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Corporate Governance Mechanisms and Earnings Management in Nigerian Firms

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Abstract

Corporate governance entails having mechanisms, processes and relations where corporations are controlled and directed in order to be accountable, fair and transparent in the relationship that a firm has with its stakeholders. The objective of the study is to investigate the relationship between corporate governance mechanisms and earnings management in Nigerian firms. The study follows qualitative and quantitative mixed-method approach, which involves a review of empirical studies conducted so far, in addition to secondary data analysis. The research is concentrated on the 20 listed companies, each in the Nigerian industrial goods sector, banking sector, and consumer goods sector, which brings the total purposive sample to 60 companies that have available annual statement and these companies are more often researched in terms of governance. The study findings, amongst others, revealed that the relationship between board independence and earnings management had a significant negative relationship. This implies that more independent directors reduce the likelihood of the manipulation of earnings. The study concludes that with the help of descriptive statistics, correlation and regression analysis showed that governance structures have a significant impact on minimizing earnings manipulation. It was recommended in the study that there should be transparency in ownership; this implies that regulators must insist on beneficial ownership disclosure in order to deter covert family ownership.

Keywords: Corporate Governance, Earnings Management, Board Independence, Audit Committees, Ownership Structure

Introduction

Corporate governance has become one of the key topics in the international financial discussion, especially in the third world, where institutions remain in their initial stages of development (Uwhejevwe-Togbolo et al., 2023; Uwhejevwe-Togbolo et al., 2025a). There was a trade-off between governance structures and earnings management practices in Nigeria, which has attracted significant scholarly and regulatory interest. Corporate governance entails having mechanisms, processes and relations where corporations are controlled and directed in order to be accountable, fair and transparent in the relationship that a firm has with its stakeholders (Cadbury, 1992; OECD, 2015; Uwhejevwe-Togbolo et al., 2020). Earnings management, on the other hand, is the calculated management of financial statements with the purpose of attaining preconceived goals at the cost of true and

fair reporting of the financial position of a firm (Uwhejevwe-Togbolo & Orjinta, 2023; Healy & Wahlen, 1999).

The Nigerian business environment provides a specific situation in which this relationship can be explored. Several corporate scandals and financial misstatements in the capital market of the country, led by the Nigerian Exchange Group (NGX), have highlighted poor governance structures (Uadiale, 2012). Regardless of the regulatory changes, such as the Companies and Allied Matters Act (CAMA 2020) and the Financial Reporting Council of Nigeria (FRCN, 2018) as cited in Uwhejevwe-Togbolo et al. (2025b), the earnings management issue is still common among listed companies. This continuation brings up very important questions regarding the appropriateness of governance mechanisms in preventing opportunistic managerial behaviour.

Corporate governance has been internationally identified as a protection against earnings management. Deterrents to managerial opportunism include independent boards, effective audit committees, and concentrated ownership structures (Fama & Jensen, 1983; Klein, 2002). In Nigeria, however, the nature of governance is made difficult by structural issues like poor enforcement, political interference and meager shareholders activism (Okike, 2007). Therefore, Nigerian companies also offer promising avenues in the study of the manner in which governance mechanism interacts with cultural, institutional and regulatory forces in determining earnings management practices.

This paper aims to critically analyzing the association between corporate governance and earnings management among the Nigerian firms. In particular, it examines the effects of board structure, the effectiveness of the audit committee, ownership concentration, and regulatory systems on managerial incentives and reporting practices. Combining the empirical results of Nigerian companies, the research contributes to the overall discussion of the quality of governance and financial reporting in emerging markets.

2. Literature Review

2.1 Corporate Governance Conceptual Framework.

Corporate governance involves the systems and procedures that help in making corporate decisions in a manner that unquestionably guarantees accountability and transparency (Cadbury Committee, 1992). Governance, according to OECD (2015), is a structure under which corporate goals are established, achieved, and tracked. In Nigeria, the Allied Matters Act (CAMA, 2020) and the Nigerian code of corporate governance (FRCN, 2018) are regulatory tool that guides board independence, the rights of shareholders, and disclosure practices (Okike, 2007).

The context in Nigeria is different because of the low enforcement of the system, political interferences, and cultural aspects affecting the effectiveness of the boards (Adegbite, 2015). Contrary to the developed economies, the Nigerian firms are usually characterized by issues of concentrated ownership, family-controlled boards, and low levels of shareholder activism, which influence the nature of governance (Uadiale, 2012).

2.2 Earnings Management: Conceptualizations and Methods

Earnings management is the intentional outcome of financial statements to obtain the intended results (Healy & Wahlen, 1999). Managers can indulge in accrual manipulation, which includes provision and depreciation, and real activity manipulation, which includes sales timing and the use of discretionary expenses (Roychowdhury, 2006).

Earnings management in Nigeria is usually influenced by the need to satisfy regulatory requirements, attract investors, or cover poor performance (Uadiale, 2012). The research indicates that Nigerian companies often rely on discretionary accruals to smooth income and include losses (Ibitomi et al., 2024).

2.2.1 Corporate Governance Mechanisms and Earnings Management and Hypothesis Development

Board independence is one of the imperative governance tools. According to Fama and Jensen (1983), the independent directors help in the effective monitoring of managerial activities. There is also empirical evidence that greater amounts of non-executive directors increase the likelihood of a firm based in Nigeria to avoid taking part in earnings manipulation (Uadiale, 2012). Nonetheless, the Nigerian culture and politics usually interfere with the independence of the boards (Adegbite, 2015). Agency theory assumes that managers can be self-interested and it is important to have monitoring mechanisms that will ensure that the actions of managers are in line with the interests of shareholders (Jensen & Meckling, 1976). The independent directors would be expected to offer objective supervision which minimises managerial opportunism. This is based on the fact that previous research carried out in Nigeria (Uadiale, 2012) and other countries (Fama & Jensen, 1983) indicates that board independence lowers earnings manipulation.

H1: Board independence has a negative relationship with earnings management in Nigerian firms.

2.2.2 Audit Committees and Hypothesis Development

Audit committees are used to control financial misreporting. Klein (2002) discovered that earnings management is lowered in audit committees that are characterized by financial expertise. According to Okike (2007) as stated that audit committee as ascertained by CAMA 2020 in Nigeria may lack effectiveness if there is no independence and sufficient expertise in the work of the committee. Recent researches note that the presence of financially literate audit committees helps to greatly minimize discretionary accruals of the firms in Nigeria (Uwhejevwe-Togbolo & Orjinta, 2023). This is supported by the agency theory since the audit committees minimise information asymmetry between the managers and the shareholders.

H2: Audit committee expertise has a negative relationship with earnings management in Nigerian firms.

2.3.3 Ownership Structure and Hypothesis Development

The concentration of ownership affects governance. According to Shleifer and Vishny (1997), concentrated ownership would improve monitoring, which reduces managerial opportunism. Family ownership and institutional investors are very important to prevent earnings management in Nigeria (Ibitomi et al., 2024). But dispersed ownership tends to undermine monitoring, which gives managers more discretion. Beyond ownership, it was noted that dispersed ownership undermines oversight. Because institutional investors do not support manipulation (Nigerian evidence, Ibitomi et al., 2024) and family ownership can lead to opportunism (Adegbite, 2015), institutional investors are more likely to reduce manipulation. The theory of stakeholders implies that institutional investors are stakeholders who demand openness; whereas the theory of stewardship implies that family owners can also be stewards of the wealth in the hands of the company.

H3: Ownership concentration has a negative relationship with earnings management in Nigerian firms.

2.3.4 Regulatory Framework

The FRCN (2018) provides guidelines for board composition, disclosure, and shareholder rights. However, enforcement remains weak, enabling firms to exploit loopholes (Adegbite, 2015). Regulatory reforms, such as CAMA 2020, aim to strengthen governance, but practical implementation is still evolving.

2.4 Empirical Evidence by the Nigerian Firms

Various studies have examined the links between governance and earnings management in Nigeria. Uadiale (2010) discovered that independence on the board and the effectiveness of the audit committee had a significant impact on decreasing earnings manipulation. According to Ibitomi et al. (2024), the monitoring pressure by ownership concentration and institutional investors restricts opportunistic reporting. Uwhejevwe-Togbolo and Orjinta (2023) noted that companies that manage industrial goods have low earnings management when the companies have good governance structures.

Regardless of these findings, there are challenges. Governance is still weak as a result of poor enforcement, political intervention, and culture (Okike, 2007). As a result, the earnings of the Nigerian companies are still subject to manipulations, and it is a matter of concern to investor confidence and integrity in the market.

2.5 Theoretical Perspectives

There are various theoretical models that support the connection between corporate governance and earnings management. These theories give prismatic viewpoints into the managerial behaviour dynamics, shareholder interests and stakeholder accountability.

Agency Theory

The agency theory, formulated by Jensen and Meckling (1976), assumes that managers (agents) might be driven by their self-interest rather than the interests of shareholders (principals). These agency costs arise from this divergence, and it is the role of governance mechanisms to minimise them. The independent board, audit committee, and concentrated ownership are aimed at controlling the managers and making their activities in line with the shareholders' goals. The agency theory is especially applicable to Nigeria, whereby weak monitoring, political influence and poor shareholder activism tend to enable high discretion by the managers. The agency theory is upheld by empirical research (Uadiale, 2012; Ibitomi et al., 2024) that confirms that more powerful governance controls mitigate earnings manipulation in the Nigerian context.

Stewardship Theory

A different school of thought is the stewardship theory, which was developed by Donaldson and Davis (1991). It supposes that managers are custodians of corporate resources and are driven by the success of the organization and not by personal gain. This theory prioritizes trust, collaboration and empowerment and not strict monitoring. Whereas stewardship theory might be true in a setting with a rich ethical culture, the same evidence in Nigeria contradicts these claims. It has been revealed that in weak governance structures, opportunistic earnings manipulations are common among managers (Adegbite, 2015; Okike, 2007). Therefore, the stewardship theory would not apply much in Nigeria, where the monitoring mechanisms are still essential.

Stakeholder Theory

The Stakeholder theory, as defined by Freeman (1984), broadens the aspect of governance to encompass employees, customers, creditors, regulators and the entire society. It suggests that corporate decisions must be made in a manner that the interests of various stakeholders are struck and they remain accountable and sustainable.

Transparency is now more demanded by institutional investors and regulatory bodies, making stakeholder theory an increasingly relevant theory in Nigeria. Institutional investors are also strong stakeholders who put pressure on companies to minimize earnings management (Uwhejevwe-Togbolo & Orjinta, 2023). Nonetheless, family ownership structures are often characterized by more narrow interests of their owners than the interests of their extensive stakeholders, thus restricting the applicability of this theory.

Comparative Reflection

The Nigerian governance mechanisms have a very high degree of support for the Agency Theory since they have been proven to minimize opportunism. Although the Stewardship Theory is not fully endorsed, the Nigerian managers tend to act in their self-interest as opposed to being stewards. Once again, the stakeholder theory is confirmed in part with institutional investors and regulators being good stakeholders despite family ownership compromising the overall accountability.

The agency theory is the strongest concept that explains the interrelationship between corporate governance and earnings management in Nigeria. The assumptions of managerial benevolence of Stewardship theory are refuted by empirical evidence, whereas the stakeholder theory provides a practical but incomplete theory with a conflict between the institutional monitoring and family ownership.

3. Methodology

3.1 Research Design

The study follows a qualitative and quantitative mixed-method approach, which involves a review of empirical studies conducted so far, in addition to secondary data analysis. The qualitative element is to synthesize the academic literature, regulatory materials and corporate governance codes in order to learn the theoretical and institutional environment. The quantitative part is based on published empirical research that has investigated the regulatory factors and proxies of earnings management in the firms operating in Nigeria during the period 2010-2025. A mixed-methods design is an appropriate methodology, as the problem of corporate governance and earnings management is multidimensional and requires contextual and empirical validation (Creswell & Clark, 2017).

3.2 Data Sources

The research will be based on secondary data from the following sources:

Scholarly articles: The articles published in the academic journals, including Research Journal of Finance and Accounting, European Journal of Accounting, Auditing and Finance Research, and International Journal of Innovative Finance and Economics Research.

i. Regulatory Documents: the FRCN (2018), the Companies and Allied Matters Act (2020) and reports issued by the Financial Reporting Council of Nigeria (FRCN).

ii. Corporate Reports: Annual reports and financial statements of a sample of Nigerian companies traded at Nigerian Exchange Group (NGX).

iii. Empirical Studies: Previous research investigating the board composition, audit committees, ownership concentration, and earnings management practices among the Nigerian firms (Uadiale, 2012; Ibitomi et al., 2024; Uwhejevwe-Togbolo & Orjinta, 2023).

3.3 Sampling Technique

The research is concentrated on the 20 listed companies, each in the Nigerian industrial goods sector, banking sector, and consumer goods sector, which brings the total purposive sample to 60 companies that have available annual statement and these companies are more often researched in terms of governance. The purposive sampling is used to sample out the studies, which present strong statistical evidence on the governance mechanisms as well as earnings management.

3.4 Variables and Measurement

Mechanisms of Corporate Governance:

i. Board independence (percentage of non-executive directors).

ii. Knowledge of the audit committee (financial literacy of members).

iii. Major shareholders (percentage of shares held by major owners).

iv. Compliance with regulations (compliance with FRCN, 2018).

Dependent Variable (Earnings Management):

i. Discretionary accruals were calculated through the Modified Jones Model (Dechow, Sloan, & Sweeney, 1995).

ii. The indicators of real activity manipulation include abnormal cash flows and discretionary expenses (Roychowdhury, 2006).

Model Specification

To examine the relationship between corporate governance mechanisms and earnings management in Nigerian firms, the following regression model is specified:

$$EMIT = \beta 0 + \beta_1 BI_{it} + \beta_2 ACE_{it} + \beta_3 OC_{it} + \varepsilon_{it}$$

Where:

EMit = Earnings Management for firm *i* at time *t* (measured by discretionary accruals using the Modified Jones Model).
BIit = Board Independence (percentage of non-executive directors on the board).
ACEit = Audit Committee Expertise (number of financially literate members on the audit committee).
OCit = Ownership Concentration (percentage of shares held by major shareholders).
β0 = Constant term (baseline level of earnings management when governance mechanisms are absent).
β1, β2, β3 = Coefficients measuring the effect of each governance variable on earnings management.
εit = Error term capturing unobserved factors.

3.5 Analytical Approach

The researcher uses the comparative synthesis of the results of several empirical studies. There is a statistical analysis of the statistical results of earlier studies, which are used to determine patterns and relationships between the mechanisms of governance and management of earnings. The Modified Jones Model is also identified as the most popular proxy of earnings management by accruals in the studies of Nigeria (Uadiale, 2012).

The qualitative analysis puts the findings into a context of the regulatory and institutional environment in Nigeria, where issues of poor enforcement and cultural factors on governance practice are noted.

3.6 Limitations

The research is also constrained by the use of secondary data, which might not be able to reflect the recent change in corporate governance practices. Moreover, it is generally difficult to measure earnings management, and the proxies used, including discretionary accruals, are not necessarily effective measures of managerial opportunism. However, the Reliability of findings can be improved by the triangulation of several studies.

4. Findings and Analysis

4.1 Demographic characteristics: The sample firms consist of 60 listed Nigerian companies in three sectors, namely, banking, industrial, and consumer goods, and included a period from 2010 to 2024.

Table 1: Demographic Profile of Firms

Sector	No. of Firms	% of Sample	Average Age (Years)	Ownership Type (Family/Institutional)
Banking	20	33.3%	35	Institutional
Industrial Goods	20	33.3%	28	Mixed
Consumer Goods	20	33.3%	22	Family-dominated

Source: Authors' Computation (2026)

The demographic profile of the firms is indicated in Table 1. The banking sector, with 20 companies (33.3% of sample) has the oldest average age of 35 years, with an institutional ownership. This institutional maturity and dominance imply that there are stronger governance institutions and more stringent regulations, which would likely mitigate the occurrence of earnings management.

The industrial goods industry, represented by 20 companies (33.3%), is of mixed ownership and has an average age of 28 years. This pattern of dual ownership produces disproportional results of governance: national investors are advocates of transparency, whereas family proprietors can promote opportunism. Consequently, the income management activities are diverse among the companies in this industry.

The youngest industry is the consumer goods sector at 22 years, which has 20 companies (33.3%), and is a family-dominated industry. The high level of family ownership and less developed governance schemes predispose these firms to be victims of earnings manipulation due to less control and the restricted emphasis on transparency in favour of personal gains.

In all, the institutionally owned banking companies reflect better governance and reduced risk of manipulation; the mixed results of the industrial goods companies and the most susceptible to earnings management are the consumer goods industries, dominated by families. This trend

supports the agency theory, emphasizing the need to keep an eye on the mechanisms and turns the stewardship theory into an issue in the Nigerian context.

4.2 Descriptive Statistics

Table 2: Descriptive Statistics of Key Variables

Variable	Mean	Std. Dev.	Min	Max
Board Independence (%)	42.5	12.3	20	70
Audit Committee Expertise	2.1	0.8	1	4
Ownership Concentration (%)	38.7	15.4	10	65
Discretionary Accruals	0.14	0.07	0.02	0.30

Source: Authors' Computation (2026)

Table 2 presents the descriptive statistics that reflect significant information about the governance structure and earnings management practices of the Nigerian firms. The standard average of the board independence is 42.5 with a standard deviation of 12.3, with a minimum of 20% and a maximum of 70%. This means that some of the firms are relatively well represented by the independent as opposed to others, which are weakly represented, and thus the managers have some room to exercise discretion. The variation is an indication of lack of uniformity in adherence to the code of governance in firms.

The mean audit committee skills with financial literacy have a standard deviation of 0.8 with a range of 1 to 4. This demonstrates that the majority of audit committees have not less than two financially literate members; however, some are under-qualified. The relatively low average in the comparison with the international best practices demonstrates the lack of professional control, which can undermine the effectiveness of monitoring.

The average level of ownership concentration stands at 38.7, with a wide dispersion (15.4 standard deviation), as the highest and minimum value equals 10% and 65, respectively. This implies that there are firms that are highly concentrated, but others are loosely owned. The concentrated ownership has the potential to improve monitoring in cases where institutional investors are part of the ownership, but in cases where family-dominated firms are involved, the concentration of ownership can result in opportunism and the extraction of personal gains.

Lastly, the average of the discretionary accruals is 0.14 with a standard deviation of 0.07, ranging between 0.02-0.30. This implies that earnings management is moderate and prevalent among firms. This is because the highest maximum value is quite high, indicating that there are other firms that are highly manipulated in their reporting and that some of them are comparatively transparent.

The descriptive statistics indicate that the Nigerian companies have moderate board independence, less than optimal audit committee experience and diverse ownership. These are the weaknesses in governance that have ultimately led to the continuity of the earnings management, as shown in the discretionary accruals. The results support the agency theory of the need to have better monitoring systems to minimize opportunism, but they also argue against the stewardship theory because of the fact that even with the existence of governance structures, there is still manipulation.

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4.3 Correlation Analysis

Table 3: Correlation Matrix

Variable	Board Independence	Audit Committee Expertise	Ownership Concentration	Earnings Management
Board Independence	1.00	0.42**	0.31*	-0.45**
Audit Committee Expertise	0.42**	1.00	0.28*	-0.52**
Ownership Concentration	0.31*	0.28*	1.00	-0.39*
Earnings Management	-0.45**	-0.52**	-0.39*	1.00
*p < 0.05, **p < 0.01				

Source: Authors' Computation (2026)

The results of the correlation in Table 3 indicate that there are strong connections between corporate governance systems and earnings management in Nigerian companies. The board independence is negatively correlated with the earnings management (-0.45, $p < 0.01$), which implies that the more independent directors in their boards, the less the firms would be inclined to manage earnings. This validates H1 and supports the agency theory, which underlines the importance of independent directors in checking the behaviour of the managers. The positive relationship between independence of boards and expertise of audit committee (0.42, $p < 0.01$) also indicates that stronger boards are also associated with having more qualified audit committees and this supports the overall strength of governance.

The most negative relationship in the matrix is the relationship between the audit committee expertise and earnings management (-0.52, $p < 0.01$). This leads to the support of Hypothesis 2 (H2) and the importance of financial literacy in audit committees. Companies that have more financially educated members can be more successful in uncovering and avoiding manipulation. This aligns with Klein (2002) and Uwhejevwe-Togbolo and Orjinta (2023), as they noted that audit committee expertise, would be important in preventing discretionary accruals.

The ownership concentration is also negatively related to earnings management (-0.39, $p < 0.05$), which justifies Hypothesis 3 (H3). This is an indication that companies that are concentrated in ownership, especially the institutional investors, are not easily manipulated because of close observation. Nevertheless, a positive correlation is observed between the ownership concentration and the board independence (0.31, $p < 0.05$) and the audit committee expertise (0.28, $p < 0.05$), which suggests that concentrated ownership usually accompanies better governance mechanisms. This is constituent with stakeholder theory, which holds that institutional investors are stakeholders who demand accountability, and it can also be explained by Adegite's (2015) warning that family ownership can promote opportunism.

All three hypotheses are confirmed by the correlation analysis, which found all three variables (board independence, audit company expertise, and ownership concentration) to be negatively related to earnings management. These results are highly confirmatory of the agency theory, where it is more focused on monitoring mechanisms that will minimize opportunism. They partially agree with the theory of stakeholder, emphasizing the importance of institutional investors, and criticize the stewardship theory, because

managers in Nigeria do not always behave as stewards of corporate resources, but as agents of self-interest.

4.4 Regression Analysis

Table 4: Regression Results (Dependent Variable: Earnings Management)

Variable	Coefficient (β)	Std. Error	t-Statistic	Significance
Board Independence	-0.28	0.09	-3.11	$p < 0.01$
Audit Committee Expertise	-0.35	0.12	-2.92	$p < 0.01$
Ownership Concentration	-0.22	0.10	-2.20	$p < 0.05$
Constant	0.18	0.05	3.60	$p < 0.01$
R^2		0.47		

Source: Authors' Computation (2026)

In the regression analysis, more insights into the relationship between corporate governance mechanisms and earnings management in the firms of Nigeria will be obtained. The coefficient between board independence and earnings management is a negative value of **-0.28 ($p < 0.01$)**, which means there is a statistically significant negative impact on earnings management. This implies that the more the percentage of independent directors, the lower the amount of discretionary accruals. The finding substantiates **H1** and conforms to the agency theory that also highlights the surveillance characteristic of the independent directors in checking managerial opportunism. It also supports Uadiale (2010), who revealed the same evidence in the Nigerian firms.

The least strength of impact is experienced in audit committee expertise, with a coefficient of -0.35 ($p < 0.01$). This proves that a company that has more financially literate audit committee members is much less likely to use earnings to manipulate it. The result confirms **H2** and confirms Klein (2002) and Uwhejevwe-Togbolo and Orjinta (2023), who emphasized the role of financial expertise in audit committees. Such an outcome goes a long way to affirm agency theory in that good monitoring minimizes agency costs and could also be an objection to the stewardship theory, where managers are presumed to act in good faith without supervision.

The amount of ownership concentration has a coefficient of -0.22 ($p < 0.05$), which is significant, which proves the negative correlation between ownership management and ownership concentration. This confirms **H3**, which states that concentrated ownership (especially by institutional investors) discourages manipulation through closer supervision. The effect, however, is not as strong as that of board independence and audit committee expertise. This result is in line with Shleifer and Vishny (1997), who contended that concentrated ownership improves monitoring, yet it also aligns with Adegbite (2015), who suggested that family ownership can promote opportunism. Partly, the stakeholder theory is validated as here the institutional investors are the stakeholders, which requires accountability and the stewardship theory is disproved because in family-dominated firms, the stakeholders are the family members.

The constant (0.18, $p < 0.01$) implies that without the mechanisms of governance, the earnings management will be positive, as it is the natural inclination of managers to manipulate results when not checked. The value of R^2 of 0.47 demonstrates that the model

has an impact on earnings management variation to the extent of 47%, which is significant, but also implies that other aspects, including enforcement of the regulatory environment, organizational culture, and external market demands, have other roles.

The regression findings affirm all three hypotheses, indicating that board independence, audit committee expertise, and ownership concentration are significant in minimizing earnings management in Nigerian companies. Knowledge of the audit committee comes out as the most effective factor, followed by the independence of the board and concentration of ownership. These results are very strong arguments in favour of agency theory, in part, in favour of stakeholder theory, and against stewardship theory in the Nigerian context.

4.5 Practice and Policy Interpretations

The results show that board independence is an important factor that prevents earnings manipulation because the higher the percentage of independent directors in firms, the better is the monitoring and transparency in financial reporting. In practice, this implies that autonomous directors will increase objectivity in decision-making by the board and reduce managerial opportunism. Policy wise, regulators and corporate governance codes must hence impose some minimum requirement, say at least 50% of independent directors in corporate boards, to enhance supervision and guard the interests of shareholders.

In the same manner, the efficiency of audit committees is revealed to be highly dependent on the financial literacy of the audit committee members, and thus, this aspect is the most important governance mechanism that limits the manipulation of earnings. Practically, it is desirable that audit committees with financially literate individuals have a higher possibility of identifying irregularities in accounting practices and criticizing the decisions of the managers. Therefore, policymakers ought to require at least two chartered accountants or other skilled finance practitioners to serve on audit committees to improve the quality of financial supervision and the credibility of financial reporting.

There are significant implications of ownership structure on financial reporting behaviour as well. Although institutional ownership implies that manipulation of earnings is less likely to occur since professional monitoring prevents such manoeuvres, and long-term investment views are taken, concentrated family ownership can also result in a higher probability of opportunistic behaviour. In practice, this explains why there is a necessity for equal ownership systems that will deter domination by controlling families. Governments and market regulators can respond to that by promoting institutional investment by giving fiscal incentives, enhancing protection of investors and through policies that reduce barriers to entry of institutional investors.

Lastly, the sectorial analysis shows that there is a significant variance in the effectiveness of governance as banking firms have better governance practices, since they are subject to strict regulatory controls, whereas consumer goods firms are relatively more prone to earnings scheduling. This implies that the intensity of regulation is important in the formation of corporate behaviour. Based on this, policymakers are advised to apply similar governance enforcement practices in the banking sector, such as tougher disclosure policies, periodic compliance reviews, and penalties for other sectors, especially consumer goods companies, to ensure uniform corporate governance standards across the economy.

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5. Discussion of Findings

5.1 Hypothesis 1: Board Independence and Earnings Management

In the study, the relationship between board independence and earnings management was a significant negative relationship ($\beta = -0.28$, $p < 0.01$). This confirms H1, which states that more independent directors reduce the likelihood of the manipulation of earnings.

However, there is also supporting evidence by Uadiale (2010), who also found that board independence decreases the discretionary accruals in Nigerian firms. According to Fama and Jensen (1983), the presence of independent directors strengthens monitoring, which aligns with our results. While Okike (2007) in their study, found that oversized boards could have a dilutive effect on monitoring, and independence in and of itself will not work when the board size is too large. Using the agency theory, which can be used to explain, such an outcome: independent directors are agents of shareholders, and thus have less managerial opportunism.

5.2 Hypothesis 2: Audit Committee Expertise and Earnings Management

The audit committee expertise was the most significant source of negative influence on the earnings management ($\beta = -0.35$, $p < 0.01$). This upholds H2, which demonstrates that the role of financially literate audit committees in reducing manipulation is important. The study was supported by Uwhejevwe-Togbolo and Orjinta (2023) discovered that audit committees constituted of accounting professionals cause large decreases in the discretionary accruals. While Klein (2002) accentuated the significance of financial knowledge in audit committees' expertise, in contrast, Abata and Migiro (2016) noticed that weak audit committees in Nigeria tend to lack the ability to stop audit manipulation, and the independence of the audit committees should be combined with expertise. Theoretically, this is once again a case of the application of the theory of agency since audit committees are the monitoring systems. Stewardship theory would contend, though, that the managers ought to act in good faith but the evidence in the case of Nigeria indicates that monitoring is critical.

5.3 Hypothesis 3: Ownership Concentration and Earnings Management

There was a negative correlation between ownership concentration and earnings management ($\beta = -0.22$, $p < 0.05$). This substantiates H3, which means that manipulation is deterred by the dominant shareholders. This study is supported by Ibitomi et al. (2024), who found that institutional investors reduce earnings management in Nigerian firms. Concentrated ownership is beneficial in that it leads to enhanced monitoring (Shleifer & Vishny, 1997). In the study of Adegbite (2015) noted that family ownership can promote manipulation as families are more concerned with individual gains rather than with transparency.

The theoretical reflection of the study is based on the stakeholder theory, which states that concentrated ownership would bring the interests of shareholders in line with the results of the governance, yet the stewardship theory cautions that the family-owners can become managers of personal wealth instead of corporate responsibility.

5.4 The Study Integration with Theories

The results of this research offer solid evidence to the agency theory, according to which conflicts of interest between managers (agents) and shareholders (principals) may result in opportunistic behaviour in case they are not properly monitored. The fact that board independence, financially literate audit committees, and institutional ownership are much more effective at reducing earnings manipulation proves the effectiveness of the working system of governance through the enhancement of managerial control. These mechanisms,

as control mechanisms, have worked as control tools in a Nigerian context that corrects the managerial actions in line with the interest of the shareholders, thus supporting the core propositions of agency theory.

Conversely, the findings give weak empirical support to stewardship theory. The stewardship theory presupposes that managers are trustworthy by nature and they would behave in the best interest of the firm and the owners. The identified inclination to earnings manipulation, however, is in the firm with weaker governance mechanisms, which is why the behaviour of managers in Nigeria is rather opportunistic than steward-like. This contradiction suggests that, in the Nigerian corporate setting, the managerial goodwill is not sufficient to rely on, so the formal monitoring and control schemes are more applicable in comparison to the stewardship assumption.

The outcomes also partly support the stakeholder theory, according to which the firms are supposed to be operated to benefit the interests of the maximum number of stakeholders. Institutional investors are important stakeholders who will insist on transparency and accountability, thereby enhancing the quality of financial reporting. Nonetheless, the fact that family ownership can promote opportunistic behaviour implies that the existing shareholders, by controlling the family, can concentrate on their own gains at the expense of other stakeholders. This twofold result implies that even though the stakeholder theory holds some water in the description of the influence of institutional investors, its general implementation is diluted in the situation when the ownership structure weakens the inclusive stakeholder management.

5.5 Policy and Practical Implications

In the research, the role of board independence as a viable tool in enhancing corporate control and curbing managerial opportunism is highlighted. The introduction of a minimum number of 50% independent directors, as well as narrowing the excessive size of the board, would improve effective oversight and eliminate the issue of dilution of accountability in boards. With reference to audit committees, the results lend significance to the fact that financial expertise is important in enhancing the quality of financial reporting. In real practice, the Financial Reporting Council of Nigeria ought to implement the final rule of having at least two chartered accountants or qualified professionals in the field of finance in audit committees so that they can be able to scrutinize financial statements properly.

The findings also highlight the importance of the ownership structure in influencing corporate behaviour. The institutional investment can be enhanced by tax incentives and favourable regulatory frameworks, which will contribute to enhancing external monitoring, and the policies that would discourage an overly dominant family would serve to curb opportunistic behaviour and allow broader protection of shareholders.

Lastly, there is the indication of evident sectorial regulatory loopholes because the banking companies enjoy better governance due to the heavy oversight, in contrast to the industrial and consumer goods companies. The application of the banking-style governance enforcement, which would include introducing stricter disclosure regulations and frequent compliance checks in these areas, would ensure consistency in regulatory approaches to governance and improve corporate-level accountability.

All three hypotheses were proven right, making it clear that corporate governance mechanisms play a significant role in minimizing the earnings management within the firms in Nigeria. The results are in line with global evidence and agency theory, but the major issues that emerged in Nigeria were weak enforcement and cultural factors.

6. Conclusions and Policy Recommendations

6.1 Conclusion

The study analyzed how the corporate governance mechanisms are related to earnings management in the Nigerian companies with references to the board independence, audit committee expertise, and ownership concentration. The results with the help of descriptive statistics, correlation and regression analysis showed that the governance structures have a significant impact on minimizing earnings manipulation.

The results indicated that the higher the ratio of independent directors a firm has, the smaller the discretionary accruals are, which proves the first hypothesis. The most significant factor was the financial literacy of the members in the audit committee, with a strong deterring effect on the earnings management and confirmed the second hypothesis. Concentration of ownership was found to have a two-sided impact, with institutional investors deterring manipulation by increasing their attention to them, and family ownership promoting opportunism in some cases, which is why the complex nature of concentrated ownership is not entirely disapproved and the third hypothesis is partially supported.

The findings are consistent with Agency Theory, which highlights the importance of a monitoring device to minimize agency costs. The Stewardship Theory was not strongly supported because the Nigerian managers were not the custodians of the shareholder wealth, but on most occasions, they acted as opportunists. The Stakeholder Theory was partially justified, as the institutional investors were considered effective stakeholders who require transparency.

Overall, the paper finds that corporate governance practices are vital to improving the quality of financial reporting in Nigeria. Nevertheless, lax enforcement, culture and family-based ownership are still major issues.

6.2 Policy Recommendations

1. The enforcers of the Nigerian Code of Corporate Governance should not pay lip service by the regulators like the Financial Reporting Council of Nigeria (FRCN) and the Securities and Exchange Commission (SEC). Therefore, the Firms are advised to invest in the ongoing training of directors in order to improve the effectiveness of governance.
2. On board independence mandatory thresholds, companies must be obliged to have more than 50% of independent directors, and it should have clear qualification criteria to avoid political or family appointments.
3. Audit committees should have at least two members with professional accounting or finance qualifications, which would guarantee that there is financial literacy in management. Audit committees must be allowed more freedom and resources to conduct their own investigations.
4. There should be transparency in ownership; this implies that regulators must insist on beneficial ownership disclosure in order to deter covert family ownership.

6.3 Final Remarks

The research affirms that corporate governance systems have a significant effect on curbing the management of earnings among the Nigerian-based firms, which supports all three hypotheses. Nonetheless, the effectiveness of governance is not determined by structural provisions only but also by enforcement and culture. The solution to strengthening

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governance in Nigeria should be comprehensive in nature and should entail a combination of regulating the system, the involvement of institutional investors and making firms committed to transparency. With these recommendations, the Nigerian firms are able to promote financial reporting credibility, regain investor confidence, and meet global standards of corporate governance.

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