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FIRM ATTRIBUTES AND EARNINGS MANAGEMENT OF FIRMS IN NIGERIA

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K E Y W O R D S

Earnings management, Accounting manipulation, Firm attributes, Accruals and Firm strategies

A B S T R A C T

The study assessed the effect of firm characteristics on earnings management of quoted oil and gas firms in Nigeria. To achieve the objectives of this study, the entire 12 oil and gas companies listed on the Nigerian Exchange Market were analyzed for the study. The annual financial reports of the different firms for the period 2018 – 2023 were used for the study. In testing the research hypotheses, the study adopted the use of the Ordinary Least Square (OLS) regression model for the sampled listed firms. Findings from the study revealed that firm size and firm corporate strategy have non-significant impact on earnings management (which is represented by discretionary accruals). However, the findings also revealed that there is a significant relationship between financial leverage and discretionary accruals of the Nigerian firms considered in the sample. The study concludes that large firms tend to have higher incentives and more prospects in engaging in the manipulation of earnings and inflation earning figures due to the complexity of their operations and inherent intricacies for users to identify overstatement. However, the study recommends that potential investors should watch out for red flags associated with earnings management in small firms since small firms may likely indulge in earnings management as compared to larger firms since regulatory authorities don not beam their search light on them as compared to larger firm.

Introduction

The broad aim of modern accounting financial statements is to provide information for informed financial decisions and judgments. To this end, information for this purpose is usually presented in financial statements such as the income statement and the balance sheet. Management makes use of accounting information to take decisions in relation to investment; however, investors make use of same accounting information in valuation of stock (Musa, Idris & Kwakipi, 2019). Financial reporting is a communication system that involves the firm management as the preparer, the investors and creditors as primary users, and other secondary users such as the government authorities and the general public (Olowokure, Tanko & Nyor, 2016).Financial statements should always provide reliable information to assist users in decision making. The statement should contain relevant, reliable, comparable and understandable information (Kenny & Luqman, 2019)

The idea of earnings management is to show progressive earnings quality that could live up to either the requirement of obtaining relevant authorisation from regulators, or the shareholders' expectation (Isam, Malik & Fadi, 2020). Cheng, Liu and Cheng (2016) mentioned that, in order to provide a channel for the managers of corporations, they would need flexibility in reporting, which could negatively impact earnings quality and its utility in the decision-making process. However earnings quality has been an issue of concern in the corporate business world, most especially deposit money banks. The truthfulness or fairness of earnings reported in corporate organizations has been something not totally reliable due to some unethical practices by entities' management (Siyanbola, Ogbebor, Okeke & Okunade, 2019).

According to Uwuigbe (2013), a corporate failure over the years and its attendant negative economic effects it has left in its trail has brought to bear the need to investigate into the art of earnings management. The issue of earnings management has caused mis-understanding among controllers, bookkeeping experts, monetary supervisors and specialists in their attempts to discover answers to causes of unprecedented corporate failures. This is especially the case in both developed and developing economies where regardless of the seemingly different administration structures and systems set up by most countries, cases of corporate malpractices still remain prevalent. In addition, cases of misappropriation of funds and falsification of reports to suit and satisfy management interest have remained unprecedented and unabated.

Despite the existence of audit committees which serves as monitoring agents in reviewing audited and unaudited financial statements of organizations, there were still a lot of corporate failures. The revelations of unethical accounting behavior by members of board of directors of big corporations around the world which ultimately led to the collapse or takeover of many companies have raised many questions about the credibility of accounting profession and the effectiveness of governance structures meant to enhance corporate governance. In Nigeria, the incidence of creative accounting and window dressing practices have brought about corporate scandals and/or failures resulting of companies such as Cadbury, Lever Brothers, Oceanic Bank, Afribank, Intercontinental Bank etc (Otuya, Donwa & Egware, 2017). In most of the Nigerian scenarios, the crux has always been financial scandals bordering on cooking the books in order to mislead the gullible stakeholders. This has thus drawn increasing attention to the corporate financial reporting in both developing and advanced economies. Studies on the subject matter in oil and gas quoted firms are relatively few. Hence, a contribution to knowledge in this regards.

The main objective of this study is, therefore, to empirically investigate the effect of firm characteristics on earnings management. The following null hypotheses are hereby raised:

1. Firm's corporate strategy has no significant impact on earnings management of oil and gas firms in Nigeria.
2. Firm size has no significant impact on earnings management of oil and gas firms in Nigeria.
3. Firm leverage has no significant impact on earnings management of oil and gas firms in Nigeria.

2.Literature Review

2.1 Conceptual Clarifications

According to Uwalomwa, Uwuigbe and Ranti (2015), the term 'earnings management' embodies a wide range of accounting techniques used by management to achieve a specific earnings objective. There is no single accepted definition of earnings management; accounting literature has, however, provided various practical definitions. Ikumapayi, Uwuigbe, Uwuigbe and Ozordi (2018) described earnings management as the modification in entities reported underlying economic performance by management for the purpose of obtaining undue advantage for a contractual event. Earnings management is a mechanism used by corporate managers to intentionally alter financial statements' results, that is to say, income statement, statement of financial position and statement of cash flows, in some desired amount and/or some desired direction with the view to systematically misrepresent the true income and assets so as to mislead some stakeholders or to influence contractual outcomes (Otuya, Donwa & Egware, 2017). However, Akers, Giacomino and Bellovary (2007) and Uwuigbe, Uwuigbe and Daramola (2014) described it as efforts of management to control reported profit by utilizing certain bookkeeping strategies or evolving systems, perceiving non-repeating things, conceding or accelerating costs or income, or utilizing different methods intended to impact short-term earnings. Cornett, Marcus and Tehranian (2008) on their part, described it as an anticipatory step to avoid an in-default situation in a loan agreement, reduce the regulatory post and increase the regulatory benefit. Thus, it is an intentional structuring of reporting or production/investment decisions around the bottom line, for example, wage smoothing. Accounting earnings management(AEM) includes the way accounting standards are applied to record given transactions and events, whereas real earnings management (REM) changes the timing or the structuring of actual transactions (Ekpulu & Omoye, 2018).

2.2 Empirical Review

Mohammad (2020) found a positive relationship between board sizes and EM through discretionary accruals, however, there was no relationship between independence and segregation of duties, and that EM through discretionary accruals and board size mediates the association between corporate governance structure and

EM through discretionary accruals. Efuntade and Akinola (2020) examine the impact of firm characteristics on the financial performance of quoted manufacturing firms in Nigeria. Findings showed that all the independent variables jointly and strongly have impact on the financial performance of manufacturing firms in Nigeria measured by return on assets. They concluded that the explanatory variables (Firm Age, Firm Size, Sales Growth, Liquidity and Leverage) were significantly associated with the dependent variable (Return on Asset).

The study by Khaldoon, Ahmad and Wei (2019) showed that EM increased after the adoption of IFRS. However, there is no relationship between board size and earnings management before and after the adoption of IFRS but board independence has significantly decreased the earning management after the adoption of IFRS in China. Musa, Idris and Kwakipi (2019) examined the effect of characteristics of firm from viewpoint of structure of firm, structure of board, structure of performance and structure of ownership variables on quality of financial reporting in quoted Industrial goods companies in Nigeria for the period of 2011-2018.Multiple regression technique was used as analysis tool. Firm size, leverage, firm age and women directors were established to have significant and negative effect on real earnings manipulation of quoted Industrial goods companies in Nigeria. These does imply that the variables improve the financial reporting worth of companies. Furthermore, board meetings and profitability significantly but positively influence the worth of financial reporting of companies, however, liquidity, growth and ownership structure proxies have weak influence on the financial reporting worth.

Kenny and Luqman (2019) revealed that firm size has positive significant effect on financial reporting quality. Tangibility has negative significant effect on audit financial reporting quality. Firm's profitability has also been argued to have a positive influence on the quality of financial reporting while firm growth has negative significant effect on financial reporting quality. Hence large firms tend to produce high quality financial reports; this should be encouraged among firms. This study also revealed that highly profitable have high financial reporting. Siyanbola, Ogbebor, Okeke and Okunade (2019) examined the effect of Corporate Governance on Reported Earnings Quality in Nigerian deposit money banks. The study found board size having a positive and insignificant relationship with earnings quality; a negative and insignificant relationship between board independence and earnings quality; a positive and significant relationship between foreign directors on board and earnings quality; and also a negative and insignificant relationship between firm size and earnings quality.

Hope and Kemebradikemor (2019) examined the influence of board characteristics on financial reporting quality of quoted manufacturing firms. The study used multi-method quantitative design and Generalized Linear Model was employed to test the hypotheses formulated. The findings revealed board independence as well as board diversity to have significant influence on financial reporting quality at 5 percent significance level. Manukaji (2018) studied Corporate Governance and Income Smoothing in the Nigerian Deposit Money Banks. It was demonstrated that board size is not effective in monitoring income smoothing. However, the study revealed a significant relationship between corporate governance and income smoothing in Nigerian deposit money banks.

Majiyebo, Okpanachi, Nyor, Yahaya and Mohammed (2018) used audit committee independence and audit committee size as proxies for corporate governance. The study found audit committee independence negative but significantly affecting financial reporting quality of listed deposit money banks in Nigeria. However, audit committee size exhibited no significant effect on the financial reporting quality of listed deposit money banks in Nigeria. Olaoye and Adewumi (2018) found the engagement of the service of reputable audit firms having a positive but insignificant effect on the earnings management of the sampled banks while board size exhibited negative and insignificant effect on their earnings management. However, independent directors on the board and leverage have a negative but significant effect on earnings management of Deposit Money Banks in Nigeria.

Bala and Kumai (2015) carried out a study to examine the influence on board characteristics and earnings management of listed food and beverages firms in Nigeria. The study covered the period of six years between 2009 and 2014. Data for the study were extracted from the firms' annual reports and account. The study adopted the multiple regression method for the analysis of sample data. The results from the analysis revealed negative relationship between board financial expertise, board meetings and board size, and earnings management of listed food and beverages firms in Nigeria, on the other hand, women directorship, board composition, are positively significantly related to earnings management of listed food and beverages firms in Nigeria.

2.3.Theoretical Framework

The theory underpinning this study is the agency theory. The agency theory was propounded by Jensen and Meckley (1976). Agency theory is a useful economic theory of accountability that explains the development of the audit. Agency theory posits that agents have more information than principals and that this information asymmetry adversely affects the principals' ability to monitor whether or not their interests are being properly served by the agents (Casterella, Jensen, & Knechel, 2007). The theory is based on the belief that the agent will be driven by self-interest rather than the desire to maximize the profits for the principal. Auditors serve to reduce agency costs by reducing this information asymmetry. The theory implies entrusting resources to the agent and in turn these agents must usually produce a quality report regarding the use of resources both in quantitative and qualitative manner in reducing the level of fraudulent financial reporting. There is considerable information asymmetry between the agent and the principal so as to reduce the incidence of earnings management.

3.Methodology

The research design that was adopted for this study is expo-facto research design. This examined the relationship between firm characteristics and earnings management for the period of 2018 to 2023. The research population for the study consisted the entire 12 oil and gas firms quoted on the Nigerian Exchange Market. Since the population size of the study is small, the entire population of the study therefore constitutes the sample size of the study.

Model Specification

The study adapted the model of Uwuigbe *et al.* (2014). Following the regression models as remodified from the prior studies is specified for this study and presented below: The regression model with an error term (ε_t) is specified in econometric form as shown below:

EM_{it}= F ($FSZE_{it}$, LEV_{it}, $CSTRAT_{it}$, μ_{it}) …………………………………………(1)

The robust model can be written as

$EM_{it} = \beta_0 + \beta_1 FSZE_{it} + \beta_2 LEV_{it} + \beta_3 CSTRAT_{it} + \mu_{it}$ ……………………………..(2)

Where:

EM= Earnings management

FSZE = Firm size

LEV = Leverage

CSTRAT = Corporate Strategy

β = coefficient of parameter

$_{it}$= Time coefficient

μ = error term

A priori specification: The expectations are such that $\beta 3 < 0, \beta 1 > 0$ $\beta 2 > 0$.

Measurement and Operationalization of Variables

Dependent Variable

The dependent variable in this study is earnings management and it was measured by discretional accruals (DAC). This is because, the estimation of the scope of earnings management is better established with accrual models though the use of discretionary line items is best used for accuracy in the detection of earnings management. Also, this approach makes it easier to manage earnings via credit sales than cash collections. In addition, it is also in an attempt to control for the endogeneity bias in the original data. More so, according to Uwuigbe *et al.* (2014) and Uwuigbe *et al* (2012), indicated that this approach is one of the most famous and most frequently used models in detecting earnings management. It is on the basis of this that the modified Jones model of estimating discretional accruals was used.

Independent Variables

The independent variables for this research are

FSZE = Firm size; measured as the log of total assets. Uwuigbe *et al* (2012).

LEV = Leverage; measured as the cost of debt. The Value is calculated as total debt to total assets. This measures the value of total asset acquisition, financed by debts. Uwuigbe *et al.* (2014).

CSTRAT = Corporate Strategy; measured based on growth strategy. It is measured as the growth of total asset which is total asset$_t$ less total asset$_t$-1/total asset$_{t.}$ .Stoway and Teeban (2019).

Method of Data Analysis

The data will be analyzed using the Ordinary Least Square regression method to test the validity of the hypotheses before the decision rule will be applied. The analysis was carried out using Eview 7.0 statistical software.

4.Data Presentation and Analysis

Table 1: Descriptive Statistics

	DAC	FSIZE	LEV	CSTRAT
Mean	2296372	27349064	0.583961	56512482
Standard Error	17691007	3583465	0.028507	14157329
Median	-363347	12623797	0.615	13180711
Std Deviation	1.5E+08	30406713	0.241886	1.2E+08
S. Variance	2.25E+16	9.25E+14	0.058509	1.44E+16
Kurtosis	31.0834	5.111748	-0.80935	36.42865
Skewness	0.801976	1.794824	-0.26387	5.405505
Minimum	-8.2E+08	1329065	0.0732	100405
Maximum	9.06E+08	1.67E+08	1.051	9.1E+08

Source: Authors' computation using Eview 7.0 (2025)

The mean for DAC has a mean value of 2296372 and a standard deviation of 1.5E+08 implies that a considerable dispersion from mean. Firm size has the mean value of 27649064 this implies that firms across the sample have an average value of 27349064. Firm size has a standard deviation of 30406713 implies a dispersion from the mean. Leverage has a mean value of 0.58 shows that on the average firms' debt funds are above the board 60%. Leverage has a standard deviation of 0.24 this implies that there is a cluster around the mean. Corporate strategy has a value of 56512482 this implies that growth on the average among firs is about fifty-six million naira.

The Kurtosis statistics reported small Skewness values and their associated are significant. The implication of this is that the regression variables are all normally distributed. DAC reported a 31.0(0.01); FSIZE 5.7(1.70) LEV -0.8(-0.2 and CSTRAT 36.5 (5.5), respectively. The result shows that variables are positively skewed and the positive value of the kurtosis signifies that the regression variables are peaked than the Gaussian distribution. With kurtosis value greater than 3, this implies that the variables displayed a Leptokurtic distribution except LEV that reported kurtosis values of -0.2 which represents a Platykurtic distribution.

Table 2: Correlation Statistics

	DAC	*FSIZE*	*LEV*	*CSTAT*
DAC	1			
FSIZE	-0.01662	1		
LEV	0.02224	0.248119	1	
CSTAT	0.001126	0.334177	0.27428	1

Source: Authors computation using Eview 7.0 (2020)

The correlation analysis reported a mixture of positive and negative correlation. The correlation between DAC and FSIZE is negative with coefficient is relatively small (-0.016) this relationship is weak. DAC is reported to be positively correlated with LEV and CSTRAT with coefficient of value 0.022, and 0.0011 respectively. This relationship is weak. Finally, CSTAT displayed positive correlation with FSIZE and LEV with correlation coefficients of 0.33 and 0.24 respectively. Since the correlation among independent variables is weak we can conclude that the presence of autocorrelation is unlikely.

Interpretation of Data

Table 3: Regression Result

Regression Statistics	
Multiply R	0.669502
R Square	0.448233
Adjusted R Square	0.415292
Standard Error	1.15E+08
Observations	72

	Coefficients	*S. Error*	*t Stat*	*P – Value*	*Lower 95%*	*UP 95%*
Intercept	-8611569	72478787	-0.11882	0.905777	-1.5E+08	1.36E+08
FSIZE	0.122108	0.456313	0.267597	0.789831	-0.7887	1.032913
LEV	1.58E+08	60757843	2.597739	0.011527	36559871	2.79E+08
STRAT	-0.88809	0.120629	-7.36211	0.0010	-1.12886	-0.64731

Source: Authors' computation using Eview 7.0 (2025)

A close examination of the ordinary least square regression result in table 4.3.1 shows that the coefficient determination (R. Squared) stood at 0.45 indicating that

45% of the systematic variations in dependent variable is explained by the variations in the explanatory variables in the model. The adjusted R (squared- bar) after adjusting for the loss in the degrees of freedom stood at 0.41. This shows that 41% of the systematic variation in dependent variable is explained by the variation in the explanatory variables. 59% of total systematic change in dependent variable could be accounted for by the model, hence captured by the stochastic error term.

On the basics of the overall statistical significant of the model as indicated by the F- statistics value, the model is statistically significant since the calculated F-statistics value is approximately 2% though not encouraging but significant at 5% level of significance.

FSIZE has a positive but insignificant relationship with earnings management with a value of t-0.27 and p-value of 0.79 at 5% level of significant. This means earnings management does not depend on size of the firm. Leverage was found to have positive relationship with earnings management ($t=2.6$ $p=0.012<0.05$) this implies that the higher the debt funding of Nigerian the higher the tendencies manipulate earnings. Finally corporate strategy exhibit a negative relationship with earnings management ($t=-7.36$, $p=0.00<0.05$)

Test of Hypothesis

The following hypotheses were specified for the purpose of the study.

H1: There is no significant relationship between firm corporate strategy and earnings management

From the evaluation of the regression result in table 1, the slope coefficients of the explanatory variables revealed the existence of negative relationship between earnings management and firm corporate strategy as depicted by the slope coefficient of -0.8809. The result is however significant as the p-value of at 5% ($p<0.05$). Consequently, the null hypothesis (H_0) which states that there is no significant relationship between firm corporate strategy and earnings management should be rejected.

H2: There is no significant relationship between firm size and earnings management

From the evaluation of the regression result in table 1, the slope coefficients of the explanatory variables revealed the existence of positive relationship between earnings management and firm size as depicted by the slope coefficients of 0.122108. The result is however not significant as the p-value of 0.789831 is greater than the critical p-value of at 5% ($p>0.05$). Consequently, the null hypothesis (H_0) which states that there is no significant relationship between firm size and earnings management should be accepted.

H3: There is no significant relationship between firm leverage and earnings management

From the evaluation of the regression result in table **4.3.1**, the slope coefficients of the explanatory variables revealed the existence of positive relationship between earnings management and firm corporate strategy as depicted by the slope coefficient of $1.58 x 10^8$. The result is however significant as the p-value of 0.011527 is less than the critical p-value of a 5% ($p<0.05$). Consequently, the null hypothesis (H_0) which states that there is no significant relationship between firm leverage and earnings management should be rejected.

Discussion of Results

From the results of this study, it was revealed that there is a negative and statistically significant relationship between earnings management and firm corporate strategy. This implies that growth of the oil and gas sector of the nation negatively influence the preparation of financial statement.

The study also shows that there is no significant relationship between firm size and earnings management. This implies that firm size is not a significant firm characteristic in determining earnings management of oil and gas sector of the nation. This result supports that of Aries (2015) who found a positive non significant relationship between firm size and earnings management of the oil and gas sector.

From the result, it was also observed that firm leverage significantly reduces earnings management. This goes to say that the firm's debt funds over the study period positively influence the earnings management of the oil and gas sector of the Nigerian economy. This finding of Aries (2015) support this study as his study shows a positive non significant relationship between firm leverage and earnings of the oil and gas sector.

Conclusion and Recommendations

This study is on the effect of firm characteristics and earnings management of oil and gas firms listed in the Nigerian Stock Exchange market. Three firm characteristics were assessed to ascertain their effect on earnings management. Of the three firm characteristics analyzed, only leverage is a significant firm indicator that influence earnings management. This means that leverage firms tends to manage their earnings more than firms with low levels of debt. A possible explanation of this fact, could be that high debt levels could lead managers of the oil and gas firms to manage earnings in order to expedite debt contracts. Furthermore, the study concludes that large firms tend to have higher incentives and more prospects in engaging in the manipulation of earnings and inflation earning figures due to the complexity of their operations and inherent intricacies for users to identify overstatement. However, the study recommends that potential investors should watch out for red flags associated with earnings management in small firms since small firms may likely indulge in earnings management as compared to larger firms since regulatory authorities don not beam their search light on them as compared to larger firm.

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