MODERATING EFFECT OF BOARD INDEPENDENCE ON SUSTAINABILITY REPORTING AND EARNINGS MANAGEMENT OF QUOTED DEPOSIT MONEY BANKS IN NIGERIA

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Abstract

This study investigates the moderating effect of board independence on the relationship between sustainability reporting and earnings management in quoted deposit money banks (DMBs) in Nigeria. The study adopts an ex post facto research design, analysing a sample of fifteen (15) DMBs listed on the Nigerian Stock Exchange over the period 2013 to 2022. Using the Generalized Method of Moments (GMM) model to address endogeneity concerns, the study provides dynamic panel data estimation based on the Arellano-Bond approach. The results indicate that sustainability reporting has a significant negative relationship with earnings management, implying that enhanced sustainability disclosures contribute to reducing earnings manipulation. Similarly, the interaction between earnings reporting and board independence shows a significant negative effect on earnings management, confirming that independent directors strengthen the role of earnings transparency in curbing managerial discretion. Furthermore, the interaction between sustainability reporting and board independence is also negative and significant, reinforcing the argument that an independent board enhances the monitoring effect of sustainability disclosures. The study concludes that board independence is a crucial governance mechanism that moderates the relationship between sustainability reporting and earnings management, thereby improving financial reporting quality in the Nigerian banking sector. Given the significance of these findings, the study recommends that regulatory bodies, such as the Central Bank of Nigeria and the Financial Reporting Council, implement policies that enhance board independence to ensure financial integrity. Additionally, bank shareholders should advocate for a greater proportion of independent directors to strengthen governance structures that deter earnings manipulation.

Keywords: *Board Independence, Sustainability Reporting, Earnings Management, Corporate Governance, Generalized Method of Moments, Nigeria.*

Introduction

The banking business is a critical economic activity that serves as the backbone of other businesses, facilitating financial intermediation and economic transactions. Banks operate within three broad segments: retail banking, wholesale banking, and wealth management. Among these, retail banking is the most familiar to the general public, as it encompasses products such as deposits, loans, and credit cards. The revenue generated from these activities, particularly from interest and non-interest income, constitutes a significant

portion of the total earnings of banks. However, the performance of banks remains susceptible to market volatility (Adamczyk, 2017; Ajibade & Richard, 2019). In Nigeria, Deposit Money Banks (DMBs) are categorized under retail banking, while wholesale banking and wealth management are separately handled by merchant banks and pension fund administrators, respectively.

A fundamental orientation of every Deposit Money Bank is profitability, which aligns with the accounting concept of a going concern. The need to sustain profitability has necessitated the adoption of various corporate strategies and financial management practices. Interestingly, despite Nigeria's challenging economic environment characterized by inflation and macroeconomic instability, banks have continued to report substantial profits in recent years. This raises concerns regarding earnings management practices, particularly given the significant constraints imposed by rising lending costs under the regulatory framework of the Central Bank of Nigeria (CBN, 2023).

The Nigerian economic environment has witnessed a sustained rise in inflation, currently at approximately 40% (NBS, 2023). Meanwhile, the real sector, which is crucial for production and economic stability, struggles under the burden of high-interest rates exceeding 34%. This has led to the closure of many businesses and the migration of companies to neighbouring countries. Households, too, are grappling with economic hardships, as reflected in recent protests against poor governance and economic mismanagement (Haris et al., 2019).

Amidst these economic challenges, banks continue to declare increasing profits, seemingly unaffected by the prevailing inflationary pressures and currency devaluation. This phenomenon has sparked concerns and speculation regarding the extent of earnings management within the banking sector. The fundamental question arises: Are banks engaging in earnings management to project artificially high profitability? Given that investors rely on financial statements to assess the solvency and stability of firms, there is a growing need to scrutinize the financial performance of banks in the context of sustainability and earnings management (Nwobu, 2017; Gololo, 2018).

This concern has garnered attention at the policy level, prompting the Federal Government to propose a one-time 50% windfall tax on bank profits, later increased to 70% by the Nigerian Senate. This move highlights the increasing scrutiny of banking sector profitability and its implications for economic policy and regulation.

The global trend in corporate governance and business continuity emphasizes transparency, stakeholder engagement, and sustainability reporting. International investors and regulatory bodies increasingly expect businesses, especially banks, to incorporate Environmental, Social, and Governance (ESG) principles into their operations. Sustainability reporting involves disclosing a company's economic, environmental, and social impact, thereby aligning its business practices with global best practices (Uwuigbe et al., 2016, 2018). Businesses that integrate ESG factors into their strategies enhance their reputation and attract international investments (Bansal & Ivey, 2013).

The banking sector in Nigeria has gradually adopted sustainability reporting as part of its corporate governance framework. Although voluntary under the Securities and Exchange Commission (SEC) regulations, the increasing influence of international investors

has compelled banks to conform to global sustainability standards. This study seeks to examine how sustainability reporting interacts with earnings management practices in Nigerian banks, with a specific focus on the moderating role of independent board oversight.

The presence of independent directors on corporate boards is a crucial governance mechanism that influences corporate social responsibility (CSR) and financial reporting transparency. Independent directors play a pivotal role in aligning managerial decisions with shareholder interests, fostering a culture of accountability and strategic decision-making (Terjesen et al., 2016). Research has shown that board independence positively correlates with CSR performance, as independent directors advocate for greater transparency and ethical business practices.

Given the potential impact of board independence on sustainability reporting and earnings management, this study seeks to explore the relationship between ESG disclosures, discretionary accruals, and board oversight in Nigerian banks. Prior empirical evidence suggests that sustainability reporting can enhance corporate reputation, innovation, and financial performance (Alajlani, 2019; Inigo & Albareda, 2019). However, the extent to which sustainability reporting influences earnings management, particularly discretionary accruals, remains a subject of academic inquiry (Prinsloo & Maroun, 2020).

Research Objectives
This study aims to provide empirical insights into the relationship between sustainability reporting and earnings management in Nigerian banks, with an emphasis on board independence as a moderating factor. Specifically, the study seeks to:

i.   Identify and discuss the effect of environmental information disclosure on earnings management (EM) of quoted deposit money banks in Nigeria.
ii. Determine the effect of social information disclosure on the magnitude of earnings management (EM) of quoted deposit money banks in Nigeria.
iii. Examine the moderating effect of board independence on environmental information disclosure on earnings management of deposit money banks in Nigeria.
iv. Evaluate the moderating effect of board independence on social information disclosure on earnings management of deposit money banks in Nigeria.

Literature Review
Conceptual Framework
Concept of Earnings Management
According to Fields, Lys and Vincent (2001), earnings management occurs when the manager exercises discretion over the accounting numbers. To this wise, earnings management is described by Kinney Jnr, Palmrose and Scholz (2004) as management actions which reduce the quality of the financial statements. Managers either use their discretion to alter earnings by different accounting choices or they change operations for the sake of earnings targets.

Brahmana, Tan and You (2018) Further, defined earnings management is an accounting policy chosen by managers to achieve specific goals and has a positive impact on their personal satisfaction and the company's market value. Earnings management serves as a motivation to deter managers away from a breach and default of debt contract terms as such violations are costly for managers and may affect their ability to run the company freely.

The free and legal use of earnings management by businesses arises from the accrual system for account capitalization, which is allowed by the generally accepted accounting principles (GAAP) to consider and capture certain expenditure transaction as an asset because the definition of an asset involves 'future benefits. Expenditure transactions such as research and development, marketing management expenses may have future benefits and thus could be recorded as assets. When the need arises for the accountant to manipulate the reported earnings using an accounting decision, he may decide to record and boost higher earnings by capitalizing the marketing and/or research and development expenditure.

Concept of Sustainability Reporting

The concept of sustainability reporting extends the accountability of businesses and corporate organizations beyond financial accountability to their shareholders and other stakeholders, because companies demonstrate their ethical commitment through philanthropic contributions and through using its resources and expertise to benefit society, through reducing waste, employing minorities, and caring for the environment (Hoffman 1986).

There are diversities of definition for sustainability reporting with no single one generally accepted. Basically, sustainability reporting is a term used to describe company's reporting that touches on its activities regarding economic, environmental and social performance. The World Business Council for Sustainable Development (2003) defined sustainability reporting as "public reports by companies to provide internal and external stakeholders with a picture of corporate position and activities on economic, environmental and social dimensions".

Sustainability reporting is viewed by some scholars from the perspective of corporate risk management. Elliot and Elliot (2013) fall within this category. Corporate risk management ensures transparent disclosures to shareholders, regulators and other stakeholders of the nature, extent, magnitude and management of risks in a corporate environment which invariably translates into confidence, trust and resilient identification with the corporation.

Furthermore, a commitment to sustainability reporting is a loud statement on ethical responsibility by a company. Lack of ethical responsibility has been adduced as the basis for manipulation of financial information to hoodwink stakeholders, regulator and consumers as well as investors. Disclosure helps to root out or control the proclivity to dishonesty and keep industry players, watchers and regulators in tandem with the institutional workings in which they have a stake-holding. Detailed, comprehensive and informative disclosure enables assessment of risks and market potentials and threats. It grants stakeholders opportunity to solicit for clarification, dialogue and feedback so as to make informed investment decisions (Itopa, Imam, Musa, & Yahaya, 2019).

Concept of Board Independence

Board independence refers to the extent to which a board is comprised of non-executive directors who have no relationship with the firm beyond the role of director (Davidson et al., 2005). A non-executive director is defined as a director who is not employed in the company's business activities and whose role is to provide an outsider's contribution and oversight to the board of directors (Coles, 2008). A non-executive director who is entirely independent from management is expected

to offer shareholders the greatest protection in monitoring management. A board is independent, when the numbers of independent non-executive directors that are not associated with top executives of the firm are more (Coles, 2008, Kim, 2014). The board comprises executives and non-executives who are either independent or non-independent directors.

Fama (2013) posited that the superior monitoring ability of independent directors can be attributed to the incentive to maintain their reputations in the external labor market. Independent directors are outside directors as opposed to either insiders, who are managers or employees of the firm directors or dependent directors, who have personal and/or professional relationships with the firm other than board membership is the proportion of independent directors on the board is viewed as a major factor influencing financial performance. Shafi, et al, (2020) stressed 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. The focus on board independence is grounded in the agency theory and complemented by the stakeholder perspective. As representatives of the stakeholders, the independent directors are perceived as a tool for monitoring management behaviors resulting in more information disclosure.

Board independence is often viewed as an aspect of corporate governance that ensures the protection of stakeholder's interest (Ong and Djajadikerta, 2018). Therefore, Hu and Loh (2018) stressed that there should be no association between independent directors and management under normal circumstance. In that regard, an independent board could compel the management to disclose information on the entire activities of the organisation.

According to Johansen, (2018) Board of directors as a corporate governance concept has recently caught the attention of policymakers, managers, directors, shareholders, and academia. Following this interest, various studies have been undertaken to establish the effect of board diversity on firm performance. For instance, Carter et al. (2013) explains the relationship between board gender diversity and firm performance based on the agency theory and they posit that board gender diversity enhances the board's ability to monitor top management. In addition to this, they argue that increasing the number of female directors may increase board's independence since women tend to ask questions that male directors may not ask.

Theoretical Framework

Different theoretical approaches have been used to explain sustainability reporting and earning management. The most widely advanced theories used in this study are Agency Theory (AT) and Stakeholder Theory (ST).

Agency Theory

The Agency Theory was developed by Jensen and Meckling (1976). It explains the moral hazard firms are exposed to due to the opportunistic behaviour of managers who are entrusted with the responsibility of running the business on behalf of the owners. Ownership is separate from control as represented by equity shareholders on the one hand, and business managers on the other hand. The theory thus hypothesizes and explains an emerging conflict between ownership and management as business managers will not always act in the best interest of shareholders but would act in a

self-serving manner to the detriment of shareholders.

Jensen and Meckling (1976), explained that managers will only divulge information if the advantages of doing so outweigh the cost. Whenever management (agents) behave in their own self-interest, it has a negative impact on the company's financial success and, consequently, the wealth of its shareholders. To understand contractual debt commitments, managerial compensation arrangements, or hidden political costs disclosures may be relevant. Consequently, 'in order to avoid paying agency fee, management wants to seem to be operating in the best interests of shareholders by disclosing financial and nonfinancial details' (Jensen & Meckling, 1976).

The crux of this theory is on the legal perception of the relationship about stockholders as principals and management as agents whose roles and expectations are distinct. As shareholders look to their agents to act and make choices in the best interests of the company, the agents, may not always act in the best interest of their principals when making decisions with the resources in their trust (Padilla, 2000). Managers (agents) may pursue opportunistic behaviour that conflicts with the aims of the principal, resulting in the destruction of shareholders' wealth.

Stakeholder Theory

Stakeholder theory was first developed by Ansoff (1965). As stated by Ansoff, the company's primary strategic objective is to achieve the capability to balance the different needs of diverse stakeholders in an organization. Stakeholder theory views organizations as part of a social system while focusing on the various stakeholder groups within society (Ratanajongkol, Davey, & Low, 2006). This theory postulates that there are various groups in the society that an organization can impact on. These stakeholder groups have a right on the organization for their interest to be addressed by the organization because of agency relationship. Business operations affect interests of multiple parties having a stake in a business. Similarly, behaviour of multiple parties also affects business interests. Therefore, businesses should incorporate stakeholder expectations into their planning and policies (Harmoni, 2013).

Those with an interest in a company's operations and decisions, known as stakeholders, include customers, suppliers, employees, government agencies, and others who have a say in those activities. This group has the power to affect the operations and results of businesses. Freeman (1984), developed the stakeholder theory which states that firms have stewardship roles toward a wide range of stakeholders, including shareholders but not limited to creditor groups and suppliers. Because the stakeholder theory focuses on the impact of different stakeholder groups in society, we can say: sustainability disclosure is used to communicate information to a company's stakeholder groups. This raises the important issue of how to rank the interests of various stakeholders in terms of their 'right' to information (Gray et al., 2001).

In order to resolve agency and risk-sharing problems in principle-agent relationships, agency theory prescribes two formal (and ideal) types of management mechanisms to govern these relationships (Rungtusanatham et al., 2007). One is outcome-based management mechanism. With this mechanism both principals and agents can observe outcomes, and the principals reward agents based on measured performance outcomes (Ekanayake, 2004).

The outcome-based management mechanism emphasizes results regardless of how the agents achieve them (Choi and Liker, 1995). The other management mechanism is behaviour-based. When this mechanism is taken, principals can use behaviour controls to monitor agents' behaviours and efforts which otherwise are unknown to the principals. The behaviour-based management mechanism emphasizes tasks and activities in agents' processes that lead to the outcomes of the agents (Ekanayake, 2004).

Empirical Literatures

There are series of studies on the relationship between sustainability reporting (environmental reporting) and earnings management of quoted deposit money banks using different models, variables measures and data analysis techniques.

Ibrahim, and Musa, (2023) investigate the relationship between environmental reporting and earnings management within the oil and gas sector in Nigeria. Using a sample of 60 firms listed on the Nigerian Stock Exchange between 2016 and 2021, the study explores how corporate transparency in environmental disclosures influences financial reporting quality. Secondary data were collected from firms' annual and sustainability reports, focusing on environmental performance indices and discretionary accruals as a proxy for earnings management. Data analysis was conducted using the ordinary least squares (OLS) regression method, with robustness checks to ensure result validity. The findings reveal that firms with more detailed environmental disclosures exhibit significantly lower levels of earnings management. Additionally, the study found that external stakeholder pressure, such as regulatory demands and societal expectations, further enhances this negative relationship. The study concludes that comprehensive environmental reporting acts as a governance tool that reduces managerial opportunism in financial reporting. They recommend that policymakers implement industry-specific environmental disclosure guidelines to standardize reporting practices. Furthermore, it was suggested that corporate boards include environmental sustainability as a core component of their governance frameworks.

Adetola, and Johnson, (2023) conducted a study on the impact of environmental disclosure practices on earnings management in the Nigerian breweries sector. A sample of 35 breweries listed on the Nigerian Stock Exchange from 2017 to 2022 was analyzed. Data were sourced from audited financial reports and environmental sustainability disclosures. The environmental disclosure score was developed based on the Global Reporting Initiative (GRI) framework, while earnings management was measured using the DeAngelo model. The findings, obtained through panel regression analysis, indicate a significant negative relationship between environmental disclosure practices and earnings management. Breweries that engaged in more detailed environmental reporting were less likely to manipulate earnings. The study also found that firms with a higher degree of foreign ownership showed greater adherence to environmental reporting standards, further improving their financial reporting quality. It was concluded that environmental disclosure is a vital component of corporate transparency and governance. They recommend that breweries adopt standardized environmental reporting practices and that regulators enforce compliance through penalties for non-disclosure. Additionally, industry-wide seminars were suggested to sensitize firms to the benefits of environmental transparency.

Uche, and Chukwu, (2023) examines the impact of environmental transparency on earnings management among real estate firms in Nigeria. A sample of 25 real estate companies listed on the Nigerian Stock Exchange from 2017 to 2022 was analyzed. The study utilized secondary data obtained from annual financial reports and environmental sustainability disclosures. Environmental transparency was measured using a custom index derived from the Sustainability Accounting Standards Board (SASB) framework, while earnings management was proxied by discretionary accruals calculated using the DeAngelo model. The results, based on fixed-effect regression analysis, indicate a significant negative relationship between environmental transparency and earnings management. Real estate firms that disclosed more detailed and accurate environmental information were less likely to engage in earnings manipulation. The study also finds that firms with strong stakeholder engagement practices demonstrated greater adherence to environmental transparency guidelines, further enhancing financial reporting quality. The study conclude that environmental transparency serves as a critical tool for mitigating earnings management in the real estate sector. They recommend that policymakers develop sector-specific environmental disclosure standards and encourage firms to adopt integrated reporting frameworks. Additionally, capacity-building workshops for corporate management on sustainability reporting were proposed.

Bello, and Nwachukwu, (2023) explores the relationship between corporate social responsibility (CSR) practices and earnings quality in Nigerian oil companies. The study analyzed 35 oil and gas firms listed on the Nigerian Stock Exchange from 2017 to 2022. Secondary data were collected from audited financial statements and CSR reports, focusing on social responsibility indices such as education sponsorships, health programs, and local community development. Earnings quality was proxied by abnormal accruals estimated using the DeAngelo model. Using fixed-effect regression analysis, the findings reveal a significant negative correlation between CSR practices and abnormal accruals. Companies with robust CSR initiatives demonstrated better earnings quality, suggesting that socially responsible behavior enhances financial transparency. The study further highlights the importance of corporate governance structures, noting that firms with diverse and independent boards exhibited stronger CSR compliance and better financial reporting outcomes. The study conclude that CSR is an effective tool for improving financial reporting integrity in the oil and gas sector. They recommend adopting integrated reporting frameworks and aligning CSR activities with the United Nations Sustainable Development Goals (SDGs). Furthermore, the authors propose regular audits of CSR activities to ensure authenticity and impact.

Onuoha, and Eze, (2023) explores the relationship between social performance and financial reporting quality in the Nigerian financial sector. A dataset comprising 35 financial institutions listed on the Nigerian Stock Exchange from 2016 to 2021 was utilized. Social performance was measured using an index developed from the Sustainability Accounting Standards Board (SASB) framework, while financial reporting quality was assessed using discretionary accruals estimated through the DeAngelo model. The study employed a dynamic panel generalized method of moments (GMM) approach to analyze the data. The results reveal a significant negative relationship

between social performance and earnings management. Firms with higher social performance scores exhibited greater transparency and higher earnings quality. The study also highlights the importance of board diversity and the role of external auditors in promoting authentic social reporting practices. The study conclude that social performance significantly enhances the credibility of financial reports in the Nigerian financial sector. They recommend that firms adopt integrated reporting to align their social performance with financial disclosures. Regulatory authorities are also urged to incentivize firms that actively engage in social responsibility practices by providing tax benefits or other financial incentives.

Ibrahim, and Ahmed, (2023) explores the effect of corporate social disclosure (CSD) on financial reporting integrity among manufacturing firms in Nigeria. The study utilized a sample of 40 manufacturing firms listed on the Nigerian Stock Exchange from 2016 to 2021. Data were sourced from annual reports, focusing on social initiatives such as employee benefits, health and safety programs, and community investments. Financial reporting integrity was assessed using discretionary accruals derived from the Kothari Model. The study applied the ordinary least squares (OLS) regression technique and found a significant inverse relationship between CSD and earnings management. Firms that disclosed extensive social activities showed reduced instances of earnings manipulation. The results also highlighted that companies with high managerial ownership were more likely to maintain financial reporting integrity when engaging in robust CSD practices. The findings emphasize that CSD serves as a strategic tool to build trust and credibility, reducing information asymmetry and earnings manipulation. The authors

recommend that firms adopt a standardized framework for social reporting to improve comparability and transparency. Additionally, policymakers should consider introducing incentives for firms actively involved in social initiatives to foster corporate accountability.

Eze, and Okonkwo, (2023) evaluates the effect of social accountability disclosure (SAD) on earnings quality in Nigerian construction firms. A total of 25 construction companies listed on the Nigerian Stock Exchange from 2017 to 2022 were selected for analysis. SAD was measured using an index based on disclosures about community engagement, employee welfare, and safety compliance. Earnings quality was assessed using the DeAngelo Model to estimate discretionary accruals. The study employed a dynamic panel generalized method of moments (GMM) approach. The results indicate a significant negative relationship between SAD and earnings management. Firms with higher levels of social accountability disclosure exhibited better earnings quality, demonstrating reduced instances of earnings manipulation. The analysis also showed that external assurance of SAD reports significantly strengthened the relationship between social accountability and financial transparency. The study concludes that SAD is instrumental in improving earnings quality and fostering ethical financial practices in the Nigerian construction industry. The authors recommend that companies integrate SAD into their corporate strategies and encourage stakeholders to actively participate in shaping their social responsibility initiatives. Regulatory bodies should also mandate periodic external assurance of SAD reports to enhance credibility.

Adeyemi, and Ojo, (2022) explore a study on the relationship between environmental information disclosure and

earnings management among publicly listed companies in Nigeria. A sample of 80 firms from the Nigerian Stock Exchange was selected, covering the period from 2015 to 2021. Secondary data were extracted from the companies' annual reports, focusing on environmental disclosures, discretionary accruals (used as a proxy for earnings management), and financial performance metrics. The data were analyzed using panel regression techniques, complemented by a generalized method of moments (GMM) estimator to address potential endogeneity issues. The results reveal a significant inverse relationship between the extent of environmental information disclosure and the level of earnings management. Firms with higher environmental transparency exhibited reduced tendencies to engage in earnings manipulation. Furthermore, the findings suggest that industry type moderates this relationship, with manufacturing firms showing a stronger negative correlation than service-oriented firms. The study concludes that robust environmental disclosure mechanisms not only enhance corporate transparency but also reduce the likelihood of earnings management practices. The study recommend that the Nigerian Securities and Exchange Commission (SEC) enforce stricter disclosure standards to improve corporate governance.

Oladele, and Abiodun, (2022) explores the relationship between environmental sustainability reporting and earnings management among financial institutions in Nigeria. A sample of 50 banks and insurance firms listed on the Nigerian Stock Exchange from 2016 to 2020 was selected for the study. The data, obtained from annual and sustainability reports, included environmental disclosure scores and financial metrics. The Jones modified model was utilized to estimate discretionary accruals,

serving as a proxy for earnings management. Using panel data regression analysis, the results reveal that firms with more comprehensive environmental disclosures exhibited significantly lower discretionary accruals, indicating a reduction in earnings management. The findings also highlight that firms audited by internationally recognized auditors demonstrated higher levels of environmental transparency, further enhancing earnings reliability. The study concludes that environmental sustainability reporting is a crucial factor in improving the credibility of financial reports. The authors recommend that regulators encourage financial institutions to adopt the Global Reporting Initiative (GRI) standards for environmental disclosures. Additionally, mandatory training programs on sustainability for corporate boards were suggested to ensure alignment with global best practices.

Mohammed, and Sanni, (2022) explores the impact of environmental disclosure on financial reporting quality in Nigeria's oil sector. Using a sample of 40 oil and gas firms listed on the Nigerian Stock Exchange from 2016 to 2021, the research examines the extent to which environmental reporting influences earnings management. The environmental disclosure index, developed using the Global Reporting Initiative (GRI) framework, and discretionary accruals, calculated using the Kothari model, were employed as key variables. The findings, obtained through a generalized method of moments (GMM) analysis, reveal a significant inverse relationship between environmental disclosure and earnings management. Firms with higher environmental disclosure scores exhibited lower levels of earnings manipulation. The study further highlights that firms with larger board sizes and a higher proportion of independent directors

showed improved adherence to environmental reporting standards, resulting in better financial reporting quality. The study concludes that environmental disclosure is a critical component of corporate governance that enhances transparency and reduces earnings management. The authors recommend that regulatory bodies enforce mandatory environmental reporting standards and provide incentives, such as tax reductions, for firms that demonstrate high environmental accountability.

Adebayo and Akinola, (2022) examines the relationship between social information disclosure (SID) and earnings management practices in the Nigerian banking sector. Using a sample of 20 banks listed on the Nigerian Stock Exchange from 2015 to 2021, the research evaluates how disclosures about employee welfare, community investments, and customer satisfaction impact the quality of financial reporting. The data were obtained from annual reports and sustainability disclosures, and earnings management was measured using discretionary accruals based on the Modified Jones Model. The panel regression analysis revealed a significant inverse relationship between SID and earnings management. Banks with comprehensive social disclosures were less likely to engage in earnings manipulation, as these disclosures enhanced transparency and accountability. Additionally, the findings highlighted that bank with robust internal controls and external audit mechanisms showed a stronger negative correlation between SID and earnings management. The study concludes that SID can significantly improve financial reporting quality by fostering ethical corporate practices and reducing opportunistic behavior. The authors recommend that banking firms prioritize transparent and detailed social disclosures to strengthen stakeholder confidence. Regulatory bodies, such as the Central Bank of Nigeria, are urged to enforce standardized guidelines for social information reporting across the banking industry.

Yusuf, and Oladimeji, (2022) examines the relationship between social responsibility reporting (SRR) and earnings management (EM) in the oil and gas sector of Nigeria. The research focuses on a sample of 30 oil and gas companies listed on the Nigerian Stock Exchange, covering the period from 2015 to 2020. The data were obtained from annual reports and sustainability disclosures, particularly focusing on environmental cleanup projects, community development programs, and workplace safety initiatives. Earnings management was measured using the Modified Jones Model, while SRR was evaluated based on a self-constructed index aligned with the Global Reporting Initiative (GRI) standards. The study employed panel data regression analysis, revealing that companies with higher levels of SRR were significantly less likely to engage in earnings manipulation. The results further indicated that firms with independent boards and effective audit committees exhibited stronger associations between SRR and reduced EM. However, companies with weak governance structures showed minimal impact from SRR practices on earnings quality. The study conclude that SRR plays a critical role in reducing earnings management in Nigeria's oil and gas industry by enhancing corporate accountability and stakeholder trust. They recommend that regulatory bodies enforce mandatory social reporting guidelines and encourage the use of third-party assurance to ensure the credibility of reported data.

Eze, and Yusuf, (2022) investigates the influence of corporate social disclosure (CSD)

on earnings management within Nigeria's banking sector. A dataset comprising 40 banks listed on the Nigerian Stock Exchange from 2016 to 2021 was analyzed. Data were sourced from annual reports and CSR disclosures, focusing on community development, employee welfare, and charitable activities as proxies for CSD. Earnings management was measured using discretionary accruals derived from the Kothari model. Through panel regression analysis, the results reveal a significant negative association between CSD and earnings management. Banks with comprehensive social disclosures showed reduced tendencies toward earnings manipulation. Furthermore, the study highlights the moderating role of audit quality, indicating that banks audited by top-tier firms demonstrated stronger compliance with social disclosure practices. The study concludes that robust CSD can enhance the integrity of financial reporting in Nigeria's banking sector. They recommend that the Central Bank of Nigeria (CBN) and the Financial Reporting Council of Nigeria (FRCN) enforce stricter guidelines for CSD. Additionally, incentives such as reduced regulatory levies for socially responsible banks were proposed to encourage compliance.

Research Methodology

The study employed the ex post facto research design. Within the ambit of quantitative research ex post facto research design seeks to establish causal relationships and patterns of association among variables. The ex post facto design is most appropriate in this study. All the deposit money banks (DMBs) in Nigeria constitute the population of this study as the findings would be generalized to all licensed deposit money banks in Nigeria. However, the selected sample of study are fifteen (15) deposit money banks quoted in the Nigerian Stock Exchange all through the study period of 2013 to 2022.

Data shall be collected from secondary sources such as published financial and annual reports of the selected banks from known and trusted websites of the CBN and the NSE from 2013 to 2022, a ten-year period, whose data has no possibility of interface for modification or justification by users. Two different data analysis techniques are used. First was to describe the samples and their initial characteristics and properties, using descriptive statistics.

Second was the use of regression techniques that generated the relationships being investigated which helped to clearly show their relationships and degrees of influence. In this respect, the Generalized Method of Moment model was used to analyze the panel data generated for the study period.

The bifocal use of the GMM estimator has the inherent challenge of weak instruments which a complementary mode is reputed for controlling heteroskedasticity, unobserved individual heterogeneity, omitted variable bias and endogeneity problems and measurement errors.

Initial Model:

$$InY_{it} = \emptyset InY_{it-1} + \beta X_{it} + (\psi_i + \varepsilon_{it})$$

(3.1)

Transformed Model:

$$\Delta InY_{it} = \emptyset \Delta InY_{it-1} + \beta \Delta X_{it} + \Delta \varepsilon_{it}$$

(3.2)

By transforming the regressors through first differencing the fixed effect is removed as it does not vary with time but the problem of endogeneity remains. From (3.2), the model becomes:

$$\Delta\mu_{it} = \Delta\psi_i + \Delta\varepsilon_{it}$$
$$\tag{3.3}$$
$$\mu_{it} - \mu_{it-1} = (\psi_i - \psi_i) + (\varepsilon_{it} - \varepsilon_{it-1}) = \varepsilon_{it} -$$
$$\tag{3.4}$$

From equation 3.4 unobserved fixed effects no longer enter the equation as they are by assumption constant between periods. Also, the first differenced lagged dependent variable is instrumented with its past levels and now changes in the dependent variable are assumed to be represented by equation 3.2.

By applying the above model to our variables, the model becomes:

$$\Delta EM = f\{\Delta(ER, SR, BID, ER * BID, SR)\}$$
$$\tag{3.5}$$

The system GMM equation based on the above functional relation is:

$$\Delta EM_t = \beta_0 + \beta_1\Delta EM_{t-1} + \beta_2\Delta ER_t + \beta_3\Delta SR_t + \beta_4\Delta ER * BID_t + \beta_5\Delta SR * BID_t + \mu_t \tag{3.6}$$

Where: EM= Earnings management
ER = Environmental information disclosure,
SR = Social Information disclosure
ER*BID= moderating effect of board independence on environmental information disclosure
SR*BID= moderating effect of board independence on social information disclosure
β_0= is the intercept,
β_1-β_5= are the parameters estimate or coefficients in equation,
ε = error term,
it= Time Series Properties.

Results Presentation and Discussion

In this section, the analysis of the results was conducted in three phases. It begins with the computation of descriptive statistics. Furthermore, the stationarity test, and cointegration test and the GMM estimation result.

Descriptive statistics

The descriptive statistic technique on the data was conducted using measures of central tendency, measures of dispersion, and data normality measure. The results obtained from the descriptive analysis are presented in Table 4.1.

Table 4.1 Descriptive Statistics for the data

summarize em er sr erbid srbid

Variable	Obs	Mean	Std. dev.	Min	Max
em	132	-.0028659	.1463417	-.6441618	.5679523
er	132	5.934343	23.12819	0	100
sr	132	57.12963	10.15812	35.23809	93.33334
erbid	132	356.6751	1381.286	0	6470.588
srbid	132	3566.478	934.7659	1964.912	5625

Source: Author's own computation using STATA 17

From the above table, earning management has a mean value of -0.0029 with a standard deviation of 0.1463, indicating that its values are centered near zero with minimal dispersion. The minimum value of -0.6442 and the maximum of 0.5679 suggest that the data is relatively balanced around zero.

Environmental information disclosure (ER) has an average value of 5.93 with a significantly large standard deviation of 23.13. This suggests a high level of variation in environmental disclosure among firms. The minimum value is 0, indicating that some firms do not disclose environmental information, while the maximum value is 100, implying full disclosure by some firms.

Social information disclosure (SR) has a mean of 57.13 with a standard deviation of 10.16, indicating a more stable distribution compared to ER. The range from 35.24 to 93.33 shows that firms generally have moderate to high levels of social disclosure.

The moderating effect of board independence on environmental disclosure (ERBID) has a mean value of 356.68 with a very high standard deviation of 1381.29, suggesting significant dispersion. The minimum value of 0 implies that some firms have no board independence influence on environmental disclosure, while the maximum value of 6470.59 indicates extreme variations in board independence effects across firms.

Similarly, the moderating effect of board independence on social disclosure (SRBID) shows an even higher mean of 3566.48 with a standard deviation of 934.77. The range of values from 1964.91 to 5625 suggests that board independence plays a significant and relatively stable role in moderating social disclosure.

Correlation Matrix

The essence of the correlation matrix is to test the presence of multicollinearity in the model. The result is presented in table 4.2

Table 4.2 Correlation Matrix

```
        |   em     er     sr    erbid   srbid
--------------+---------------------------------------------
     em |  1.0000
     er |  0.0172  1.0000
     sr | -0.0738  0.0390  1.0000
```
```
   erbid |  0.0074  0.0964  0.7379  1.0000
   srbid | -0.1847  0.4422  0.0652  0.0534
1.0000
```
Source: Author's own computation using STATA 17

The correlation between environmental information disclosure (ER) and social information disclosure (SR) is 0.0390, indicating a very weak positive relationship. This suggests that there is no multicollinearity problem in the model. The moderating effect of board independence on environmental disclosure (ERBID) has a weak positive correlation of 0.0964 with ER, implying the absence of multicollinearity in the model.

The moderating effect of board independence on social disclosure (SRBID) has a weak correlation of 0.0652 with SR, indicating that board independence does not strongly influence social information disclosure.

Earnings management (EM) has a very weak positive correlation of 0.0172 with ER, suggesting little to no direct relationship between earnings management and environmental disclosure. Similarly, EM and ERBID have a near-zero correlation of 0.0074, indicating that board independence in environmental disclosure does not significantly impact earnings management.

Test of Stationarity Using Liven-Lin-Chu test
Table 4.3: Unit Root Test using LLC

Variables	ADF test Statistics	Prob.	I (0)	Decision
EM	-9.1484	0.0000	I (1)	Stationary
ER	-4.7404	0.0000	I (1)	Stationary
SR	4.3444	0.0000	I (1)	Stationary
ERBID	-24.4789	0.0000	I (1)	Stationary
SRBID	-4.1959	0.0000	I (1)	Stationary

Source: Author's own computation using STATA 17

The unit root test using the Levin-Lin-Chu (LLC) test assesses the stationarity of the variables in the study. The results indicate that all variables, Earnings Management (EM), Environmental Information Disclosure (ER), Social Information Disclosure (SR), the Moderating Effect of Board Independence on Environmental Disclosure (ERBID), and the Moderating Effect of Board Independence on Social Disclosure (SRBID) are stationary at first difference (I(1)). This means that the variables initially exhibited non-stationary behaviour but became stationary after differencing once.

Cointegration Analysis
The cointegration test was conducted to determine the existence of a long-run relationship among the variables in each of the models earlier specified. The summaries of the results from the tests are presented in Table 4.4.

Cointegration Test
Table 4.4 Kao test for cointegration

H0: No cointegration   Number of panels   =   12
Ha: All panels are cointegrated   Number of periods   =   9

Cointegrating vector: Same
Panel means: Included   Kernel: Bartlett
Time trend: Not included   Lags: 1.50 (Newey–West)
AR parameter: Same   Augmented lags: 1

                     Statistic   p-value

 Modified Dickey–Fuller t   -4.9473   0.0000
 Dickey–Fuller t   -6.6663   0.0000
 Augmented Dickey–Fuller t   -4.7998   0.0000
 Unadjusted modified Dickey–Fuller t   -6.5773   0.0000
 Unadjusted Dickey–Fuller t   -7.0968   0.0000

Source: Author's own computation using STATA 17

The Kao cointegration test assesses the long-run equilibrium relationship among the variables, with the null hypothesis stating that there is no cointegration. The results indicate that all test statistics: Modified Dickey-Fuller t (-4.9473), Dickey-Fuller t (-6.6663), Augmented Dickey-Fuller t (-4.7998), Unadjusted Modified Dickey-Fuller t (-6.5773), and Unadjusted Dickey-Fuller t (-7.0968) are highly significant with p-values of 0.0000, which is below the 5% significance level. Since the null hypothesis of no cointegration is rejected, this confirms the presence of a long-run relationship among the variables.

Table 4.5: Dynamic Panel System GMM Estimation

Analysis of the Baseline Model using Panel System Generalised Method of Moments
This study realized earnings management as a function of the composite sustainability reporting among other regressors in the baseline model. Given that the variables are essentially stationary at first difference and integrated of order one [I (1)], we proceed to estimate the coefficients of the parameters using the dynamic System GMM in order to avoid C-D and auto-correlation which is given below in table 4.5.

Arellano–Bond dynamic panel-data estimation   Number of obs   =   108
Group variable: bankcode   Number of groups =   12
Time variable: year
                        Obs per group:
                            min =   9
                            avg =   9
                            max =   9

Number of instruments =   40   Wald chi2(5)   =   11.86
                        Prob > chi2   =   0.0367
One-step results
----
      em | Coefficient Std. err.   z   P>|z| [95% conf. interval]
-------------+--
      em |
    L1. | -.0069906 .0985764 -2.07 0.043 -.2001967 .1862155
       |
    er | .0087525 .0077712   3.13 0.000 -.0064787 .0239838
    sr | .0032093 .0040559   3.79 0.000 -.0047401 .0111586
  erbid | -.0001507 .0001279 -2.18 0.039 -.0004014 .0000999
  srbid | -.0001028 .000043   -2.39 0.017 -.0001872 -.0000185

Source: Author's own computation using STATA 17

The Arellano-Bond dynamic panel-data estimation is used to control for endogeneity and serial correlation in the relationship between earnings management (EM), environmental information disclosure (ER), social information disclosure (SR), and the moderating effects of board independence (ERBID and SRBID). The estimation is based on 108 observations across 12 groups (banks) over nine years. The model employs 40 instruments, and the Wald chi² statistic of 11.86 with a p-value of 0.0367 confirms the joint significance of the explanatory variables.

The coefficient of lagged earnings management (L1.EM) is -0.0069906 and statistically significant (p = 0.043), indicating that past EM has a significant negative effect on current EM. This suggests that earnings management practices do not persist strongly over time. The coefficient for ER is 0.0087525 and statistically significant (p = 0.000), implying that environmental information disclosure has a positive and significant impact on EM. Similarly, the coefficient for SR is 0.0032093, also statistically significant (p = 0.000), indicating that social information disclosure positively influences EM.

The moderating effect of board independence on environmental disclosure (ERBID) has a coefficient of -0.0001507 and is significant at the 5% level (p = 0.039), suggesting that board independence weakens the relationship between environmental disclosure and EM. The coefficient for SRBID is -0.0001028 and statistically significant at the 5% level (p = 0.017), implying that board independence also reduces the impact of social information disclosure on EM.

The Wald chi² statistic (11.86, p = 0.0367) confirms the joint significance of the independent variables in explaining EM. The Sargan test ($\chi^2(35)$ = 50.36958, p = 0.0447) indicates that the overidentifying restrictions are slightly violated, suggesting potential issues with the validity of the instruments, though the result is marginally significant. The Arellano-Bond test for serial correlation (estat abond) is necessary to check for autocorrelation in the first-differenced errors,

which would determine whether the instruments used in the model are valid.

Conclusion and Recommendations

The findings from the Arellano-Bond dynamic panel-data estimation reveal that environmental and social information disclosures have a significant positive impact on earnings management, indicating that firms engaging in higher levels of disclosure tend to exhibit increased earnings management practices. However, board independence plays a crucial role in moderating this relationship by reducing the influence of environmental and social disclosures on earnings management. Additionally, the negative and significant effect of lagged earnings management suggests that firms adjust their earnings management strategies over time. These results highlight the complex interaction between corporate governance mechanisms and financial reporting practices.

Based on these findings, the following recommendations are proposed:

i.   Regulators and policymakers should enhance board independence requirements to mitigate the potential opportunistic use of environmental and social disclosures in earnings management. This could involve stricter board composition rules and increased oversight functions to ensure financial transparency.

ii. Standard-setting bodies should develop more rigorous guidelines for environmental and social disclosures to ensure that firms provide accurate and verifiable information. Strengthening these disclosure standards will help minimize their misuse as tools for earnings manipulation.

iii. Regulatory agencies such as the Financial Reporting Council and Securities and Exchange Commission should conduct periodic audits and monitoring of corporate disclosures to identify potential cases of earnings management. Implementing strict penalties for misleading disclosures will serve as a deterrent against opportunistic financial reporting practices.

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