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Research Paper

Effect of Corporate Governance on Earnings Quality of Quoted Financial and Non-Financial Firms in Nigeria

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ABSTRACT: *Thepaper investigated effect of corporate governance on earnings quality of quoted financial and non-financial firms in Nigeria.Earnings is the back bone of organisation and gateway to their existence over the years. Thepaper adopted ex-post facto research design from the population of 161 listed companies on the Nigerian Stock Exchange as at 31st December, 2017, 30 quoted financial and non-financial firms was purposively selected from 2003-2017.Using multiple regression analyses the findings revealed that corporate governance (CG) had joint significant effects on earnings quality (EQ) of quoted financial firms in Nigeria (Adj. $R^2 = 0.42$, $F_{(6, 444)} = 13.09$, $p < 0.05$), board size had significant positive effect on earnings quality while board meetings had significant negative effect on earnings quality.CG had joint significant effects on EQ of quoted non-financial firms in Nigeria (Adj. $R^2 = 0.53$, $F_{(6, 444)} = 13.42$, $p < 0.05$), board meetings had significant negative effect on EQ.It recommended that board size should be maintained by the organisation while board meetings should be critically looked into by the management to ensure maximum utilisation of resources.*
Keywords*: Corporate governance, Earnings quality, Financial firms, Non- financial firms, Nigeria*

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I. INTRODUCTION

Earnings is the back bone of organisations as they are essential area of consideration therebydetermining the success and sustainability. The earnings of organisations varies as they are influenced by governance. Good corporate governance brings about financial report that is of high quality (Nkanbia-Davies, Gberegbe, Ofurum & Egbe, 2016). Earnings are essential in organisations as they affect the decisions of investors, and this is the reason why firms at times carry out financial practices that are unhealthy in their financial reports (Norwani, Mohamad & Chek, 2011), knowing that the quality of financial report has significant value relevance to investors, thereby influencing their investment decisions (Ibrahim, 2017). Good and strong corporate governance makes managers uncomfortable in carrying out activities that may be deceptive in the financial reporting, thereby increasing the quality and reliability of financial reporting of such companies (Heirany, Sandrabadi & Mehrjordi, 2013). Governance mechanisms are put in place so as to enhance company's financial statement credibility and curtail the behaviour of managers (Calegari & Maretno, 2005; Lee, 2013).
The financial report of Enron indicated understatement of liabilities and overstatement of equity and earnings which brought failure to their financial reporting and were declared bankrupt prior to the end of 2001 (Norwani *et al*., 2011). The fall of Enron was due to their financial reporting inadequacies coupled with the oversight functions of board of directors, advisors, lenders and analysts. For WorldCom, lack of transparency of the senior management and board of directors revealed the absence of internal control; pressure to keep the stock price of WorldCom high misled their financial reporting and instead of reporting loss, the company consistently reported of meeting its target (Norwani *et al*., 2011).

In Nigeria, corporate scandals in organisations are as a result of lapses in the financial practices by firms; the corporate scandals involving Cadbury Nigeria Plc., AP Nigeria Plc., Lever Brothers (now Unilever) and ailing banks in Nigeria. For example, in the case of Cadbury Nigeria Plc, SEC (2008) findings revealed that one of the former managing Directors of Cadbury Nigeria Plc. had been conniving with the company's Board since year 2002; he used 'stock buy backs, cost deferrals, trade loading and false suppliers certificate' to manipulate the financial reports of the company that were issued to the public and filed with the Commission. This was however due to non-compliance with corporate governance code (Ibadin & Dabor, 2015). Also, it was discovered that billions of naira of stock were overvalued in Lever Brothers (Jimoh, Idogho & Iyoha, 2012).

This was as a result of bad earnings quality and poor corporate governance.The corporate scandals evidenced in companies stress the urgent need of accounting standards, auditing processes and financial reporting practices effectiveness so as to have reliable accounting information (Adeyemi & Asaolu, 2013).

Corporate governance pillars are essential as they reflect on the financial reporting processes in organisations. These pillars include disclosure and transparency, responsibility and accountability, integrity and fairness (Holm & Schuler, 2010; Keay & Loughrey, 2015). Strong corporate governance brings about a broad vision of accounting process and this is associated with reported earnings (Heirany *et al.*, 2013); earnings of private company is prepared following same regulations on average has lower quality (Ball & Shivakumar, 2005).

Several empirical evidence have linked corporate governance with earnings quality. Most studies are from the developed world with little attention in the developing countries. Good corporate governance aims at improving the earnings quality of firms. Financial information presented in the financial reports of companies reflects the management of such companies. There are processes that are being followed by companies to prepare those reports which influence the firm's earnings. The financial reporting of companies in Nigeria is found to be weak and deficient over the years, thus making the information presented by companies not aligned with the economic reality for stakeholders to make informed economic decisions (World Bank, 2004). Empirical evidence signifies that the reporting in Nigeria is seen to be weak (Unuagbon & Oziegbe,2016). The weakness of the regulatory authority supervisory level, result into difficulty in discovering and resolving issues involving ethics and corporate governance in Nigeria (Adegbie & Fofah, 2016). The financial practices of managers have effects on thecompanies in the long run.

Firms sometimes carry out financial practices that are unhealthy to achieve targets, thereby manipulating their financial reports (Norwani *et al.*, 2011). Some of the unhealthy practices lead to companies having poor earnings quality. Earnings is crucial in organisations as it affects the decisions of investors. The quality of financial report has significant value relevance to investors, thereby influencing their investment decisions (Ibrahim, 2017). Management often manipulate their earnings for various reasons (Lee, 2013). Poor earnings quality gives rise to the quest for good governance so as to ensure reduction of asymmetric information and agency conflict between the shareholders and managers (Gaio & Raposo, 2014). Corporate governance is set for oversight and monitoring of management activities so as to have good practices in organisations (Lee, 2013). Strong corporate governance brings about a broad vision of accounting process and this is associated with reported earnings (Heirany *et al.*, 2013).

Some studies focused on a particular industry, financial or non-financial industries. To the knowledge of the researcher, no study has carried out a comparative analysis of corporate governance and earnings quality of quoted financial and non-financial firms in Nigeria. This paper evaluate the effect of corporate governance on earnings quality of quoted financial and non-financial firms in Nigeria thereby addressing the question; to what extent does corporate governance affect earnings quality in quoted financial and non-financial firms in Nigeria?Hence, the effect of corporate governance on earnings qualityis investigated using quoted financial and non-financial firms on the Nigerian Stock Exchange (NSE) 2017.

II. LITERATURE

Corporate governance foundation has been traced to Berle and Means (1932) pioneering work who noticed that modern corporations were grown to big sizes which warranted the separation of ownership from control (Ruparelia & Njuguna, 2016). The interest of management differs from that of the shareholders establishing the agent-principal relationship. The agent tends to enrich themselves at the detriment of the provider of capital. Managers tend to make decisions that are self-maximising, which is not to the interest of the shareholders (Hope &Thomas, 2008).The UK Corporate Governance Code (2010) defined corporate governance as the system by which companies are directed and controlled. The governance of companies lies on its board of directors. It is the responsibilities of the shareholders to ensure proper governance is put in place by appointing directors and auditors in the company. Thus, the board oversees the company by setting strategies, provision of leadership, supervision of the management and stewardship reporting to the shareholders.Good and strong corporate governance makes managers uncomfortable in carrying out activities that may be deceptive in the financial reporting, thereby increasing the quality and reliability of financial reporting of such companies (Heirany *et al.*, 2013).

The effectiveness of the board in carrying out its monitoring activities lies on independence, size and composition of the board (John & Senbet, 1998). Some authors believe that the board size should not be too large and meetings should be carried out on a regular basis so as to carry out their monitoring oversight functions (Adebiyi, 2017; Fathi, 2013; Ilmas, Tahir & Asrar-ui-Haq, 2018). Thus, financial reporting of high quality requires implementation of well-structured corporate governance mechanisms (Nkanbia-Davies *et al.*, 2016). The board of directors' impacts on the integrity of financial reporting as their responsibility is the provision of an independent oversight on management and reporting to providers of capital (Khalid *et al.*, 2017).

Board composition is an essential tool of monitoring and reducing the managers' opportunistic behaviours. A great number of companies' directors on a board divert their interest to satisfying self and not the stakeholders. However, agency theory considers a large number of non-executive directors to increase board effectiveness.Empirical evidence have shown inconsistent findings between corporate governance relating to board characteristics and earnings quality showing that presence of an independent board members brings about monitoring effectiveness of the management (Khalid *et al.*, 2017).

Audit committee is another essential component of corporate governance that is integral to financial reporting in firms which brings about their quality (Hamdan, Al-Hayale & Aboagela, 2012). Audit committee serves as an integral committee that monitors the accounting choices of firms within the board of directors. Audit committee presence in organisations is essential as they are expected to have an oversight of the processes in financial reporting and communicate this on behalf of the investors to the external auditors (Bushman & Smith, 2003). Audit committee aims at bridging the gap created as a result of separation of ownership and control (Owolabi & Dada, 2011). Also, audit committee is integral to financial reporting practices in firms; this brings about their quality (Hamdan *et al.*, 2012). Audit committee size was measured by the number of audit committee members elected on the board. Audit committee independence was measured by the number of independent non-executive directors to the total number of audit committee members, and audit committee meetings were measured by the number of meetings held in the year.

Calegari and Maretno (2005) defined earnings as the operating income after the depreciation as non-recurring items are excluded. They further stated that the accrual and components of cash of current earnings are essential in future earnings persistence assessment. Persistence refers to the extent a certain innovation or variation may bring about the restoration in the realisation of future profits. When the profit of a company is persistent, this will in turn influence their power to keep current profit resulting in higher earnings quality (Kazemi, Hemmati & Faridvand, 2011).

When effective governance is in place, it affects the financial practices of firms and assists with right allocation of resources. Thus, strong corporate governance can make up for poor earnings quality. Firms with poor earnings quality often use more sophisticated and costlier governance mechanisms as there is presence of higher information asymmetry. However, firms having good earnings quality often use less sophisticated governance mechanisms as low information asymmetry exists in such firms which in turn require lesser option for additional governance mechanisms of high cost (Gaio *et al.*, 2014). Subsequently, in the event of poor application of accounting numbers relating to capturing of governance information, costly governance mechanisms are substituted so as to take care of financial accounting information inadequacies. "Financial accounting systems represent primary source of effective, low-cost governance information" (Bushman *et al.*, 2003, p.71).Earnings quality serves as the backbone of firms as all firms want quality of their earnings and some studies tend to consider earnings quality as a consequence of earnings management (Younis *et al.*, 2016).

Some literatures measured earnings quality using four accounting-based measures such as accrual quality, earnings persistence, earnings predictability and earnings smoothness (Hoang, Abeysekera & Ma, 2016). This paper adopted the model used by Ali, Chen and Radharkrishnan (2007) for measuring earnings persistence as follows:

$Earnings_{it} = \alpha + \beta_1 Earnings_{it-1} + e_{it}$

$Earnings_{it}$= Current year earnings before extraordinary items of firm i in year t scaled by previous year total assets

$Earnings_{it-1}$= Previous year earnings before extraordinary items of firms i in year t scaled by previous year total assets

e_{it}= Residual error

The positive accounting theory was developed by Watts and Zimmermanin 1978. The theory describes, explains and predicts the actual accounting practices explaining the reason behind managers choosing a particular accounting method in situations where accounting standards allow such choice and predict what other organisations might do when they are faced with similar circumstances (Kabir, 2011). This theory attempts to understand accounting policy decisions and examines a range of relationships. It presents an explanation of different practices that are being adopted so that the best can be chosen. It is based on scientific reasoning and empirical analysis. The positive accounting theory indicates choices of accounting methods and their implications. Watts and Zimmerman (1986) formulated three hypotheses based on positive accounting theory. They include management compensation hypothesis (Bonus plan hypothesis), debt equity hypothesis and political cost hypothesis.

Agency theory was developed by Stephen Ross and Barry Minick in 1973 (Minick, 1975). Agency theory postulates the relationship between the principal and agent. This is so because of the separation of the company's ownership and control from its activities. The principals are the shareholders while agents are the management of the company. Jensen and Meckling (1976) defined agency relationship as a contract between the principal and the agent whereby the principal engages the agent to carry out some services on his behalf involving the delegation of power for decision-making.

Agency theory supports great need of non-executive directors that are independent as managers often want to pursue their goals to the detriment of providers of capital due to separation of ownership and control (Jensen *et al.*, 1976). Antonelli, D'Alessio and Cuomo (2016) stated that agency theory explains corporate governance concept. Corporate governance attributes align the objective of the management with that of the shareholders by playing the monitoring or supervisory roles.

The stakeholder theory was developed by Freeman (1984). Freeman (1984) gave the origin of the stakeholder concept and that the concept was first used in 1963 at Stanford Research Institute. The first definition of stakeholders was given as the group that an organisation ceases to exist without their support. Classic definition of the stakeholder captures it as "any group or individual who can affect or is affected by achievement of the organisation's objective'' (Freeman, 1984, p.46). The stakeholder theory ensures that all other stakeholders other than the shareholders' interests are protected by the management of companies. Other stakeholders involve those who can be affected in one way or the other by the company's objectives. Management should be concerned not only about the shareholders' decision-making process but also all that will be affected by the business decisions. This should serve as caution of the various financial practices applied by management in the firm. However, the type of corporate governance in the firm determines the financial reporting practices in such firms.

III. EMPIRICAL REVIEW

Azzoz *et al.* (2016) investigated corporate governance characteristics on earnings quality and earnings management of Jordan ASE financial listed companies from 2007 to 2010. The governance variables used include board size, CEO duality, board composition, audit size, audit composition and audit committee activity using modified Jones model and multiple regression. They found relation between audit committee size and audit committee activity with earnings quality and earnings management. They recommended the reduction of board of directors members, adjustment in the external directors and non-executive board of directors proportion and audit committee of financial Jordanian firms. Also, Fodio *et al.* (2013) examined corporate governance and reported earnings quality in Nigerian listed insurance companies from the period of 2007-2010 using 25 companies and using multiple regression; findings revealed a negative and significant association between board size, board independence and audit committee independence with earnings management while a positive relationship with audit committee independence and independent external audit with discretionary accruals. They recommended the stringency and sustenance in the regulations of board size and independence of the regulations of NAICOM code of corporate governance.

Similarly, Nkanbia-Davies *et al.,* (2016) examined corporate governance and earnings quality of listed banks in Rivers State from the period 2010-2014 using regression analysis and Pearson product moment correlation and findings suggested that corporate governance has a positive relationship with earnings quality. They concluded that corporate governance is essential to earnings quality and improvement of the performance of banks. Also, Bourkhis and Najar (2017) investigated ownership and regulation on bank earnings in Middle East and North Africa with a sample of 158 banks comprising 44 Islamic banks and 114 conventional banks from 2000 to 2013. The proxies for earnings quality include earnings persistence, cash flow predictability, income smoothing through loan provision and small positive net income and findings suggested that all the measures of earnings quality are high for listed and widely held banks while that of the state-owned banks is of less quality. However, the Islamic banks earnings were significantly higher than the conventional banks. This study revealed that earnings quality is improved, thereby reducing earnings management in firms by using tighter supervision even when there is large shareholding. However, Yodbutr (2017) investigated corporate governance and earnings quality of Thailand financial firms from the period of 2011 to 2015 using the multiple regression analysis and findings revealed non-association between corporate governance and earnings quality, but the control variable of firm size had positive association with earnings quality. The size of firms determines the earnings quality of such firms.

Bala *et al.,*(2015) examined audit committee characteristics and earnings quality of listed food and beverages firms in Nigeria from 2007 to 2014. Data was got from firm's annual reports using OLS in multiple regression. Result showed that audit committee has significant association with earnings quality of the firms, thereby having a very important link. However, there is an inverse relationship between audit committee size, financial expertise and earnings management but a positive significance relation between audit committee independence, frequency of meetings and earnings management. Regulatory bodies such as SEC are recommended to increase the number of audit committee members with financial expertise and also have a fixed number of audit committee meetings which should not be greater than four annual meetings. Ahmed Al-Dhamari *et al.,*(2013) investigated governance structure, ownership structure and earnings predictability using 330 non-financial firms in Malaysia from 2008 to 2009 and employed regression; they found small board size, independent chairperson and high shareholding by institutions to have a high predictive ability of earnings. Board independence has a significant and negative effect on earnings predictability. Also, Younis *et al.*,(2016) investigated corporate governance and earnings quality of manufacturing listed firms on Karachi Stock Exchange using audit quality, CEO duality and board size. Findings suggested that audit quality and board size have a significant negative relationship with earnings management while firm size has a significant positive relationship with earnings management. Quality of earnings can be generated by reduction of earnings management through audit quality and board size.

Kamarudin *et al.,* (2012) examined the influence of CEO duality and audit committee independence on earnings quality using 3,017 non-financial firms in Malaysia from the period of 2005 to 2010 and findings revealed a positive association between earnings quality and audit committee independence. Also, Kiryanto (2014) investigated characteristics of audit committee on earnings quality in Indonesia from 2004 to 2006 of manufacturing listed firms. The proxies for corporate governance were audit committee size, independence, expertise and activity. Audit committee size and independence has a positive and significant association with earning. No positive effect between audit committee expertise, activity and earning.Also, Amin, Lukviarman, Suhardjanto and Setiany (2018) investigated board characteristics on earnings with audit quality as moderating variable on concentration ownership of companies from the period of 2011 to 2014 of manufacturing companies in Indonesia. The research employed moderating regression analysis. They found a positive effect between audit committee independence, audit committee expertise and audit committee size with earnings quality while audit committee meetings had a negative effect on earnings quality.

Chaharsoughi *et al.,* (2013) investigated corporate governance and earnings quality using independent board of directors, board size and managerial ownership with a sample of 114 companies on Tehran Stock Exchange for the period of 2008-2010 using multiple regression. Findings revealed that independent board of directors and managerial ownership had an insignificant positive relationship with earnings quality while board size had an insignificant negative relationship with earnings quality. Eliwa, Haslam and Abraham (2016) investigated the relationship between the cost of equity capital and earnings quality in UK from 2005 to 2011. The accounting-based earnings quality has negative association with the cost of equity. However, Shiri *et al.* (2012) investigated corporate governance and earnings quality of listed companies in the Tehran Stock Exchange using regression analysis from 2004 to 2009. The corporate governance proxies include board composition of non-bound directors, absent from CEO as chairman or vice chairman and institutional investors while earnings quality proxies include accrual quality, persistence and predictability. Findings revealed that the ratio of non-bound members is significant and positively related with persistence and earnings predictability and the significant positive relationship between chairman or vice chairman with earnings persistence. Institutional investors have a significant relation with accrual quality and earnings persistence.

Ball *et al.* (2005) study focused on UK private and listed firms and sample suggested the lower quality of private company financial reporting which is as a result of different market demands. Their findings revealed that earnings of private company is prepared following same regulations on average and has a lower quality.

IV. METHODOLOGY

The study adopted the *ex-post facto* research design. This is a technique suitable for time order assessment of variables. The effect of the independent variables (compliance with code of corporate governance) on the dependent variable (earnings quality) of listed companies for the period of 15 years from 2003 to 2017. The population of the study included one hundred and sixty-one (161) quoted financial and non-financial companies on the Nigerian Stock Exchange as at December 31, 2017. The purposive sampling technique which is non-probability sampling technique was used to select 30 quoted financial and 30 quoted non-financial companies that consistently publish their annual financial reports from 2003 to 2017.

The panel regression model was employed using the Unobserved Effect Model (UEM) which could be fixed or random effect in order to test the effect of some selected corporate governance variables on financial reporting practices. The multiple regression was employed because of its advantage of analysing influences between several independent variables on a dependent variable.

EQ = f(BZ, BI, BM, ACZ, ACI, ACM) …… Equation 1

The models below are for the the quoted financial firms and non-financial firms.

$EQ_{it}= \beta_0 + \beta_1 BZ_{it}+ \beta_2 BI_{it}+ \beta_3 BM_{it}+ \beta_4 ACZ_{it}+ \beta_5 ACI_{it}+\beta_6 ACM_{it}+ e_{it}$ Model 1

$EQ_{it}= \beta_0 + \beta_1 BZ_{it}+ \beta_2 BI_{it}+ \beta_3 BM_{it}+ \beta_4 ACZ_{it}+ \beta_5 ACI_{it}+\beta_6 ACM_{it}+ e_{it}$ Model 2

β_0 = Intercept for each model

$\beta_1 - \beta_6$ = Coefficients of the independent variables

e_{it} = Disturbance terms that absorbs effect from other variables that are ignored

V. RESULTS/ FINDINGS

This section discusses the degree of relationship betweenearnings quality (EQ). The corporate governance variables are board size (BZ), board independence (BI), number of board meetings (BM), audit committee size (ACZ), audit committee independence (ACI) and number of audit committee meetings (ACM) for the selected 60 firms, 30 firms each for the financial and non-financial firms.

Table 1 Correlation Matrix between the Variables for Financial Firms

Variables	EQ	BZ	BI	BM	ACI	ACM	ACZ	VIF
EQ	1.000							N/A
BZ	**0.099**	1.000						4.990
BI	-0.040	**-0.541**	1.000					1.510
BM	**-0.115**	**0.176**	0.035	1.000				1.230
ACI	-0.003	**-0.162**	**0.215**	**-0.083**	1.000			1.420
ACM	0.044	0.023	0.021	**0.226**	**-0.446**	1.000		1.430
ACZ	-0.071	**-0.830**	**0.480**	0.054	-0.066	**0.223**	1.000	4.640

Notes: Table 1 shows the correlation matrix of the dependent and independent variables. The dependent variable is earnings quality (EQ). The independent variables include board size (BZ), board independence (BI), board meetings (BM), audit committee size (ACZ), audit committee independence (ACI) and audit committee meetings (ACM). VIF is the measure for multicollinearity and N/A means not applicable. The values were calculated using 450 firm year observations for 30 quoted financial firms in Nigeria. Stata 14 for the estimation process. The significant correlation coefficients are in bold.

The results in Table 1 show that earnings quality has a positive and strong relationship with board size with a correlation value of 0.099 but a negative and strong relationship with board meetings with a correlation value of -0.115. Conversely, earnings quality has a negative and weak association with board independence, audit committee independence and audit committee size with correlation values of -0.040, -0.003 and -0.071 respectively. Also, earnings quality has a positive and weak association with audit committee meetings with a correlation value of 0.044. The study used both the size of the correlation coefficient and the variance inflation factor to check for the presence of multicollinearity. It was discovered that the value of the correlation coefficient is below 0.7 and the value of the variance inflation factor is less than 5. This suggests that the explanatory variables of board size (BZ), board independence (BI), board meetings (BM), audit committee size (ACZ), audit committee independence (ACI) and audit committee meetings (ACM) were not perfectly correlated for the 30 selected financial firms.

Table 2 Correlation Matrix between the Variables for Non-Financial Firms

Variables	EQ	BZ	BI	BM	ACI	ACM	ACZ	VIF
EQ	1.000							N/A
BZ	-0.032	1.000						2.390
BI	-0.013	**-0.425**	1.000					1.300
BM	**-0.195**	**0.150**	-0.037	1.000				1.030
ACI	0.013	**-0.280**	-0.041	0.013	1.000			1.260
ACM	-0.015	**0.093**	0.002	-0.013	**0.112**	1.000		1.100
ACZ	0.068	**-0.715**	**0.366**	**-0.109**	**0.397**	**0.126**	1.000	2.440

Notes: Table 2 shows the correlation matrix of the dependent and independent variables. The dependent variable include earnings quality (EQ). The independent variables include board size (BZ), board independence (BI), board meetings (BM), audit committee size (ACZ), audit committee independence (ACI) and audit committee meetings (ACM). The values were calculated using 450 firm year observations for 30 quoted non-financial firms in Nigeria. Stata 14 for the estimation process. The significant correlation coefficients are in bold.

Table 2 shows the correlation coefficients between the dependent and independent variables for non-financial firms. It was discovered that earnings quality has a negative and strong association with board meetings with a correlation value of -0.195. Conversely, earnings quality has a positive and weak association

with audit committee independence and audit committee size with correlation values of 0.013 and 0.068 respectively. While earnings quality has a negative and weak association with board size, board independence and audit committee meetings with correlation values of-0.032, -0.013 and -0.015 respectively. To test for the possibility of multicollinearity, the correlation coefficient and the variance inflation factor was used, and it was discovered that the correlation coefficient values are less than 0.7 and the values of the variance inflation factor are less than 5. This implies that the explanatory variables used in this study are not perfectly correlated.
The regression results based on pooled OLS. For the static model, the Hausman test is conducted to determine a more efficient model. A significance of the test implies a fixed effect; otherwise, we use the random effect. However, to use the random effect model, the Bresuch-Pagan Langragian multiplier for random effect is conducted. If it is significant, we use the random effect for the purpose of our analysis, otherwise we use the pooled OLS.

The Pooled OLS is used, In addition, Panel B of the table presents the Adjusted R-square, F-statistic, Hausman test, Breush-Pagan Langragian multiplier test for random effects, serial correlation test, heteroscedasticity test and the Pesaran cross sectional dependence test.

Table 3 Pooled Effect of Corporate Governance on Earnings Quality

Dependent Variable: EQ

Financial Sector Non-Financial Sector

Variables	Coefficient	t-stat	p-value	Coefficient	t-stat	p-value
Panel A				**Panel A**		
BZ	9.297	2.576	(0.010)	0.931	0.916	(0.360)
BI	2.403	0.567	(0.571)	-1.241	-0.647	(0.518)
BM	-4.578	-3.534	(0.000)	-3.486	-4.106	(0.000)
ACZ	3.263	1.327	(0.185)	0.992	1.582	(0.114)
ACI	4.284	1.102	(0.271)	-0.112	-0.167	(0.867)
ACM	3.129	1.376	(0.170)	-1.104	-0.760	(0.448)
Constant	-9.750	-2.153	(0.032)	1.680	1.227	(0.220)
Panel B				**Panel B**		
Adjusted R^2	0.42			0.53		
F	13.09 (0.005)			13.42 (0.003)		
Wald Test	-			-		
Hausman Test	3.91 (0.688)			4.24 (0.645)		
Bresuch-Pagan RE Test	0.00 (1.000)			0.00 (1.000)		
Heteroscedasticity Test	8.1e+0.6 (0.000)			1.1e+0.6 (0.000)		
Serial Correlation Test	1.716 (0.200)			1.240 (0.274)		
Pesaran CD Test	0.593 (0.554)			0.392 (0.695)		
Observations	450			450		

Notes: Table 3 reports Pooled OLS regression results of the effects of corporate governance on earnings quality. The dependent variable is earnings quality (EQ) and the explanatory variables are board size (BZ), board independence (BI), number of board meetings (BM), audit committee size (ACZ), audit committee independence (ACI) and number of audit committee meetings (ACM). The probability values are in parentheses.

Table 3 presents the pooled effect of corporate governance on earnings quality (EQ) in Nigeria for both financial and non-financial firms. There is evidence that board size, board independence, audit committee size, audit committee independence and audit committee meetings have a positive relationship with earnings quality in financial listed firms in Nigeria, while board meetings has a negative relation with earnings quality among selected financial firms in Nigeria. In addition, there is evidence that board size has a significant positive relationship with earnings quality among selected listed financial firms in Nigeria (BZ = 9.297, *t*-test= 2.576, p = 0.010< 0.05). Board meetings has a significant negative relationship with earnings quality among selected listed financial firms in Nigeria (BM= -4.578, *t*-test = -3.534, p = 0.000< 0.05). This implies that board size and board meetings were significant factors influencing changes in the earnings quality of selected listed financial firms in Nigeria. In sharp contrast, board independence, audit committee size, audit committee independence and audit committee meetings do not have a significant positive relation with earnings quality of financial firms in Nigeria (BI= 2.403, *t*-test= 0.567, p = 0.571> 0.05, ACZ=3.263, *t*-test=1.327 , p = 0.185> 0.05, ACI= 4.284, *t*-test=1.102, p = 0.271> 0.05, ACM=3.129, *t*-test=1.376, p = 0.170> 0.05). This implies that board

independence, audit committee size, audit committee independence and audit committee meetings were not significant factors influencing changes in earnings quality of selected financial firms in Nigeria.
Concerning the magnitude of the estimated parameters, the coefficients for the financial firms are 9.297, 2.403, -4.578, 3.263, 4.284 and 3.129. This implies that a unit increase in board size, board independence, audit committee size, audit committee independence and audit committee meetings will lead to 9.297, 2.403, 3.263, 4.284 and 3.129 increase in earnings quality respectively, while a unit increase in board meetings will lead to decrease of 4.578 in earnings quality of selected financial firms in Nigeria.

The Adjusted R^2 measures the proportion of the changes in earnings quality in Nigeria as a result of changes in board size, board independence, board meetings, audit committee size, audit committee independence and audit committee meetings explains about 42 per cent changes in earnings quality in Nigeria, while the remaining 58 per cent were other factors explaining changes in earnings quality but were not captured in the model.

The F- test of 13.09 is statistically significant with $p < .005$. This indicates that the board size, board independence, board meetings, audit committee size, audit committee independence and audit committee meetings jointly explain changes in earnings quality in selected financial firms in Nigeria.

For the quoted financial firms, at the level of significance of 0.05, the F- test is 13.09 and P-value of 0.005 which is less than 0.05. On the overall, the statistical significance of the model showed that the null hypothesis was rejected. Thus, the alternative hypothesis that corporate governance (board size, board independence, board meetings, audit committee size, audit committee independence and audit committee meetings) has a significant effect on earnings quality in quoted financial firms in Nigeria was accepted at 5 per cent level of significance.

Similarly, from Table 3, there is evidence that board size and audit committee size have a positive relationship with earnings quality in non-financial listed firms in Nigeria, while board independence, board meetings, audit committee independence and audit committee meetings have a negative relation with earnings quality among selected non-financial firms in Nigeria. In addition, there is evidence that board meetings have a significant negative relationship with earnings quality among selected listed non-financial firms in Nigeria (BM= -3.486, *t*-test = -4.106, p = 0.000< 0.05). This implies that board meetings were a significant factor influencing changes in the earnings quality of selected listed non-financial firms in Nigeria. In sharp contrast, board independence, audit committee independence and audit committee meetings have an insignificant negative relation with earnings quality of non-financial firms in Nigeria (BI= -1.241, *t*-test= -0.647, p = 0.518>0.05, ACI= -0.112, *t*-test=-0.167, p = 0.867>0.05, ACM= -1.1104, *t*-test=-0.760, p = 0.448>0.05), while board size and audit committee size have an insignificant positive relation with earnings quality of non-financial firms in Nigeria (BZ = 0.931, *t*-test= 0.916, p = 0.360>0.05 and ACZ=0.992, *t*-test=1.582, p = 0.114> 0.05). This implies that board size, board independence, audit committee size, audit committee independence and audit committee meetings were not significant factors influencing changes in earnings quality of selected non-financial firms in Nigeria.

Concerning the magnitude of the estimated parameters, the coefficients for the non-financial firms are 0.931, -1.241, -3.486, 0.992, -0.112 and -1.104. This implies that a unit increase in board size and audit committee size will lead to 0.931 and 0.992 increase in earnings quality respectively, while a unit increase in board independence, board meetings, audit committee independence and audit committee meetings will lead to decrease of 1.241, 3.486, 0.112 and 1.104 in earnings quality of selected non-financial firms in Nigeria respectively.

The Adjusted R^2 measures the proportion of the changes in earnings quality in Nigeria as a result of changes in board size, board independence, board meetings, audit committee size, audit committee independence and audit committee meetings. This explains about 53 per cent changes in earnings quality in Nigeria, while the remaining 47 per cent were other factors explaining changes in earnings quality for non-financial firms but were not captured in the model.

The F- test of 13.42 is statistically significant with $p < .005$. This indicates that the board size, board independence, board meetings, audit committee size, audit committee independence and audit committee meetings jointly explain changes in earnings quality in selected non-financial firms in Nigeria.

For the quoted non-financial firms, at the level of significance of 0.05, the F- test is 13.42 and P-value of 0.003 which is less than 0.05. On the overall, the statistical significance of the model showed that the null hypothesis was rejected. Thus, the alternative hypothesis that corporate governance (board size, board independence, board meetings, audit committee size, audit committee independence and audit committee meetings) has a significant effect on earnings quality in quoted non-financial firms in Nigeria was accepted at 5 per cent level of significance.

VI. DISCUSSION

The paper revealed that board size has a significant positive effect on earnings quality of financial firms in Nigeria. This suggests that the higher the number of board members, the higher the earnings quality of financial firms in Nigeria. This is in line with the findings of Nkanbia-Davies, Gberegbe, Ofurum and Egbe (2016) who found that corporate governance has a positive relationship with earnings quality of banks. However, the findings negate the study of Yodbutr (2017) who found non-association between corporate governance and earnings quality of financial firms. This also contradicts the findings of Chaharsoughi and Rahman (2013) who found that board size had an insignificant negative relationship with earnings quality. Similarly, Nodezh, Bushman, Chen, Engel and Smith (2004) found no significant relationship between board size with earnings timeliness or firm complexity.

However, the board size of quoted non-financial firms in Nigeria has an insignificant positive effect on earnings quality. This means that an increase in board size will lead to increase in earnings quality of non-financial firms in Nigeria. This study is in contrast with the findings of Chaharsoughi and Rahman (2013) who found that board size had an insignificant negative relationship with earnings quality. Similarly, Nodezh, Bushman, Chen, Engel and Smith (2004) found no significant relationship between board size with earnings timeliness or firm complexity. Also, Younis, Hashmi, Khalid and Nazir (2016) who found board size to have a significant negative relationship with earnings management.

Board independence has a positive but insignificant effect on earnings quality of financial firms in Nigeria. This means that board independence is not strong enough to improve the quality of earnings. This is in line with the findings of Nkanbia-Davies, Gberegbe, Ofurum and Egbe (2016) who found that corporate governance has a positive relationship with earnings quality of bank. Shiri, Vaghfi, Sultani and Esmaeli (2012) found that the ratio of board composition of non-board members is significant and positively related with persistence and earnings predictability of listed firms. However, this negates the findings of Yodbutr (2017) who found non-association between corporate governance and earnings quality. Also, Fodio, Ibikunle and Obi (2013) found a negative and significant association between board independence and earnings management.

However, board independence has an insignificant negative effect on earnings quality of non-financial firms in Nigeria. This means that an increase in board independence does not improve the quality of earnings. Governance issues significantly affect the quality financial report (Klai & Omri, 2011). This study supports the findings of Ahmed Al-Dhamari and Ismail (2013) who found that board independence has a significant and negative effect on earnings predictability. However, this negates the findings of Chaharsoughi and Rahman (2013) who found independent board of directors had an insignificant positive relationship with earnings quality.

Board meeting (BM) has a significant negative effect on earnings quality of quoted financial firms and non-financial firms in Nigeria. This means that the number of board meetings held does not determine any improvement in the quality of earnings of both quoted financial and non-financial firms in Nigeria. This could equally reflect on the expenses incurred as a result of frequent meetings and the independence of board members at each of the meetings. When the board lacks independent board members, then the decisions arrived at may hamper the financial practices of such firms. This study supports the findings of Ahmed Al-Dhamari and Ismail (2013) who found that board independence has a significant and negative effect on earnings predictability. However, this contradicts the findings of Chaharsoughi and Rahman (2013) who found that an independent board of directors had an insignificant positive relationship with earnings quality.

Audit committee size (ACZ) has an insignificant positive effect on earnings quality of quoted financial and non-financial firms in Nigeria. This implies that audit committee size influences the quality of earnings but not in a sufficient manner. The audit committee size is presently not sufficient to stir and increase in earnings quality. This study supports the findings of Amin *et al* (2018) who found a positive effect between audit committee size with earnings quality. The study is in conformity with the findings of Kiryanto (2014) who found a positive but significant association between audit committee size and earnings. Also, the study is against the findings of Bala and Kumai (2015) who found that audit committee size has an inverse relationship with earnings quality.

Audit committee independence (ACI) has a positive but insignificant effect on earnings quality of financial firms in Nigeria. This supports the study of Amin *et al.* (2018) who found positive effect between audit committee independence and earnings quality. Also, Kamarudin, Ismail and Samsuddin (2012) found a positive association between earnings quality and audit committee independence.

However, audit committee independence has a negative insignificant effect on earnings quality of non-financial firms in Nigeria. This means that lack of audit committee independence causes a reduction in earnings quality of non-financial firms. This study negates the findings of Bala and Kumai (2015) who found that audit committee independence has a significant positive association with earnings quality of the firms. Also, the study is not in support of the findings of Kamarudin, Ismail and Samsuddin (2012) who found a positive association between earnings quality and audit committee independence. However, CEO duality weakens this relationship.

CEO duality makes monitoring of audit committee less effective, thereby reducing quality of earnings. Similarly, this negates the findings of Kiryanto (2014) who found a positive significant association between audit committee independence and earnings.

Audit committee meeting (ACM) has an insignificant positive effect on earnings quality of financial firms in Nigeria. This suggests that the number of audit meetings held does not really improve the earnings quality of financial firms. This supports the findings of Bala and Kumai (2015) who found that the frequency of meetings has a positive but significant association with earnings quality of non-financial firms.

However, audit committee meeting (ACM) has an insignificant negative effect on earnings quality of non-financial firms in Nigeria. This means that quoted non-financial firms audit committee meetings held do not transform to any improvement in quality of earnings. This supports the findings of Amin *et al.* (2018) who found that audit committee meetings had a negative effect on earnings quality.

This paper aligns with agency theory that there is need for monitoring the activities of managers so as to resolve agency problem as a result of the different interests between the managers and stakeholders (Jensen & Meckling, 1976). The large board size could tend to exercise greater and better control on the activities of managers than board size of a smaller number. Also, higher board independence exercises a better control in firms. The number of meetings held in the firm does not reflect on earnings of the firm. Managers tend to make decisions that are self-maximising which is not to the interest of the shareholders when they are not monitored (Hope & Thomas, 2008).

Implications to Research

The findings of the paper have practical implication for quoted financial and non-financial firms in Nigeria, shareholders, stakeholders, government, regulators and researchers. The paper revealed that corporate governance has a significant effect on earnings quality of quoted financial and non-financial firms in Nigeria, indicating that corporate governance mechanisms affect the earnings quality of financial and non-financial selected firms in Nigeria.

The managements of quoted financial and non-financial firms in Nigeria are provided with the information about their level of compliance code of corporate governance and its influence on the quality of earnings. The shareholders and stakeholders are knowledgeable about the level of compliance with the code of corporate governance of quoted firms in Nigeria which reflects on the quality of earnings bringing about credibility of the financial information provided for their imperative informed economic decisions to further invest in the firms. The analysts are aware of the quality of earnings so as to give information and attract more investors to the quoted firms in Nigeria.

Government and regulators are provided with the information about the level of compliance with the code of corporate governance by quoted firms in Nigeria and their earnings which are imperative for the economic development and growth of Nigeria and to determine the adequate measures and control to put in place.

VII. CONCLUSION

The paper examined effect of corporate governance on earnings quality of quoted financial and non-financial firms in Nigeria. Findings revealed that corporate governance (board size, board independence, board meetings, audit committee size, audit committee independence and audit committee meetings) has a significant effect on earnings quality of quoted financial and non-financial firms in Nigeria. The paper concluded that corporate governance has a significant effect on earnings quality of quoted financial and non-financial firms in Nigeria.

The earnings of quoted financial firms are significantly and positively influenced by board size and negatively influenced by board meetings speaking a lot on the number of meetings held which may translate into incurring more expenses. The presence of large board size yields better quality of earnings for the financial firms. For the quoted non-financial firms in Nigeria, their earnings are significantly and negatively influenced by board meetings. The independence of the board members is not sufficient enough to influence the quality of earnings for both quoted financial and non-financial firms in Nigeria. The study therefore concluded that corporate governance has significant effects on the earnings of quoted financial firms, especially with the board size and board meetings. Also, corporate governance has a significant effect on earnings quality of quoted non-financial firms especially with regard to their board meetings.

Conclusively, the successful existence of companies relies on compliance with corporate governance, thereby adopting financial practices that will bring about credibility of the financial reports of quoted financial and non-financial firms. Therefore, good corporate governance affects the financial practices of firms which boost the corporate images, growth and market value of companies.

Future research

This paper focused on corporate governance and earnings quality of quoted financial and non-financial firms in Nigeria. Future research can investigate using managerial ownership and leverage.

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