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BOARD DIVERSITY AND MANIPULATIVE ACCOUNTING PRACTICE AMONG LISTED CONGLOMERATES IN NIGERIA

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Abstract

One of the main characteristics of an effective Board of Directors (BOD) is its membership diversity. Well-managed diversity on the BOD is expected to enhance a board's capacity and effectiveness to monitor the opportunistic behaviour of managers, which more often than not motivates them to among other things engage in manipulative accounting practice. This paper examines the effect of board diversity on manipulative accounting practice among listed conglomerates in Nigeria for the period 2007 – 2014. The paper hypothesises that foreign directors, board gender, non-executive directors and board competence have no significant effect on manipulative accounting practice among the firms. It utilises panel data extracted from the financial statements of the six (6) conglomerates listed on the Nigerian Stock Exchange (NSE) as at December 2014. The result of the robust fixed effects model reveals that foreign directors and non-executive directors have significant negative influence on manipulative accounting of the firms. The analysis further shows that board gender and board competence have no

significant effect on manipulative accounting practice among the firms. This implies that an increase in the number of foreign directors and non-executive directors will reduce the opportunistic tendencies of management as their presence plays a crucial role in reducing manipulative accounting activities of the firms. In line with the result, the paper recommends that management of listed conglomerates in Nigeria should increase the number of foreign and non-executive director to average of 44% and 47% respectively. This is because at these respective percentages, foreign and non-executive directors have significant negative effect on manipulative accounting. Also, shareholders of listed conglomerates in Nigeria need not to bother about the number of females and competent directors on their board whenever they are to decide on how to curtail manipulative accounting practice.

Keyword: Board diversity; conglomerates; corporate governance; earnings management; manipulative accounting,

1. Introduction

The importance of quality accounting earnings to stakeholders of any business organisation cannot be over emphasized. Earnings are said to be of good quality if net reported income on income statement does not differ from true earnings in a manner that reversals would not be forecasted. Such earnings are normally sustainable and are not being impaired in order to artificially reduce its variability.

One of the factors that affect earnings quality is manipulative accounting practice also called creative accounting or earnings management in accounting and finance literature. Manipulative accounting is described as the use of accounting knowledge to alter the reported earnings figures of firm through Management's use of judgmental discretions while remaining within the jurisdiction of accounting rules and laws. It involves cooking the books of a firm by massaging accounting numbers to window dress reported earnings in order to either mislead users into believing what is not true in respect of a firm's actual performance and hence secure favourable response or influence contractual outcomes that depend on reported earnings (Healy & Wahlen, 1999; Yadav, 2013). It is a form of misdeed and misdemeanours by managers (Kirschenheiter & Melumad, 2002) to conceal poor performance or postpone a portion of usually good current earnings to future years (DeAngelo & Skinner, 1994) thereby making reported earnings reflect their wishes or desires rather than underlying financial performance of the firm (Levit, 1998).

The literature has identified three factors that motivate managers to engage in manipulative accounting practice (Bello, 2005). Firstly, managers engage in manipulative practice in order to influence one or more of a firm's contractual arrangements that include executive compensation agreements and debt covenants. In this regard and depending on the structure of the contracts, accounting figures may be altered and earnings smoothed or managed in order to increase compensation or to avoid covenant violation. Secondly, management of a firm may embark on manipulative accounting practice in an attempt to influence asset prices. The objective here as Levit (1998) posited is to overcome problems that arise when markets do not perfectly aggregate individually held information due to trading restrictions or risk aversion. Accordingly, self-serving managers may opt for manipulative accounting in their belief that higher earnings will result in higher share prices contributing to their compensation or reputation. Thirdly, management manipulates accounting numbers to influence the decisions of external parties.

It has been argued that the combine effect of the aforementioned factors has been responsible for the fall of many business organisations especially in the 1990s through to early 2000s. The fall has been mainly attributed to deliberate overstatement of accounting earnings over a period of time and sometimes outright cooking of books (Jiang, Lee, & Anandarajan, 2008; Osazevbaru, 2012; Olayinka, 2012; Omoye & Eriki, 2014) on one hand, and on other hand, lack of effective oversight by Board of Directors (BOD) and regulators (Deakin & Konzelmann, 2004). Consequently, corporate financial reporting failures resulting from long period of manipulative accounting practices have continue to leave its perils since the collapse of world corporate giants such as Enron, WorldCom, Parmalat, Global Crossing and Rank Xerox. Parmalat of Italy alone failed in 2003 after engaging in accounting scandals worth 8 billion Euros (Demaki, 2011; Norwani, 2011).

With this development, most countries the world over have decided to set codes of best practice as guideline to address governance and financial reporting anomalies. Popular among these codes are the Cadbury report in the UK, Sarbanes Oxley report in the USA, Day Report in Canada, Vienot Report in France, Olivencia Report in Spain, Kings Report in South Africa, Principles and guidelines on corporate governance in New Zealand, and Cromme Code in Germany. Nigeria developed and released its code of corporate governance for all corporate firms in 2003 and with consolidation of the banking industry in 2005 through to 2006, a separate code of corporate governance for banks was released.

The objective of these regulations was to improve firms' corporate governance environment (Bhagat & Bolton, 2009).

Boards of Directors (BODs) of firms are the governance mechanism that ensures resources of firms are utilized effectively. The main functions of the BOD are to monitor the activities of managers and provide resources whenever needed. Thus, the Boards are responsible for checkmating the activities of managers and rendering proper stewardship on how the resources of shareholders are managed. The functions of the BOD are theoretically anchored by agency theory, which foresees the potential for conflicts of interest between managers and owners that arise from the separation of ownership and control in organisations. BODs' effectiveness is therefore considered key to implementation of corporate governance code as it will result in improved management monitoring and provision of timely information on potential economic losses to the firm on one hand, and adoption of accounting practice that will inhibit managers from manipulating accounting earnings on other hand.

One of the main characteristics of an effective BOD is its membership diversity in terms of combination of executives, independent and non-executive directors; gender diversity; diversity of experience, expertise and skills; and other social diversity attributes such as age, race and ethnic background (Carter, Simkins & Simpson, 2003). Board diversity is increasingly becoming a strategic issue as investors now see it as a crucial criterion for investment decision making (David, Carter, Frank, Betty & Simpson, 2010). Well-managed diversity on the BOD is expected to enhance a board's capacity and effectiveness to monitor the opportunistic behaviour of managers, which more often than not motivates them to among other things engage in manipulative accounting practice (Carter, Simkins & Simpson, 2003; Dang, Nguyen & Vo, 2012).

Studies have been conducted on the relationship between board diversity and manipulative accounting. The studies, which are mostly foreign-based (e.g. Chtourou, Bedard & Courteau, 2001; Yang-Chun & Ramadili, 2009; Peni & Vahamaa, 2010; Zhang & Uchida, 2011; Abdulrauf *et al.*, 2012; Muhammad & Saeed, 2014; Reggy, Hermes & Lars, 2015) documented inconsistent and mixed findings. For example, while the study of Yang-Chun and Ramadili (2009) documented that components of board diversity have no significant relationship with earnings management, the findings of Chtourou, Bedard and Courteau (2001) and Zhang and Uchida (2011) showed that board diversity attributes have strong relationship with earnings management practice of firms.

In Nigeria, a sizeable study in this regard is found within the literature (e.g. Shehu & Ahmed, 2012; Osazevbaru, 2012; Olayinka, 2012; Uwuigbe, Peter & Oyeniya, 2014; Omoye & Eriki, 2014; Garba & Tukur, 2014). A common pitfall in these studies is the use ordinary least square (OLS) to panel data to analyse the effect of the component(s) of board diversity on earnings management. This technique is considered deficient in terms of reflecting time variant and specific characteristic issues. Analysis of panel data generally requires the use of both fixed and random effect models and other relevant diagnostic and robustness tests such as Hausman specification to be able to correctly ascertain both time and cross section effect of a relationship between two phenomena. Pooled OLS is only resorted to where the absence of panel effect in the dataset is established. Other issues of concern relate to non-inclusion of some board diversity variables and the fact that most of the studies did not control for firm size in their analysis though their samples consist of firms of different sizes.

Thus, a number of geographical and methodological gaps exist in the literature regarding the nature and extent of relationship between components of board diversity and earnings management practice among firms. Geographically, most of the studies that used robust methodologies are foreign-based in addition to the fact that they documented conflicting and inconsistent findings. Methodologically, Nigeria-based studies are non-inclusive as many of the studies ignored one important variable or the other. In addition, the studies mostly employed pooled OLS to analyze panel data thus disregarding the cross sectional effect of the data.

In light of the above, and in a view to filling these different gaps identified in the literature that this study examines the effect of board diversity on manipulative accounting practice among listed conglomerates in Nigeria for the period 2007 – 2014. Specifically, the study seeks to assess the effect of foreign directors, board gender, non-executive directors and board competence on manipulative accounting practice in the firms. In line with the objectives, the study hypothesises that foreign directors, board gender, non-executive directors and board competence have no significant effect on manipulative accounting practice among the firms.

The choice of conglomerates is predicated upon the belief that manipulative accounting practice have permeated all sectors of the economy. However, by their ownership structure and scope of activities, conglomerates have more diverse boards than other types of firms. These diversities are expected to enable them effectively monitor the activities of management and mitigate managers'

opportunistic behaviours in managing accounting earnings. The period covered by the study is considered adequate because the historic competition for capital that the Nigerian capital market witnessed during in 2008 had incentivised managers to manipulate accounting numbers and manage earnings to attract investors. In addition, the period coincided with the global economic meltdown that occurred from mid-2007 to 2009, which gave managers the incentive to manipulate earnings in order to smooth the impact of the crisis.

The paper is organised in five sections. Section 2 provides a review of relevant empirical literature on the association between board diversity and manipulative accounting. Section 3 describes the population of the study and presents the methodology used in data collection and analysis. Section 4 interprets the results of the regression and discusses the findings of the paper in light of previous studies. Section 5 summarises the paper and highlights key recommendations.

2. Review of Related Empirical Literature

On foreign directors, Zhang and Uchida (2011) investigated the relationship between firm-level corporate governance structures, country-level investor protection, and earnings management across 18,491 firms in 42 countries. The study adopted the latest investor protection indices at the time of data collection and added new firm-level corporate governance variables. The study found that firms with strict and strong governance mechanisms of foreign ownership, external auditors and foreign board members effectively decrease earnings management, especially in countries with strong investor protection. Reggy, Hermes, Lars and Randoy (2015) examined the effect of the presence of foreign directors on earnings management using a sample of 586 listed non-financial Nordic firms for the period 2001–2008. The study found that the presence of a non-Nordic foreign director who do not have a Nordic background is associated with significantly higher levels of earnings management. The study documented similar result after using alternative measures for both the presence of a non-Nordic foreign director and earnings management.

On gender diversity, Renee, Adams and Ferreira (2009) assessed the impact of women directors on governance and performance using a sample of US firms. The study showed that female directors have a significant impact on board inputs and firm's outcomes. The study also found that female directors have better attendance records than male directors thus their likelihood to join different monitoring committees more than the male counterpart. The study therefore concluded that presence of female directors contributes significantly to a board's capacity to monitor the activities of managers. Also, Abdullahi and Ismail (2009)

examined the effect of presence of women directors on accruals management in Malaysian firms. The study could not document evidence to show that their presence on the board and audit committees is associated with the level of accruals management. Peni and Vahamaa (2010) examined the effect of gender diversity on earnings management using a sample of S&P 500 firms with 2010 firm year observations. The study provided sufficient evidence to suggest that firms with female directors are associated with income-decreasing discretionary accruals. Bermig and Frick (2010) analyzed the effect of female directors on earnings management of 294 firms listed on Germany's DAX, MDAX and SDAX from 1998 to 2007. The study documented evidence to show that presence of female on board of directors is strongly associated with less earnings management. Gulzar and Wang (2011) investigated the extent to which presence of women directors affect earnings management among 1009 firms listed on Shanghai and Shenzhen Stock Exchange over the period 2002-2006. The results showed that presence of female directors on boards helps to reduce the level of earnings management.

In addition, Abdul Rauf, Johari, Buniamin and AbdulRahman (2012) used cross sectional data to examine the relationship between board diversity and discretionary accruals practice among top 100 companies in Malaysia for the year 2008. The study established that manipulative accounting practice occurred even for the top 100 MCG companies. The results indicated that women on board have significant positive effect on discretionary accruals. This suggests that the more the number of women on board the more the likelihood for the firms to engage in earnings management practice. In Nigeria, Omoye and Eriki (2014) investigated how gender diversity affects earnings management activities of 130 firms listed on the Nigerian stock exchange over the period 2005 – 2010. The study found that board gender diversity has significant negative influence on the probability of the firms to adopt absolute high earnings management. Furthermore, Aguir, Lakhel and Malek (2015) examined the effect of board gender diversity on earnings management of 170 French-listed firms. The study found that presence of women on the board of directors reduces earnings management.

On non-executive directors, Chtourou, Bedard and Courteau (2001) investigated the effect of board diversity on the quality of US firms publicly released financial information using cross sectional data for the year 1996. The study found that presence of outside directors is associated with less earnings management. Yang, Chun and Ramadili (2009) examined the role of outside directors in constraining earnings management activities of 613 Malaysian firms from 2001 to 2003. Using Modified Jones Model with cross sectional approach, the study could not observe

any significant relationship between the degree of earnings manipulation and the proportion of outside directors of the firms. In Portugal, Alves and Sandra (2014) examined the effect of board independence on earnings quality of Portuguese listed firms. The study found evidence that independent board members improve the monitoring capacity of their boards by reducing earnings management practice among the sampled firms.

Bello (2011) investigated the effect of corporate governance mechanisms and on ethical accounting practices in Nigeria for the period 2004 – 2009 using probit regression technique. The result revealed that presence of a combination of directors have significant inverse relationship ethical accounting practices. Also, Muhammad and Saheed (2014) examined the relationship between corporate governance and earnings management of six petroleum products distributors firms listed on the floor of the Nigeria Stock Exchange for the period 2003 – 2012. The result of the random effects model showed that diversity in board composition has inverse relationship with earnings management. Similarly, Uwuigbe, Peter and Oyeniyi (2014) examined the effect of corporate governance mechanism on earnings management practice among 40 firms listed on Nigerian stock exchange for the period 2007-2011. The findings showed that board composition has significant negative effect on earnings management. On their part, Shehu and Garba (2014) investigated the effect of governance attributes on real activities manipulation practice among listed manufacturing firms in Nigeria for the period 2007–2012. The results revealed that outside directors have strong negative association with real activity manipulation.

On board competence, the study of Chtourou, Bedard and Courteau (2001) has documented evidence to show that board competence has strong negative association with earnings management. Also, the study of Cheng and Zhang (2003) that investigated the effect of the 2002 China's Code of Corporate Governance implementation on earnings management revealed that the inclusion of accounting and finance experts in audit committees has strong negative effect on both discretionary accruals and related-party transactions. The study of Abdul Rauf, Johari, Buniamin and AbdulRahman (2012) investigated the association between board diversity and discretionary accruals activities among top 100 Malaysian firms in 2008. The result showed that board competence has no significant effect on discretionary accruals activities of the firms. In Nigeria, Benjamin and Hussain (2014) examined the influence of board characteristics on earnings management of listed food and beverages firms in Nigeria using panel data for the period 2009 – 2014. The study documented a significant inverse

relationship between board financial expertise and earnings management.

3. Methodology and Data

The population of the study consists of all the six (6) conglomerates listed on the Nigerian Stock Exchange (NSE) as at 31st December 2014. The entire population is opted for in view of the smallness of the population and data availability for all the firms. Based on the scope of eight (8) years, 2007 – 2014, a total of 48 firm observations were arrived at. The study uses longitudinal regression techniques to analyse the panel data extracted from the annual reports and accounts of the firms.

The study tests the linear relationship between the dependent variable, manipulative accounting practice and four explanatory variables, foreign directors, board gender, non-executive directors and board competence. The study further controls for firm size in view of the fact that there are other board attributes and/or factors excluded in the study but which may have effect on the level and extent of earnings management thus the need to control it in the estimation of discretionary accruals. In line with many previous foreign-based studies, the study assumes that the larger the size of a firm the higher the expected agency problem that is likely to confront the firm. In addition, given the fact that large firms have more resources and earn higher profit, Grey and Clarke (2004) have since posited that such firms are more likely to avoid managing earnings through discretionary accruals.

The study adopts the modified Jones Model by Dechow, Sloan and Sweeny (1995) to estimate manipulative accounting (the residual of the model) in view of the fact that it is both time series and firm specific which captures time and firm differences. The model is expressed as follows:

$$DACC_{it} = TACC_{it}/TA_{it-1} - [\alpha_1 (1/TA_{it-1}) + \alpha_2 [(\Delta REV_{it} - REC_{it} /TA_{it-1})] + \alpha_3 (PPE_{it}/TA_{it-1})] + \varepsilon_{it} \dots \dots (i)$$

Where:

$DACC_{it}$ = discretionary accruals of firm i at time t

$TACC_{it}$ = total accruals of firm i at time t while $TACC = EARN - CFO$

ΔTA_{it-1} = the book value of total asset of firm i at the end of year t-1,

REV_{it}/TA_{it-1} = sales revenues of firm i in year t less revenues in year t-1 scaled by TA_{it-1}

$\Delta REC_{it}/TA_{it-1}$ = sales receivables of firm i in year t less receivables in year t-1 scaled by TA_{it-1}

PPE_{it}/TA_{it-1} = gross property, plant and Equipment of firm i at the end of year t

scaled by TA_{it}
 ε_{it} = the residual or error term.

After estimating the measure of earnings management from model one, the model of the study is expressed as follows:

$$MAP_{it} = \alpha + \beta_1 FD_{it} + \beta_2 BGD_{it} + \beta_3 OD_{it} + \beta_4 BCOMP_{it} + \beta_5 FSIZ_{it} + \varepsilon_{it} \dots \dots \dots$$

(ii)

Where:

- MAP = Manipulative accounting practice
- FD = Foreign directors
- BGD = Board gender
- NOD = Non-executive directors
- BCOMP = Board competence
- FSIZ = Firm size
- A = Constant or intercept
- ε = Error term

$\beta_1, \beta_2, \beta_3, \beta_4$ and β_5 represent the coefficient of the explanatory variables

The variables of the study are measured as follows:

Table 1: Variables Measurement

Variable	Variable Type	Measurement
Manipulative accounting	Dependent	Modified Jones model by Dechow, Sloan and Sweeny (1995).
Foreign directors	Independent	Ratio of foreign directors to the total number of directors (Zhang and Uchida, 2011).
Board gender	Independent	Proportion of women on board to the total number of Board members (Nafi'u and Farouk, 2015).
Non-executive directors	Independent	% of outside directors over total number of directors (Buniamin et. al., 2012).
Board Competence	Independent	Number of directors who have professional qualification skills and experience in accounting and finance (Buniamin et. al., 2012).

Size	Control	Measured as the Natural Log of total assets (Sanda et. al., 2005).
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Source: Authors' compilation from various sources 2016

The paper expects that all the explanatory variables would have inverse relationship with the explained variable. This is based on the assumption that the higher the negative relationship between each of the independent variables with manipulative accounting the lower the level of management's opportunistic behaviour.

2. Analysis of Results and Discussions

The analysis of results begins with descriptive statistics to provide some insights into the nature and characteristics of listed conglomerates in Nigeria for the period 2007 to 2014. Table 2 presents the descriptive statistics for the explained and explanatory variables in which the minimum, maximum, mean and standard deviation as well as skewness and kurtosis of the datasets of each of the variables is given.

Table 2: Summary of Descriptive Statistics

Var.	min	max	mean	std. dev	skew	kurt
MAP	0.0000	0.2900	0.0735	0.0653	1.3468	4.5229
FD	0.1300	0.6300	0.4398	0.1508	-0.3481	2.0631
BG	0.0100	0.5500	0.2500	0.1519	0.7830	3.1309
NED	0.2000	0.7500	0.4746	0.1767	-0.005	2.0268
BCOMPT	0.2000	0.9900	0.4156	0.1650	0.6641	4.5092
FSZ	14.7700	18.4900		16.9158	0.8278	-0.3782

3.1850

Source: Output generated using STATA 13

Table 2 shows the mean, (average), standard deviation (degree of dispersion), the maximum and minimum and skewness as well as kurtosis statistic (normality test) for each of the variables. The mean of manipulative accounting practice in the sample is 0.0735. This implies that firms with manipulative accounting below 7.35% would be seen as highly understating their earnings. The minimum and maximum manipulative accounting practice among the firms in Nigeria range from 0.2900 to 0.0000 with a standard deviation of 6.53%. The skewness and kurtosis values of 1.3468 and 4.5229 are within the acceptable range.

The table also shows minimum and maximum values of 0.1300 and 0.6300 with regard to the total number of foreign directors on the board. This means that for a firm to achieve minimum and maximum manipulative accounting alleviation,

13% and 63% of their board members should be foreign directors. The average percentage of the firms' foreign directors is 43%. This means that for a firm to reduce manipulative accounting averagely, it must have an average number of 0.4398 directors that are foreign. The standard deviation is 0.1508. The mean value for foreign directors is higher than the standard deviation implying that the number of foreign directors on the boards is almost the same for all the listed firms. The skewness and kurtosis values of -0.3481 and 2.0631 are within the acceptable range.

Board gender variable returns minimum and maximum values of 0.0100 and 0.5500 respectively. This implies that for a firm to have minimum and maximum manipulative accounting mitigation, 1% and 55% of its members must be female directors. The average percentage of board gender is 25% implying that a firm requires an average of 0.2500 number of female directors on its board to be able to averagely reduce manipulative accounting practice. The standard deviation of the dataset for board gender is 0.1519, less than the mean value of 0.2500 indicating that the number of female directors on the boards is of similar size for all the firms. The value of skewness and kurtosis are 0.7830 and 3.1309 respectively.

Furthermore, the table indicates that non-executive directors have minimum and maximum values of 0.2000 and 0.7500 respectively. This signifies that for a firm to achieve minimum and maximum manipulative accounting reduction, 2% and 75% of its board members need to non-executive directors. The average percentage of non-executive directors is 47%, which means that that a firm needs an average of 0.4746 non-executive directors to reduce manipulative accounting on average. The mean value is higher than the standard deviation of the dataset, which turns in 0.1767. The values of skewness and kurtosis are within acceptable range.

Board competence returns minimum and maximum values of 0.200 and 0.9900 respectively. The values imply that for each of the firms to attain minimum and maximum manipulative accounting amelioration, 20% and 99% of its board members should have accounting and/or finance knowledge to be able to read, understand and interpret financial information reported in the annual reports and accounts. On average, 42% of board members should be knowledgeable in accounting or finance in order to be able to monitor the activities of management for better manipulative accounting mitigation. The mean value of 0.4156 is higher than the standard deviation value of 0.1650 signifying that the number of

competent directors is almost the same for all the firms. Skewness and kurtosis report 0.6641 and 4.5092 respectively.

Finally, firm size returns minimum and maximum values of 14.7700 and 18.4900 respectively. This means for a firm to have minimum and maximum manipulative accounting reduction, it should maintain assets size of 14.7700 and 18.4900. A firm also needs 16.9158 to averagely reduce manipulative accounting. The standard deviation of 0.8278 that is less than the average of the dataset indicates that presence of competent members on the board is contributing to mitigating manipulative accounting practice.

The paper then subjects the dataset to correlation analysis to explain the direction and degree of relationship between the dependent and independent variables of the study as well as the independents variables among themselves. The summary of the associations among the variables is presented in table 3.

Table 3: Correlation Matrix

Variable	MAP	FD	BG	OD	BCOMPT	FSZ
MAP	1					
FD	-0.4671*	1				
BG	0.0008	0.4101*	1			
NED	-0.3814*	0.0038	-0.1584	1		
BCOMPT	0.0075	-0.1574	0.2823	0.0719	1	
FSZ	-0.3848*	0.2854	0.2170	0.6272	-0.0451	1
	0.0069	-0.1571	0.1385	-0.0313	0.7610	
	0.0320	0.2863	-0.2512	0.8327		
	0.8288	-0.4446*	0.0851			
	0.5029*	0.0015				
	0.0003					

Source: Correlation matrix output generated using STATA 13

*, ** and *** indicate that correlation is significant at 0.01, 0.05 and 0.10 levels respectively (2-tailed);

Table 3 shows that foreign directors, board gender and non-executive directors are 47%, 38% and 38% negatively related with manipulative accounting respectively. The variables exhibit levels of relationship that are significant at 1% each. In contrast, the table shows that board competence has a weak positive relationship with manipulative accounting. The control variable, firm size, is shown to have a 50.3% positive relationship with manipulative accounting that is significant at 1% level of significance.

Among the independent variables themselves, the table shows that except for foreign directors in relation to board gender variables, none of the explanatory

variables is strongly related with the other. In terms of direction of association, foreign directors has negative association with both non-executive directors and board competence; and board gender negatively correlates with non-executive directors. Overall, the association of the independent variables among themselves is not significant. Although board gender variable has significant relationship with foreign directors, the level of association is far less than the 80% that is generally considered to be a level of concern. Therefore, it can be said that none of the independent variables indicates a harmful level of association with the others.

Notwithstanding the above, the correlation matrix is not be enough to warrant conclusion that multicollinearity does not exist among the explanatory or exogenous variables of the study. To confirm this, the study tests for multicollinearity using variance inflation factor (VIF) and tolerance values (TV), which are considered as advanced measures for assessing the presence or absence of harmful multicollinearity among the explanatory variables. The result of the VIF shows that all the explanatory variables have a VIF value of less than 2.0 and TV value that is above 0.10. The mean VIF value of 1.29 buttresses the point that the dataset is completely free from multicollinearity. It also lends credence to the claim of adequacy of fitting the model of the study with four independent variables.

In view of the fact that the dataset is panel in nature, the paper runs both fixed effect (FE) and random effect (RE) models. The results of revealed a considerable difference between the two models. Based on that, Hausman specification test was carried out to enable selection of the best model for analysis. The result of the Hausman test reveals a χ^2 value of 15.35 with a p-value of 0.009, which is statistically significant at 1% level of significance. On the basis of the Hausman result, the study considers FE model as the best fitted model. However, since FE does not have capacity to address problem of heteroskedasticity in a dataset, the paper tests for heteroskedasticity in FE mode using *xttest3* command in STATA 13. The result returns a χ^2 value of 20.02 with a p-value of 0.003, which is statistically significant at 1% level of significance. This suggests the presence of heteroskedasticity. To address the problem, the study uses the robust FE option to generate FE regression result that appropriate for analysis and interpretation. The summary of the robust fixed effect model is presented in table 4.

Variable	Co-efficient	T-Values	P-Values	Tolerance	VIF
Constant	0.0152193	0.04	0.966		
FD	-0.135508	-4.71	0.005	0.636867	1.57

BG	-0.163884	-1.56	0.179	0.736047	1.36
NED	-0.144462	-3.18	0.024	0.776496	1.29
BCOMPT	0.177106	0.40	0.709	0.864960	1.16
FSZ	0.01301	0.63	0.558	0.944643	1.06
R²				0.59	
F Statistics					19.86
Prob					0.0026

Table 4: Summary of Robust Fixed Effect Regression Results

Source: Output generated using STATA 13

Table 4 reveals that the R-squared of the model, which is the multiple coefficient of determination is 0.59. This means that foreign directors, board gender, non-executive directors and board competence have jointly explained the variations in manipulative accounting practice among listed conglomerates in Nigeria to the extent of 59%, while the remaining 41% is caused by other factors not captured in the model. The F-Statistics value of 19.86 with a p-value of 0.0026 shows that the model on the overall is statistically significant at 1%. This shows that the model is fit and the explanatory variables were carefully selected. It also means that there is 99.9 percent probability that the association amongst the variables of the study is not just by chance.

The table also shows that foreign directors has significant negative effect on manipulative accounting among the firms. This can be observed from the computed coefficient value of -0.163884 with p-value of 0.179 which is statistically significant at 1% level of significance. This indicates that the larger the number of foreign directors on a board, the more their contribution in reducing manipulative accounting practice. On the basis of the result, the hypothesis which presumes that foreign directors have no significant effect on manipulative accounting practice among listed conglomerates in Nigeria is rejected. The result with respect to foreign directors supports the findings of Zhang and Uchida (2011) who reported significant negative relationship between foreign directors and manipulative accounting. The result contradicts the findings of Masulis and Wang (2007), Reggy et al. (2015) who found that presence of foreign directors on board is positively related with manipulative accounting.

The table further reveals that board gender has negative but insignificantly relationship with manipulative accounting. The relationship which is not statistically significant returns a beta coefficient of -0.163884 with p-value of 0.179. This implies that presence of female directors on the board does not significantly affect manipulative accounting practice among listed conglomerates

in Nigeria. The result provides a basis for the failure to reject the hypothesis, which states that board gender has no significant influence on manipulative accounting. The result is in line with the findings of Abdullahi and Ismail (2009), Abdul Rauf, Johari, Buniamin and Abd Rahman (2012) who found a positive relationship between board gender and manipulative accounting but contrasts the findings of Gulzar and Wang (2011), Peni and Vahamaa (2010), Bernig and Frick (2010) who found a significant negative relationship between board gender and manipulative accounting.

Furthermore, the table reveals a significant negative relationship between non-executive directors and manipulative accounting practice among listed conglomerates in Nigeria. The result reveals a beta coefficient of -0.144462 with a p-value of 0.024 that is significant at 5% level of significance. This implies that non-executive directors have significant effect on manipulative accounting. It also means that presence of non-executive directors on a board reduces managers' opportunistic behaviours in managing accounting earnings. The result provides evidence for the rejection of the hypothesis that presence of non-executive directors has no significant effect on manipulative accounting practice among listed conglomerates in Nigeria. The result is consistent with the findings of Bello (2011), Udiale (2012) and Alves and Sandra (2014) who found significant negative relationship between non-executive directors and manipulative accounting. It however contradicts the findings of Yang, Chun and Ramadili (2009) and Muhammad and Saheed (2014) who found positive relationship between non-executive directors and manipulative accounting.

Moreover, the table shows that board competence has positive but insignificant effect on manipulative accounting practice among the conglomerates. The value of the coefficient is 0.177106 while the corresponding p-value is 0.709. This signifies that presence of directors with professional skills, qualification and experience in accounting and/or finance does not significantly impacted on manipulative accounting of the firms in Nigeria. The result provides a basis for not rejecting the hypothesis which states that board competence has no significant influence on manipulative accounting practice among listed conglomerates in Nigeria. The finding is consistent with Cheng and Zhang (2003) and Abdul Rauf, Johari, Sharifar and Abd Rahman (2012). Their studies documented evidence that board competence has positive influence on manipulative accounting. On the contrary, the finding is not consistent with the findings of Chtourou, Bedard and Courteau (2001) and Benjamin (2014) who found significant negative relationship between board competence and manipulative accounting.

Finally, the table shows that the control variable, firm size, has weak positive relationship with manipulative accounting practice among conglomerates in Nigeria. The coefficient value of 0.013 with a p-value of 0.558 that is not statistically significant indicates that firm size has weak association with manipulative accounting practice among the firms for the period of the study.

5. Conclusions and Recommendations

This paper attempts to empirically provide evidence on the effect of foreign directors, board gender, non-executive directors and board competence on manipulative accounting practice among listed conglomerates in Nigeria. The analysis of the robust fixed effect regression results shows that foreign directors and non-executive directors have significant negative influence on manipulative accounting of the firms. This implies that an increase in these variables will reduce the opportunistic tendencies of management. The study therefore concludes that foreign and non-executive directors are amongst the mitigating variables of manipulative accounting as they play a crucial role in reducing manipulative accounting activities of the firms.

The analysis further shows that board gender and board competence have no significant effect on manipulative accounting practice among the firms. This implies that presence of female and competent directors on the board of conglomerates in Nigeria does not help in tackling managers' opportunistic behaviors in managing accounting earnings. The study therefore concludes that board gender and board competence are not among the strong variables of board diversity that reduce manipulative accounting.

In light of the foregoing, the paper recommends that management of listed conglomerates in Nigeria should increase the number of foreign and non-executive director to average of 44% and 47% respectively. This is because at these respective percentages, foreign and non-executive directors have significant negative effect on manipulative accounting. Also, shareholders of listed conglomerates in Nigeria need not to bother about the number of females and competent directors on their board whenever they are to decide on how to curtail manipulative accounting practice.

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APPENDIX

```
. correlate map fd bg ned bcompt fsz
(obs=48)
```

	map	fd	bg	ned	bcompt	fsz
map	1.0000					
fd	-0.4671	1.0000				
bg	-0.3814	0.4101	1.0000			
ned	-0.3848	-0.1574	-0.1584	1.0000		
bcompt	0.0320	-0.1571	0.2170	0.0719	1.0000	
fsz	0.5029	-0.4446	-0.2512	-0.0313	-0.0451	1.0000

```
. regress map fd bg ned bcompt fsz
```

Source	SS	df	MS	Number of obs =	48
Model	.115087559	5	.023017512	F(5, 42) =	11.29
Residual	.085610356	42	.002038342	Prob > F =	0.0000
Total	.200697914	47	.004270168	R-squared =	0.5734
				Adj R-squared =	0.5227
				Root MSE =	.04515

map	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
fd	-.1188715	.05472	-2.17	0.036	-.2293009	-.0084421
bg	-.1249227	.0505209	-2.47	0.018	-.2268779	-.0229674
ned	-.1744585	.0383392	-4.55	0.000	-.2518301	-.0970869
bcompt	.0393295	.042908	0.92	0.365	-.0472624	.1259214
fsz	.0235038	.0090286	2.60	0.013	.0052834	.0417241
_cons	-.1740863	.1707764	-1.02	0.314	-.518727	.1705544

```
. estimates store pooled_ols
```

```
. estat hettest
```

Breusch-Pagan / Cook-Weisberg test for heteroskedasticity

Ho: Constant variance

Variables: fitted values of map

chi2(1) = 6.83

Prob > chi2 = 0.0090

. estat vif

Variable	VIF	1/VIF
fd	1.57	0.636867
bg	1.36	0.736047
fsz	1.29	0.776496
bcompt	1.16	0.864960
ned	1.06	0.944643
Mean VIF	1.29	

. xtreg map fd bg ned bcompt fsz, fe

```

Fixed-effects (within) regression      Number of obs   =      48
Group variable: id                    Number of groups =       6

R-sq:  within = 0.5166                  Obs per group:  min =       8
      between = 0.5882                      avg =      8.0
      overall  = 0.5405                      max =       8

corr(u_i, Xb) = 0.0519                  F(5,37)         =       7.91
                                          Prob > F         =      0.0000

```

map	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
fd	-.135508	.0539501	-2.51	0.017	-.2448212	-.0261947
bg	-.1638384	.051249	-3.20	0.003	-.2676789	-.059998
ned	-.144462	.0426642	-3.39	0.002	-.2309078	-.0580162
bcompt	.0177106	.0472377	0.37	0.710	-.078002	.1134232
fsz	.01301	.0126275	1.03	0.310	-.0125756	.0385957
_cons	.0152193	.2273999	0.07	0.947	-.4455368	.4759753
sigma_u	.02676198					
sigma_e	.0414771					
rho	.29394136	(fraction of variance due to u_i)				

F test that all u_i=0: F(5, 37) = 2.55 Prob > F = 0.0441

. estimates store fixed

```
. xtreg map fd bg ned bcompt fsz, re
```

```
Random-effects GLS regression           Number of obs   =       48
Group variable: id                     Number of groups =        6

R-sq:  within = 0.4929                  Obs per group:  min =        8
      between = 0.7311                               avg   =       8.0
      overall = 0.5734                               max   =        8

Wald chi2(5) =       56.46
corr(u_i, X) = 0 (assumed)              Prob > chi2     =       0.0000
```

map	Coef.	Std. Err.	z	P> z	[95% Conf. Interval]	
fd	-.1188715	.05472	-2.17	0.030	-.2261207	-.0116223
bg	-.1249227	.0505209	-2.47	0.013	-.2239417	-.0259036
ned	-.1744585	.0383392	-4.55	0.000	-.2496019	-.0993151
bcompt	.0393295	.042908	0.92	0.359	-.0447687	.1234277
fsz	.0235038	.0090286	2.60	0.009	.0058081	.0411994
_cons	-.1740863	.1707764	-1.02	0.308	-.5088019	.1606293
sigma_u	0					
sigma_e	.0414771					
rho	0	(fraction of variance due to u_i)				

```
. estimates store random
```

```
. hausman fixed random
```

	— Coefficients —			
	(b) fixed	(B) random	(b-B) Difference	sqrt(diag(V_b-V_B)) S.E.
fd	-.135508	-.1188715	-.0166365	.
bg	-.1638384	-.1249227	-.0389158	.0086086
ned	-.144462	-.1744585	.0299965	.0187173
bcompt	.0177106	.0393295	-.0216189	.019756
fsz	.01301	.0235038	-.0104937	.0088283

```
b = consistent under Ho and Ha; obtained from xtreg
B = inconsistent under Ha, efficient under Ho; obtained from xtreg
```

```
Test: Ho: difference in coefficients not systematic
```

```
chi2(5) = (b-B)'[(V_b-V_B)^(-1)](b-B)
          = 15.35
Prob>chi2 = 0.0090
(V_b-V_B is not positive definite)
```

```
. xttest3
```

```
Modified Wald test for groupwise heteroskedasticity
in fixed effect regression model
```

```
H0: sigma(i)^2 = sigma^2 for all i
```

```
chi2 (6) =      20.02
Prob>chi2 =      0.0028
```

```
. xtreg map fd bg ned bcompt fsz, fe vce(robust)
```

```
Fixed-effects (within) regression      Number of obs   =      48
Group variable: id                    Number of groups =      6

R-sq:  within = 0.5166                 Obs per group:  min =      8
      between = 0.5882                   avg   =      8.0
      overall  = 0.5405                   max   =      8

                                F(5,5)      =      19.86
corr(u_i, Xb) = 0.0519                Prob > F      =      0.0026
```

(Std. Err. adjusted for 6 clusters in id)

map	Robust		t	P> t	[95% Conf. Interval]	
	Coef.	Std. Err.				
fd	-.135508	.0287782	-4.71	0.005	-.2094847	-.0615312
bg	-.1638384	.1047634	-1.56	0.179	-.4331414	.1054646
ned	-.144462	.0454034	-3.18	0.024	-.2611752	-.0277488
bcompt	.0177106	.0448155	0.40	0.709	-.0974913	.1329125
fsz	.01301	.0207363	0.63	0.558	-.0402942	.0663143
_cons	.0152193	.3433031	0.04	0.966	-.8672696	.8977081
sigma_u	.02676198					
sigma_e	.0414771					
rho	.29394136	(fraction of variance due to u_i)				

```
. estimates store robust_fixed
```

. estimates table pooled_ols fixed random robust_fixed, stats(chi2 df N r2) style(online)

Variable	pooled_ols	fixed	random	robust_f~d
fd	-.1188715	-.13550798	-.1188715	-.13550798
bg	-.12492267	-.16383842	-.12492267	-.16383842
ned	-.17445851	-.144462	-.17445851	-.144462
bcompt	.03932953	.01771059	.03932953	.01771059
fsz	.02350378	.01301004	.02350378	.01301004
_cons	-.17408629	.01521925	-.17408629	.01521925
chi2	56.461364			
df				
N	48	48	48	48
r2	.57343675	.51663645		.51663645