013).

In 2003, the corporate governance code in Nigeria was issued with the notion that it would be adhered to by Nigerian companies so as to increase the economy's level of confidence Adegbite (2012). However, the code of corporate government in Nigeria has been revised severally with the most recent being that of 2018, which was published by the Financial Reporting Council (FRC).

Earnings Management

Earnings management is used by the company's management to manipulate the financial reports. Earning management takes place when managers in the use of judgements structure transactions to alter financial reports in such a way that they mislead stakeholders about the underlying economic performance of the company or influence contractual outcomes that depend on reported financial information (Nwobia, 2019).

Board Composition

The code of corporate governance for public companies states that the Board should be composed of experienced individuals in such a way that the composition does not compromise independence, compatibility and integrity. The code stipulates that the Board should consist of Executive and non-Executive Directors with a greater number of non- Executive Directors with at least one Independent Non-Executive Director. The Board should be headed by a chairman. As posited by (Peasnell, 2000) and cited by (Jamaludin, 2015), the board needs to include outside director as members who are expected to behave independently as managers in order to be an effective monitor

Audit Committee Size

Audit committee size refers to the number of members constituting the audit committee. The size of audit committee indicates the resources available to such committee. The larger the audit committee size the higher the number of auditors with professional experiences and financial expertise to deliver a good quality audit that will enable the board exert appropriate monitoring and control. As opined by (Muhammad, 2020) the existences of an effective audit committee indicate higher quality monitoring and should reduce the occurrence of opportunistic earnings management Audit committees are a popular corporate governance tool to improve the credibility of financial statements as opined by (Mamta, 2016).

Board Size

Board size refers to the number of members that make up the board. The number of board members largely helps in determining the soundness of the decisions taken by the board. The size of the board can have either positive or negative impact on the firms. As posited by (Jamaludinm, 2015) smaller boards may have the problem in having fewer independent directors and which will decrease the effectiveness for them in detecting earnings management while larger size of boards may have the problem in bureaucracy and conflicting interest, and which will prevent independent directors to fulfill their duties in monitoring.

Theoretical Framework

This study was based on a number of theories of socio-economic and accounting background to form sound foundation to substantiate relationship between corporate governance and earnings management.

Agency Theory

Agency theory has its roots on the economic theory exposited by (Alchian, 1972), and further developed by (Jensen, 1976). The theory focused on the relationship between the principal (shareholders) and the agents (manager). The principal is not involved in the running of the company but entrusts such into the hands of the agents, hence there is a separation of ownership and control. This often gives rise to agency problem, which occurs when agents tend to hide information and manage firms in their own interest. The agent for instance, have access to private information to which the shareholders might not have access to. This is known as information asymmetry which can display itself in form of financial reports published by a firm. When information asymmetry is high shareholders will not be able to verify whether the published information represents the actual economic condition of the firm or not. As opined by (Akpomedaye, 2021) corporate governance can be employed to intricately align the interest of managers to that of the shareholders. It is on this premise that this study is anchored on.

Stewardship Theory

Stewardship theory was propounded by Donaldson, 1991. The theory highlights the existence of healthy working relationship between managers and shareholders which results to reducing the cost of monitoring and control. Stewardship theory does not put the manager under the control of the shareholder, it empowers the manager to take autonomous executive action and this helps him to maximize shareholders' wealth through firm performance. Subramanian (2018) posited that the stewardship behavior of managers results in exemplary corporate governance practices when the espoused values of the firm are aligned with enacted values.

Stakeholders Theory

This theory which was propounded by Freeman in 2004 deals with the relationship between shareholders and managers. It equally extends to the relationship between other stakeholders such as customers, creditors employees, among others. According to Freeman (2004), the idea of stakeholders' management, or strategic management suggests that managers must formulate and implement processes which satisfy all and only those groups who have a stake in the business, relating this to the private sector, policies and laws formulated should satisfy employees, creditors, customers and investors. The stakeholder theory of corporate governance focuses on the effect of corporate activity on all stakeholders of the company and not only on the shareholders. This means that stakeholder theory plays an important role in corporate governance and can serve company to balance various group's benefit.

Empirical Review

Tolulope, et al. (2018) investigated the effect of corporate governance attributes on earnings management. The data for the study were obtained from the annual reports of a sample size of 44 listed firms in Nigerian. Ordinary least square with E views 2017 software were used to analyze the data. Based on the findings corporate governance attributes influences the level of earnings management practiced in Nigeria.

Emeka-Nwokeji, Ojimba, and Ede (2019) investigated whether earnings management can be reduced through corporate governance mechanisms. The study collected data from the annual report of 10 selected manufacturing companies from 2015. The secondary data were analyzed using pooled ordinary least regression. The result revealed that board size has significant negative relationship with earnings management, ownership concentration has insignificant positive relationship with earnings management. Audit committee has positive but insignificant effect on earnings management.

Kajola, Sanyaolu, Tonade, and Adeyemi (2020) examined the relationship between corporate board attributes and earnings management in Nigerian Banking sector for the period 2009 – 2018. The study collected data from the annual financial reports of the listed banks. Ordinary least square regression analysis was used to analyze the data. The findings of the study indicated that there is a negative and significant relationship between board size, board independence and earnings management, while board gender and board meetings have no significant association with earnings management.

Akpamedaye and Williamson (2021) investigated the relationship between board independence and earnings management of listed healthcare firms in Nigeria. Data were collected from annual report of 11 listed healthcare firms in Nigerian. Pearson Product Moment Correlations and ordinary least square (OLS) multiple regression analysis were used to analyze the data. Findings of the study revealed that independent directors have strong incentives to curb earnings management tendencies.

Firman and Apollo (2019) Examined the influence of independent commissioners, audit committees, company size, and leverage on earnings management in real estate and property sector companies listed on the Indonesia Stock Exchange, from 2013 to 2016 with a sample size of 22 companies. The analytical tool used in this study is multiple linear regression analysis. The results of the study show that independent board of commissioners and leverage have a positive and significant effect on earnings management, while the audit committee has no effect on earnings management and firm size has a negative effect on earnings management.

Sofia and Dasmaran (2021) analyzed the effect of audit quality and audit committee on earnings management. The research population is manufacturing companies indexed on the Indonesia Stock Exchange (BEI) in the 2017-2019 period. The sample selection method used was purposive sampling. From population of 180 manufacturing companies, and by selecting certain criteria, a sample of 72 manufacturing companies was obtained. Hypothesis testing is performed using multiple linear regression using statistical software SPSS Version 26. The results of this study confirm that partially, audit quality affects earnings management and audit committee also affect earnings management.

Alm El-Din (2021) explored the impact of board characteristics on earnings management practices. The study used the annual reports of the Egyptian non-financial firms listed in the EGX 100 index from 2014 to 2018. The final sample study is 345 firm-year observations. The earnings management of the annual report is measured using modified jones model. The results of the multiple regression analysis show that there is an influence on the independence of the members of the board of directors as one of the characteristics of the board of directors on the earnings management. It also found that there is no relationship between the size of the board of directors and the number of board meetings on the earnings management in the Egyptian environment, during the study period.

Mokrani and Alami (2021) examined the effectiveness of corporate governance mechanisms in restraining earnings management among the listed firms of the Casablanca Stock Exchange. The study used the modified Jones model to calculate discretionary accruals. The sample comprises 27 firms covering the period from 2016 to 2018, analyzed by the EGLS estimator. Empirical results show that gender diversity, board size, and audit committee independence reduce the managers' discretion. The study did not find any evidence that audit committee size, ownership concentration, and managerial ownership significantly influence discretionary accruals.

Shahwan and Almubaydeen (2020) aimed at examining the impact of board size, board composition and dividend policy on real earnings management in the listed Jordanian industries. 8years data (2010 to 2018) was extracted from the audited financial reports of the selected firms. Data was analyzed using Structural Model via AMOS version 26 and SPSS version 21. The findings revealed a positive and significant effect between board size, board composition and real earning management at p-value 0.05 (two-tailed).

Ideh, Jeroh, and Ebiaghan (2021) examined the extent to which board independence and size influence the level of earnings management of publicly quoted Nigerian firms. For this purpose, the adoption of the International Financial Reporting Standards (IFRS) and the age of firms were introduced as mediating variables. Secondary data were however pooled from the financial statements of ninety-two (92) firms cutting across ten (10) industrial sectors from 2007–2018 (12 years). The regression analysis amidst other relevant statistical techniques was adopted to analyze the collated pooled data. Evidence from our result indicates that with the introduction of IFRS adoption and firm age as mediating variables, the F Cal obtained was 1.72 (p-value = 0.1424), thus indicating that the size of boards and the presence of independent directors (board independence) in corporate boards could not significantly influence the level of earnings management in Nigerian firms.

Hajjar (2021) examined the association between internal corporate governance and earnings management of Islamic banks versus conventional banks in the MENA region. The paper used an unbalanced panel data of 20 Islamic banks and 100 conventional banks, from eleven countries in the MENA region over the period 2012-2017. Discretionary accruals are used to measure earnings management by estimating loan loss provision. Regression analysis is used to test the hypotheses. The results indicate that Islamic banks provide fewer earnings management practices compared to conventional banks. Besides, the results show that among the six corporate governance mechanisms studied in this paper only board meetings, board size, and board independence can help in mitigating earnings management for conventional banks. Whereas, for the case of Islamic banks, corporate governance mechanisms have no impact on reducing earnings management.

David and Baba (2021) assessed the effect of corporate governance mechanisms on earnings management of listed deposit money banks in Nigeria for a period of five years (2015-2019). The study adopted a correlation research design in a sample of five Deposit Money Banks (DMBs) listed on the Nigeria Stock Exchange (NSE). Panel multiple regression techniques were used for data analysis and the study found that board size and board independence have a significant statistical positive effect on the earnings management (measured by Discretionary Loan Loss Provision (DLLP)) of listed DMBs in Nigeria. The findings also revealed that audit committee independence and gender diversity have negative but insignificant and positive but significant effect on the earnings management of the listed DMBs in Nigeria respectively.

Methodology

The study on corporate governance and earnings management adopted an *ex-post facto* (after the facts) research design. This is because the study was based on historical data collected from annual reports and accounts of consumer goods manufacturing firms in Nigeria. The research was conducted in Nigeria. The study was specifically conducted in the manufacturing sector of the Nigerian economy. Secondary sources of data were used for the study. Cross-sectional data were collected from annual reports and accounts of consumer goods manufacturing firms in Nigeria for 10 years (2011-2020). The 28 consumer goods manufacturing firms listed on the Nigeria Stock Exchange as of December 2020 formed the population of the study. Six (6) manufacturing firms were purposively sampled out of the twenty-eight (28) consumer goods manufacturing firms listed on the Nigeria Stock Exchange. The choice of the firms was based on the availability of accurate and reliable data for analysis. The firms that meet these criteria and thus selected are Guinness Nigeria Plc, Nestle Nigeria Plc, Dangote Sugar Plc, Unilever Nigeria Plc, PZ Cussons Nigeria Plc, and Nigerian Breweries Plc. The study made use of multiple regression techniques as the underlying statistical tools used to ascertain the effect of corporate governance on earnings management of manufacturing firms in Nigeria. The data were analyzed in the following sequence;

I. Descriptive statistics to test the normality of the data for analysis.
II. Multiple regression analysis was conducted to ascertain the effect of these explanatory variables (board composition, audit committee size, and board size) on the discretionary accrual.

Model Specification

The multiple regression model was specified as follows:

$DAC_t = \beta_o + \beta_1 BCOMP_t + \beta_2 ACSIZEt + \beta_3 BSIZE_t + \mathcal{E}_t$ - [Equation (1)]

Where;

DAC	Discretionary Accrual
BCOMP	Board Composition
ACSIZE	Audit Committee Size
BSIZE	Board Size
Ɛ	Stochastic Disturbance (Error) Term
β_o	Coefficient (constant) to be estimated
$\beta_i - \beta_3$	Parameters of the independent variables to be estimated
t	Current period

Data Analysis

Table 1: Descriptive Statistic Panel Data

	DAC	BCOMP	ACSIZE	BSIZE
Mean	0.668833	7.133333	6.183333	10.08333
Median	0.629972	7.000000	6.000000	11.00000
Maximum	1.609218	11.00000	8.000000	15.00000
Minimum	-0.120467	3.000000	5.000000	6.000000
Std. Dev.	0.348846	1.741485	0.791730	2.625118
Skewness	0.540385	0.085062	0.698774	-0.165043
Kurtosis	2.995686	2.456578	3.160002	2.013774
Jarque-Bera	3.311581	0.810626	5.206853	2.703995
Probability	0.190941	0.666768	0.074020	0.258723
Sum	40.12996	428.0000	371.0000	605.0000
Sum Sq. Dev.	7.179902	178.9333	36.98333	406.5833
Observations	60	60	60	60

Source: Computed by Researcher Using E views 10.0 Statistical Software

Table 1 above reveals the variable description of the 60 observations of the panel data series extracted from the annual report and accounts of sampled manufacturing firms in Nigeria. From the table, the industry's minimums include Discretionary Accrual: -0.120467; Board Composition: 3; Audit Committee Size: 5; and Board Size: 6. However, the industry's maximums include Discretionary Accrual: 1.609218; Board Composition: 11; Audit Committee Size: 8; and Board Size: 15. The means for the variables studied are Discretionary Accrual; 0.668833, Board Composition; 7, Audit Committee Size: 6; and Board Size: 10.

The normality of the distribution of the data series is shown by the coefficients of Skewness, Kurtosis, and Jarque-Bera Probability. From Table 1 also, the probability of the Jarque-Bera Statistics for Discretionary Accruals (0.190941), Board Composition (0.666768), Audit Committee Size (0.074020), and Board Size (0.258723) have non-significant p-values. The non-significance of p-values depicts a normal distribution for the data series. The results were further confirmed by the skewness coefficients which are less than one for all the variables. The kurtosis coefficient provides a second level of confirmation that Discretionary Accruals, Board Composition, Audit Committee Size, and Board Size are abnormally distributed with the following coefficients, Discretionary Accruals (2.995686), Board Composition (2.456578), Audit Committee Size (3.160002), and Board Size (2.013774).

Table 2: Hausmann 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	13.864511	3	0.0031

** WARNING: estimated cross-section random effects variance is zero.

Cross-section random effects test comparisons:

Variable	Fixed	Random	Var (Diff.)	Prob.
BCOMP	-0.022950	0.020418	0.001582	0.2755
ACSIZE	0.083123	-0.033112	0.002074	0.0107
BSIZE	0.036786	0.003433	0.002031	0.4593

Source: E views 10.0 Output

The Hausman test was conducted to avoid model misspecification. The result of the Hausman model helped to choose the appropriate model between the random effect and fixed-effect models.

Test of Hypotheses

H_0: Random Effect Model is the appropriate model for the study
H_1: Fixed Effect Model is the appropriate model for the study

Decision Rule

Reject the null hypothesis if the P-value is less than 0.05, otherwise, accept the null hypothesis.

Results from table 2, indicate that the probability of the Hausman test is significant with a value of 0.0031 which is less than 0.05. Hence, we reject the null hypothesis and conclude that the fixed effect model is the appropriate model for the study.

Regression Results (OLS)

After the application of the ordinary least square (OLS) estimation method on the model earlier suggested in the previous chapter, the following results shown in the table below was obtained.

Table 3: Fixed Effect OLS Estimation Result (Dependent Variable: DAC)

Variable	Coefficient	Standard Error	t-Stat	p-Value
C	-0.052367	0.755476	-0.069317	0.9450
BCOMP	-0.022950	0.047384	-2.784331	0.0302
ACSIZE	-0.083123	0.072983	-2.138941	0.0400
BSIZE	0.036786	0.047988	0.766569	0.4469
R^2 = 0.43, Adjusted R^2 = 0.31, F-Stat = 6.875095, Prob(F-stat) = 0.004548, D.W. Stat. = 1.90				

Source: E-views 10 software

Board Composition: Board Composition has a coefficient of -0.022950 which shows that a unit increase in Board Composition will decrease the Discretionary Accruals of manufacturing firms in Nigeria by 0.0229. The value of the t-statistics (2.784331> 2) and the probability of t-Statistic (0.0302< 0.05) show that Board Composition has a significant effect on Discretionary Accruals of consumer goods manufacturing firms in Nigeria.

Audit Committee Size: Audit Committee Size has a coefficient of -0.083123 which shows that a unit increase in Audit Committee Size will decrease the Discretionary Accruals of manufacturing firms in Nigeria by 0.0831. The value of the t-statistics (2.138941> 2) and the probability of t-Statistic (0.0400< 0.05) show that Audit Committee Size have a significant effect on the Discretionary Accruals of consumer goods manufacturing firms in Nigeria.

Board Size: Board Size has a coefficient of 0.036786 which shows that a unit increase in Board Size increases the Discretionary Accruals of manufacturing firms in Nigeria by 0.0368. The value of the t-statistics (0.766569< 2) and the probability of t-Statistic (0.4469> 0.05) show that Board Size has an insignificant effect on the Discretionary Accruals of consumer goods manufacturing firms in Nigeria.

Statistical Criteria (First Order Tests)

The value of the Adjusted R^2 is 0.43, which shows that 43% of the changes in the Discretional Accruals are explained by the independent variables (Board Composition, Audit Committee Size, & Board Size), while the remaining 57% could be explained by other factors capable of influencing Discretionary Accruals in the industry. These other factors are contained in the error term. The f-test is used to check for the overall significance of the model. If the value of the probability of the f-stat (p-value: 0.004548) is less than 0.05 at a 5% critical value, the model is said to be significant and statistically fit. The Durbin Watson Statistic (1.90) shows the presence of positive autocorrelation in the time series data.

Test Of Hypotheses

The three hypotheses formulated in chapter one of this study were tested using four steps. The test of hypotheses was conducted as follows;

Hypothesis One

Step 1: Restatement of the Hypothesis in Null and Alternate Form

H_0: Board Composition does not have a significant effect on discretionary accruals of consumer goods manufacturing firms in Nigeria.

H_1: Board Composition have a significant effect on discretionary accruals of consumer goods manufacturing firms in Nigeria.

Step 2: Statement of Decision Criteria

According to Gujarati and Porter (2009), the decision rule involves accepting the alternate hypothesis (H_1) if the sign of the coefficient for Board Composition (BCOMP)is either positive or negative, the modulus of the t-Statistic > 2.0 and the P-value of the t-Statistic < 0.05. Otherwise, accept H_0 and reject H_1.

Step 3: Presentation of Test Results

Table 3 fixed effect OLS regression estimation resultswere used to test the above-stated hypothesis.

Step 4: Decision

The regression coefficient (-0.022950) in Table 3 shows that increase in Board Composition results in a decrease in the Discretionary Accruals of consumer goods manufacturing firms in Nigeria. However, the values for t-statistic (2.784331) and probability of the t-statistic (0.0302) depict that Board Composition have a statistically significant effect on the Discretionary Accruals in the industry. This implies that Board Composition cannot be used to predict the Discretionary Accruals in the industry.

Hypothesis Two

Step 1: Restatement of the Hypothesis in Null and Alternate Form

H_0: Audit committee size do not have a significant effect on discretionary accruals of consumer goods manufacturing firms in Nigeria.
H_1: Audit committee size have a significant effect on discretionary accruals of consumer goods manufacturing firms in Nigeria.

Step 2: Statement of Decision Criteria

According to Gujarati and Porter (2009), the decision rule involves accepting the alternate hypothesis (H_1) if the sign of the coefficient for Audit Committee Size (ACSIZE)is either positive or negative, the modulus of the t-Statistic > 2.0 and the P-value of the t-Statistic < 0.05. Otherwise, accept H_0 and reject H_1.

Step 3: Presentation of Test Results

Table 3 fixed effect OLS regression estimation resultswere used to test the above-stated hypothesis.

Step 4: Decision

The regression coefficient (-0.083123) in Table 3 shows that increase in Audit Committee Size results in a decrease in the Discretionary Accruals of consumer goods manufacturing firms in Nigeria. However, the values for t-statistic (2.138941) and probability of the t-statistic (0.0400) depict that Audit Committee Size have a statistically significant effect on the Discretionary Accruals in the industry. This implies that Audit Committee Size cannot be used to predict the Discretionary Accruals in the industry.

Hypothesis Three

Step 1: Restatement of the Hypothesis in Null and Alternate Form

H_0: Board Size does not have a significant effect on discretionary accruals of consumer goods manufacturing firms in Nigeria.
H_1: Board Size have a significant effect on discretionary accruals of consumer goods manufacturing firms in Nigeria.

Step 2: Statement of Decision Criteria

According to Gujarati and Porter (2009), the decision rule involves accepting the alternate hypothesis (H_1) if the sign of the coefficient for Commercial Agricultural Credit Scheme (CACS)is either positive or negative, the modulus of the t-Statistic > 2.0 and the P-value of the t-Statistic < 0.05. Otherwise, accept H_0 and reject H_1.

Step 3: Presentation of Test Results

Table 3 fixed effect OLS regression estimation resultswere used to test the above-stated hypothesis.

Step 4: Decision

The regression coefficient (0.036786) in Table 3 shows that increase in Board Size results in an increase in the Discretionary Accruals of consumer goods manufacturing firms in Nigeria. However, the values for t-statistic (0.766569) and probability of the t-statistic (0.4469) depict that Board Size have a statistically non-significant effect on the Discretionary Accruals in the industry. This implies that Board Size cannot be used to predict the Discretionary Accruals in the industry.

Discussion of Findings

Effect of Board Composition on Earnings Management

The test of hypothesis reveals that board composition has a statistically significant negative effect on the discretionary accrual of consumer goods manufacturing firms in Nigeria. This result implies that as number of non-executive directors in the board increases in the sample manufacturing firms, their earnings management decreases significantly. This finding is in line with the expectations of the researcher because non-executive board members provide an independent view on the running of a company's business, governance and boardroom best practices. They oversee and constructively challenge the management in its implementation of strategy within the firms' system of governance and the risk appetite set by the board.

The result is in tandem with the findings of Firman and Apollo (2019); Kajola, Sanyaolu, Tonade, and Adeyemi (2020); David and Baba (2021); Hajjar (2021); and Akpamedaye and Williamson (2021) they found that more independent or non-executive directors in the board discourages earnings management in an organization.

Effect of Audit Committee Size on Earnings Management

The test of hypothesis reveals that audit committee size has a statistically significant negative effect on the discretionary accrual of consumer goods manufacturing firms in Nigeria. This result implies that increase in the number of members of the audit committee militates against earnings management of manufacturing firms significantly. This finding is in line with the expectations of the researcher because the primary purpose of a company's audit committee is to provide oversight of the financial reporting process, the audit process, the company's system of internal controls and compliance with laws and regulations, hence they help prevent earnings management.

The result is in tandem with the findings of Firman and Apollo (2019); Kajola, Sanyaolu, Tonade, and Adeyemi (2020); David and Baba (2021); Hajjar (2021); and Akpamedaye and Williamson (2021) they found that more independent or non-executive directors in the board discourages earnings management in an organization.

Effect of Board Size on Earnings Management

In the test of hypothesis three, the result reveals that board size has a statistically non-significant positive effect on earnings management of consumer goods manufacturing firms in Nigeria. This result implies that increase in the number of members of the board encourages earnings management of manufacturing firms though insignificantly. The finding is not scary because the bigger the board the lesser the trust the shareholders should have on the board.

The result is in tandem with the findings of Firman and Apollo (2019); Kajola, Sanyaolu, Tonade, and Adeyemi (2020); David and Baba (2021); Hajjar (2021); and Akpamedaye and Williamson (2021) they found that more independent or non-executive directors in the board discourages earnings management in an organization.

Summary of Findings

The findings are summarized as follows;

I. Board Composition has a negative (coefficient, -0.022950) and significant (p-value, 0.0302) effect on discretionary accruals of consumer goods manufacturing firms in Nigeria.
II. Audit Committee Size has a negative (coefficient, -0.083123) and significant (p-value, 0.0400) effect on discretionary accruals of consumer goods manufacturing firms in Nigeria.

III. Board size has a positive (coefficient, 0.036786) and non-significant (p-value, 0.4469) effect on discretionary accruals of consumer goods manufacturing firms in Nigeria.

Conclusion

The study examined the corporate governance and earnings management of consumer goods manufacturing firms in Nigeria. From the data collected and scientifically analyzed, board composition and audit committee size have a negative and significant effect on discretionary accruals of consumer goods manufacturing firms in Nigeria. However, board size has a positive effect on discretionary accruals of consumer goods manufacturing firms in Nigeria. The Adjusted R-squared revealed that 43% of changes in discretionary accruals could be explained by board composition, audit committee size, and board size. The remaining 57% could be explain by other factors capable of influencing earnings management of consumer goods manufacturing firms in Nigeria. The study, therefore, concludes that the board composition and audit committee size can be a reference for investors and can be used as material for consideration in making decisions when investing in potential companies.

Recommendations

Following the findings from the result of the study, the following recommendations are made;

I. Manufacturing firms should ensure that the composition of the board is made up of more non-executive directors than executive directors. They should make sure that majority of members of the board are non-executive or independent directors. Investors should also monitor the composition of the board before relying on the financial statement for decision making.

II. They should ensure that audit committee size is robust enough to accommodate more experts in the committee. This will help combat earnings management in the Nigeria manufacturing sector.

III. Manufacturing firms should reduce the big board size it operates with because the findings suggest that higher board size increases earnings management in the industry. They should maintain a moderate board size of not more than 10 members.

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