

Non-Executive Directors and Earnings Quality: Evidence from Nigerian Listed Firms

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Abstract

Non-executive directors are appointed based on various distinct attributes which are expected to enhance the quality of decision-making and improve the performance of firms. Financial information serves as an important communication tool to various stakeholders' groups. In extant studies, manipulation of financial information has been associated with managerial opportunistic behavior, hence, the need for non-executive directors. This study explores various attributes of non-executive directors and how these influence earnings quality. The study sourced secondary data from annual reports of listed firms on the Nigerian Exchange Group, which were analysed using the feasible generalized least square method. Directors' attributes were proxied with expertise, tenure, nationality, shareholdings, and multiple directorship while the modified jones model was employed for earnings quality. The findings revealed that among the attributes of non-executive directors studied shareholdings and nationality significantly affect earnings quality. The study contributes to the literature on the effectiveness and role of non-executive directors. The study result depicts that foreign non-directors are more effective in monitoring the affairs of firms, as well as directors with shareholdings in the firm. This implies that in the appointment of non-executive directors, diversity should be encouraged with provision for stock options.

Keywords: non-executive directors, earnings quality; agency theory; discretionary accruals; Nigeria

INTRODUCTION

The attention drawn to earnings quality can be attributed to the need for relevant information for investment decision-making (Dechow, Ge & Schrand, 2010). While the importance of financial statements is not left to equity investors alone, this can be linked to other essential capital providers of the entity. Quality financial reports influences investment decision making of investors and other stakeholders positively, thus, enhancing market efficiency (IASB, 2018). The responsibility for true and fair financial reports lies with the management of firms. Recurring issues on corporate failure and sudden liquidation results to less confidence in reports prepared by managers. Moreover, the investors'

confidence in the reporting process may affect resource allocation to firms (Francis, Olsson & Schipper, 2006). Consequently, this could affect the flow of investment in a country's financial market.

El Diri (2017) stressed the importance of information in ensuring capital market functioning and minimizing the levels of uncertainty in forecasting different situations in the market. However, this information may be distorted by the managers in charge of the preparation of financial statement, thus affecting decisions- made on this information. Overtime, the efficient market hypothesis has been criticized as financial information available to shareholders are incomplete (Walker, 2013). This results in information asymmetry whereby some parties have more information advantage over others in a business transaction (Scott, 2014).

Managers are saddled with the responsibility of handling the affairs on the firm on behalf of owners (shareholders), giving rise to an agency relationship. Earnings serve as an important performance measure used by shareholders to monitor firms' performance. The opportunistic behavior of managers in concealing the true performance of an entity results in the decline of the firm's reporting quality which by extension could lead to corporate failure (Belot & Serve, 2015). Managerial decisions significantly affect the activities of the firm. For instance, the quality of earnings decreases if managers act opportunistically and take actions that affect the true underlying economic performance of a firm (Kapoor & Goel, 2019).

Corporate governance is a significant tool used to ensure financial reporting quality. The corporate governance structure has been found to play an important role in monitoring management. This include board composition, various committees, shareholders' voting rights among others (Chee & Tham, 2020; Ianniello, 2013; Peters & Bagshaw, 2014; Wang, Xie & Zhu, 2015). The appointment of non-executive directors in the board enhances the integrity and objectivity of the board. As against executive directors, non-executive directors are not employees of the firm, therefore are independent of the operational activities in the firm. Hence, non-executive directors are believed to be watch-dogs of the shareholders and monitor the activities of the executive directors.

To mitigate any conflict of interest between the principal (shareholders) and agents (managers), the former tends to employ independent directors with certain exceptional characteristics that can be trusted to deliver a great performance. In reducing corporate failures, non-executive directors are to play a significant role of ensuring financial reports prepared reflect the true view of the entity. This curbs the manipulations of financial reports by management. The focus drawn to independent directors have increased over the years as a result of the emphasis on increasing shareholders' value (Gordon, 2007). Thus, independent directors are believed to signal information on the efficient management of an entity's resources (Abu-Risheh & Al-Sa'eed, 2012).

The Nigerian business environment is regulated by various agencies such as the Securities and Exchange Commission, the Financial Reporting Council of Nigeria, the Central Bank of Nigeria which ensures that companies maintain best practices. It is pertinent to mention that these agencies have all published codes of corporate governance to ensure governance practice in relations to the international best practices (CBN Code 2014; FRCN Governance Code 2018; SEC Code, 2011). Amongst others, these corporate governance codes stress the establishment of the board of directors and the appointment of independent directors appointed by shareholders to act on their behalf. While many studies have focused more on characteristics of executive directors particularly, Chief Executive Officer and Chief Financial Officer, this study is motivated from the need to assess the effectiveness of independent directors in ensuring quality financial reports. Thus, the study seeks to investigate the quality of non-executive directorship monitoring and decision-making based on various attributes which may influence reporting quality. The study is expected to identify the importance of independent directors in representing shareholders' interests. The study identifies various features of independent directors which enhances board diversity. These features enhance board effectiveness and firm performance. Also, the study would enhance regulatory and government policies in regulating companies. Considering her regulating environment, economic and financial dominance, international recognition, the Nigerian economy is emerging and potential investors are drawn to its prowess with diverse resources, thus, the provision of quality financial reports would enhance investors' confidence.

This paper is divided into five sections, the next section examines the review of relevant literature. The remaining sections discuss the methodology employed in the study, results of regression analysis while conclusion is presented in section five.

LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

Earnings Quality

Investors rely on earnings as a measure of firms' performance than other variables such as dividend, cashflows e.t.c. Less wonder, the growing interest on earnings quality and factors influencing the quality of financial reports. Earnings quality is the ability of earnings to predict its future variance and cash flows (Financial Education, 2008 as cited in Holt, 2013). Earnings quality can be viewed from earnings precision which arise from both firms' reporting and long-run strategic decisions (Menicucci, 2020). The precision is estimating or predicting future cash flows taking into consideration flexibility and discretion in the reporting process (Ecker, 2014; Cohen, 2003).

The quality of earnings is dependent on the relevance of information on firms' financial performance. Dichev, Graham, Harvey and Rajgopal (2013) found that high quality revolves round consistent and sustainable accounting choices. However, the quality of earnings can be reduced by manipulations of management while using these accounting choices (Holt, 2013; Nissim, 2021).

While most authors question the vagueness of the term 'quality' (Francis *et al.* 2006; Dichev, *et al.* 2013), with no precise accounting definition, it has become a common word in recent accounting research. Barth, Landsman and Lang (2008) pointed that the decision usefulness of information is complex which makes it difficult to observe directly. Conclusively, the different views of earnings quality can be said to be based on the construct from which earnings is perceived (Francis *et al.* 2006).

The determinants of earnings quality are basically divided into two (2); innate and discretionary factors. This include firms' characteristics, market incentives, audit qualities, governance, accounting process (Dechow & Dichev, 2002; Dechow *et al.* 2010; Francis, *et al.* 2006; Menicucci, 2020; Nissim, 2021). However, there seems to be a difficulty in classifying which portion of earnings is affected by these factors (Dechow & Dichev, 2002; Dechow *et al.* 2010). While the discretionary attributes are easy to study from financial reports, the innate factors seem unobservable, thus, empirical studies employ proxies for the discretionary accruals to examine earnings quality. There is no single generally acceptable measure of earnings quality but various perceptions on earnings quality include views from financial analysis, decision-usefulness, income perspective, capital allocation, earning management, (Dechow & Schrand, 2004; Dichev *et al.* 2013; Du, Jian & Lai, 2017; Fonou-Dombeu, Mbonigaba, Olarewaju, & Nomlala (2022); Istianingsih, 2021; Nissim, 2021).

Earnings are directly unobservable, but proxied with measures that are expected to be related to properties of accounting information (Perotti & Wagenhofer, 2014). These earnings indicators differ based on their assumptions and purposes (Francis *et al.* 2006). Earnings attributes include accruals quality, income smoothing, persistence, timeliness, predictability, value relevance among others. Dechow *et al.* (2010) noted that there is no best proxy for earnings qualities while these proxies measure decision-usefulness of earnings base on various decision types. Accruals quality views earnings as more desirable when they are closely mapped to cash (Francis, *et al.* 2004). Persistence deals with the sustainability of earnings overtime; predictability is the ability of earnings to predict itself; while smoothness is the reduction in fluctuations of earnings; value relevance is the ability of earnings to explain variations in returns.

The accrual quality has the most direct link to information risk as it captures the association of earnings and cash flows from operations (Fonou-Dombeu, *et al.* 2022; Istianingsih, 2021). Also, the continual use of the accrual model and the discretionary accruals reveal the relationship between different parties and financial reporting quality (Dechow *et al.* 2010). Hence, the study employs the accrual-based measure as a proxy for earnings quality.

Non-Executive Directors (NEDs)

A significant component of the corporate governance is the non-executive directors. Non-executive directors serve as independent directors in the company. NEDs or independent directors are board members which serve as real monitors on the board on behalf of shareholders. Other governance mechanisms include various committees such as audit committee, risk management committee, governance committee among others. The responsibilities of NEDs include ensuring financial controls are effective and satisfying themselves on the integrity of financial information prepared by management (UK Corporate Governance Code, 2018). Independent directors are believed to establish objectivity and ensure shareholders' interests are met. Corporate governance codes state the importance of board diversity, experience and competence of independent directors (CBN Code 2014; FRCN

Governance Code 2018; SEC Code, 2011). Information on firms' corporate governance framework could also signal information on the performance of such entity. The role of NEDs are also exercised through their membership of the board's sub-committees. Although independent directors are to monitor the performance of the firm while also monitoring the management, issues arise on the ineffectiveness of NEDs because they are not full employees and the fact that they may always follow and approve whatever is being addressed by management.

Furthermore, NEDs in performing their monitoring role are expected to reduce managerial opportunistic behavior. The study therefore assesses the features of non-executive directors such as nationality, gender and board independence on firms' reporting quality. These attributes are believed to enhance board diversity and improve the effectiveness of the board. The composition of the board is also expected to enhance investors' perception on the firm.

Expertise: The educational and professional qualification of a person tends to enhance their evaluation into specific positions in a firm. Financial expertise of a directors signifies an important determinant of the quality of financial reports (Li *et al.* 2016; Wang *et al.* 2015). The authors noted that the affiliation with professional bodies also provide a sense of duty for directors to adhere to ethical codes of conduct. Directors with more educational qualification and financial expertise are believed to improve firms' performance through their skill set and experience (Cong *et al.* 2015; Li, *et al.* 2016; Wang *et al.* 2015).

H₁: Independent directors' expertise is positively associated with earnings quality.

Tenure: Tenure can be associated with power, the longer the engagement of a director, the more power they exert in decision-making (Mura, 2007; Xiong, 2016). A long serving director is believed to have a greater knowledge of firm's accounting processes, as such, should enhance credible financial information (Zhou *et al.* 2018). However, Davidson, *et al.* (2007) and Marra, (2021) documented that during succession, incoming executives are more effective and better monitor reporting quality during the early periods because they are unfamiliar with managers and can be more objective.

H₂: The longer the tenure of independent directors negatively affects earnings quality.

Nationality: In many boards, foreign directors are appointed based on their expertise, skill-set, also to enhance board diversity. Foreign directors have been found to positively influence objective decisions and firm performance (Ashraf & Qian, 2021; Estelyi & Nisar, 2016). This is because they have more understanding of international capital markets and independent of managers (Dobija & Pulawska, 2021; Estelyi & Nisar, 2016). However, some studies evidenced that foreign directors may not be effective in a board considering the differences in environmental regulatory policies. This study hypothesizes that foreign non-executive directors are able to discharge their monitoring role, thus, curbing manipulation in financial reports.

H₃: Foreign non-executive directors positively influence earnings quality.

Shareholdings: While extant studies have examined the relationship between ownership structure and earnings quality, ownership structure include institutional, block, family and managerial ownership. Non-executive directors also tend to acquire stocks in the companies they are appointed. Although, there is no objection from the governance codes or principle contradicting this, this may appear to affect firms' reporting quality. Stock ownership aligns shareholders' interests, hence, this may enhance active monitoring of managements' operations.

H₄: Independent directors' share ownership positively influences earnings quality.

Multiple Directorship: Varying issues arise from the number of boards a director may sit simultaneously. Directors who serve on many boards may be seen to be have conflict of interests, leak companies' policies, or too busy to effectively utilize their monitoring role (Godigbe, Chui & Liu, 2018). However, in other instances, serving on multiple boards improve the value of a firm through the diverse skill set and experiences of the directors in other companies (Chee & Tham, 2020; Ferris, Jagannathan & Pritchard, 2003; Kiel & Nicholson, 2006; Harris & Shimizu, 2004; Marra, 2021). Hence, the effect of multiple directorship is held under two hypotheses, "busyness' and "reputation" (Chee &

Tham, 2020; Harris & Shimizu, 2004). In the Nigerian Code of Corporate governance, there are no stipulated restrictions on the appointment of directors in other companies, while, the Companies and Allied Matters Act (CAMA) 2020 prohibits an individual from being a director of more than five public companies (Section 307). Moreover, the Act stipulates that such a director must disclose this information to any company proposing a directorship.

H₅: Multiple directorship of non-executive directors positively enhances earnings quality.

Theoretical Review

Agency Theory

The conflict of interest between owners (principal) and managers (agent) result in agency cost where each party seeks to maximise their value. Conflict between the parties also arise when there is information asymmetry (Jensen & Meckling, 1976). This creates a problem of moral hazard and adverse selection. Adverse selection occurs when managers have more relevant information than principals (shareholders) for decision making, while moral hazard occurs when managers use such information to the detriment of shareholders. The effect of moral hazard reflects on the decision-making approach of earnings management (El Diri, 2017). Decision making approach assumes that users of financial report are not fully informed about the economic events and operations of the firm, giving rise to agency theory. Therefore, shareholders are not able to monitor management performance because they do not possess the relevant information for such (El Diri, 2017). High quality financial reports are expected to reduce agency cost and reduce asymmetry between investors and the firm. Thus, weighing the benefit and cost, firms would rather choose to disclose high quality information (Cohen, 2003).

Although, managers could distort firms' performance to gain performance-based contracts (Akwushola & Saka, 2018; Harris *et al.* 2019; Xiong, 2016; Zhou *et al.* 2018; Zouari, *et al.* 2015), corporate governance mechanisms are expected to reduce or eliminate any distortion in financial reports (Jensen & Meckling, 1976; Fama & Jensen, 1983). The board of directors are a structural mechanism for curtailing the managerial opportunism behavior. This can be achieved when the board is objective and independent. More so, the independence of the chairman and CEO improves the independence of the board. A significant monitoring mechanism is the non-executive directors. Du *et al.* (2017) noted that the board of directors is the highest internal control mechanisms which monitors the affairs of management. In establishing a robust board of directors, emphasis has been placed on diversity including nationality, gender, expertise among others. These bring in wealth of knowledge from various background and diversity. Wang *et al.* (2015) opined that independent directors with varying expertise have a significant impact on the board. Board nationality diversity enhances the quality of financial reports and board decisions (Du *et al.* 2017; Kapoor & Goel, 2019). They also evaluate management decisions in line with shareholders' objectives. As a result, they help to reduce opportunism in managerial decisions. As such the study is hinged on the agency theory.

METHODOLOGY

Population and Sample

The study population comprised of non-financial companies listed on the Nigerian Exchange Group (NGX). This consists of about 106 firms, from which forty-four (44) companies were sampled for the study after excluding firms without complete directors' information and missing data. The study period spans nine (9) years from 2012 to 2020.

Model specification

The panel data model specification is:

$$EQ_{it} = \beta_0 + \beta_1 EXP_{it} + \beta_2 SHARE_{it} + \beta_3 TENURE_{it} + \beta_4 NAT_{it} + \beta_5 MULTIPLE_{it} + \beta_6 Controls_{it} + \mu_{it} \dots (i)$$

Where:

EQ = earnings quality

EXP = non-executive directors' expertise

SHARE = non-executive directors' shareholding

TENURE = non-executive directors' tenure

NAT = non-executive directors' nationality

MULTIPLE = multiple directorship

Control = vector of control variables which are firm size, leverage and audit type.

it = subscripts i and t indicate firm and time

Variable Description and Measurement

Earnings Quality: Prior studies have documented that there is no single acceptable measure for earnings quality. However, the accrual-based method is a popularized model used by many studies as a measure of earnings quality. This separates accruals into normal and abnormal accruals. The abnormal accruals capture manipulations or distortions in the financial statements (Dechow *et al.* 2010). The use of accruals measures the residual from the accrual model as discretionary accruals which reduce decision usefulness (Dechow *et al.* 2010; Francis *et al.* 2006).

The Jones accruals model (1991) classifies accruals as a function of Revenue and Property, Plant and Equipment (PPE). This model has been adjusted by researchers in the past such as Dechow, Sloan and Sweeney (1995), Kothari, Leone and Wasley (2005) among others. This study adopts the performance based modified Jones model by Kothari *et al.* (2005). The measure includes Return on Assets (ROA) into the Jones model which aims to eliminate the effect of firms' performance on the measured discretionary accruals (Cvetanovska & Kerekes, 2015). The absolute value of the residuals of the model is used as a proxy for earnings quality. Hence, the higher the accruals, the lower earnings quality.

This is stated in equation (ii):

$$Accruals_i = \alpha_i + \gamma_1 (1 / TA_{t-1}) + \gamma_2 (\Delta REV_i - REC_i) + \gamma_3 PPE_i + \gamma_4 ROA_i + \epsilon_i \dots (ii)$$

Accruals = Net income-cash flow from operations (CFO),

TA = total assets at the beginning of the year

REV = change in revenue defined as revenue_t – revenue_{t-1},

PPE = gross property, plant and equipment

ROA = return on assets calculated as net income divided by total assets i.e. (performance matching control variable)

The variables are scaled by the total assets at the beginning of the year.

Table I: Variable Measurement

Variable Type	Measurement	Acronym
Dependent Variable Earnings Quality	Discretionary Accruals Modified Jones Model	EQ
Independent Variable Non—executive directors		
NED Expertise	Proportion of directors with accounting, finance, business experience and professional qualification.	EXP
NED tenure	This study measure tenure as a dummy variable where 1 denoted	TENURE

	as directors' tenure greater than 3 years, and 0 for otherwise.	
NED shareholdings	This is measured as the ratio of shares held by non-executive directors in a firm to total issued shares.	SHARE
Nationality	This is measured as the proportion of foreign non-executive directors on the board.	NAT
Multiple directorship	Proportion of non-executive directors sitting in other boards to total directors.	MULTIPLE
Control Variables		
Board independence	Ratio of non-executive directors to the total number of directors in the board	BI
Firm size	Logarithm of total assets	SIZE
Firm growth	Change in revenue in the periods	GROWTH

Source: Authors' compilation, 2022

Estimation Technique

The Feasible Generalised Least Square Method will be employed in this study, as the variables employed in the study may appear to be correlated. Thus, this estimator corrects for serial correlation and heteroskedasticity.

RESULTS AND DISCUSSION

Summary Statistics

Table II reveals the summary statistics showing the mean, standard deviation, minimum and maximum values of the variables. The mean value of accruals is 0.1081. While this is considerable low, the higher discretionary accruals, signifies lower earnings quality. The average values for NED expertise, tenure, shareholdings, nationality and multiple directorship are 0.55, 0.06, 0.15, 0.41 respectively; these representing the attributes of non-executive directors. The minimum values of these characteristics are 0, depicting that some boards are characterised with directors with little accounting knowledge, no shareholdings in the firm, no foreign director and are not members of the board of directors of other firms. While the maximum value of expertise, tenure and multiple directorship reveal that in some boards, non-executive directors have considerable accounting knowledge, have held position as directors for more than 3years and are members of boards in other companies.

Firm characteristics used showed average growth rate and firm size of 10.86% and 1.67 respectively.

Table II: Summary Statistics

Variable	Observation	Mean	Std. dev	Minimum	Maximum
EQ	396	0.1081	0.1398	0	1.5936
EXP	396	0.5499	0.3150	0	1
TENURE	396	0.5303	0.3071	0	1
SHARE	396	0.0563	0.1222	0	0.6
NAT	396	0.1527	0.1880	0	0.625
MULTIPLE	396	0.4144	0.2737	0	1
BI	396	0.7004	0.1098	0.4	0.9
SIZE	396	16.8048	1.6657	12.8705	21.4728
GROWTH	396	0.1086	0.9507	-0.9083	17.4177

Source: Authors' computation, 2022

Multicollinearity Test

Table III shows the variance inflation factor (VIF) for all the independent variables. This is used to test for multicollinearity error which occurs when there is evidence of strong linear relationship among the independent variables. Using the VIF test, the rule of thumb is that any variable with VIF greater than 10 is highly collinear and vice-versa (O'brien, 2007). Therefore, the independent variables are not highly correlated with each other.

Table III. Variance Inflation Factor

Variables	VIF	1/VIF
EXP	2.13	0.468946
TENURE	1.07	0.931376
SHARE	1.17	0.853168
NAT	1.25	0.800819
MULTIPLE	2.00	0.499337
BI	1.01	0.991346
SIZE	1.17	0.853375
GROWTH	1.04	0.963949
MEAN VIF	1.36	

Source: Authors' computation, 2022

Model Selection

In order to ascertain the appropriateness of the generalized least square method, pre-estimation test was carried out on autocorrelation and heteroskedasticity. The test for heteroskedasticity helps to ensure that error terms are normally distributed while Autocorrelation test provides evidence that there is absence of serial correlation.

The Breusch Pagan/Cook-Weisberg test in Table IV, showed that the null hypothesis that error terms are normally distributed is rejected with chi-square of 59.50 (p-value = 0.0000). Furthermore, the Wooldridge test for Autocorrelation with a chi-square of 4.801 (p-value = 0.0340) indicates that error terms are correlated. Therefore, the Ordinary Least Square estimator will be inefficient for the model, hence, the study employed the Feasible Generalised Least Square method for the model.

Table IV. Model selection procedure

Test for heteroskedasticity: Breusch Pagan/Cook-Weisberg		
Chi ²	P-value	Hypothesis
59.50	0.0000***	Reject
Wooldridge test for Autocorrelation		
Chi ²	P-value	Hypothesis
4.801	0.0340**	Reject

Source: Authors' computation, 2022

*Note ***, ** and * denote statistically significant at 1%, 5% and 10% respectively.*

Discussion of Findings

Non-executive directors' shareholdings and earnings quality

The regression results in Table V showed that shareholdings of non-executive directors have a significant negative relationship with discretionary accruals (co-eff = -0.0579, p. value= 0.044). This shows that an increase in directors' shareholdings reduces the level of discretionary accruals reported by management. This means that ownership of shares by non-executive directors tend to ensure monitoring role, thus, leading to quality financial reports. As they are stakeholders in the business and

also drive towards wealth maximization, independent directors who are also shareholders tend to better monitor the reporting process of the firm.

Non-executive directors' nationality and earnings quality

Moreover, the regression result reveals that foreign directors are better able to ensure reduction in discretionary accruals (co-eff = -0.0804, p-value = 0.000). Firms with more foreign independent directors are able to provide quality financial reports. This confirms the monitoring role of non-executive directors and the notion of the agency theory. NEDs help to reduce the conflicts between managers and shareholders by properly monitoring management activities which leads to ensuring quality reported earnings. This result also reflects the activeness of non-executive directors in the board. Hence, these findings support the studies of Al-Sraheen and Al-Daoud 2018; Ashraf and Qian, 2021; Dobija and Pulawska, 2021; Du *et al.* 2017; Kapoor and Goel, 2019; Lee, 2013; Marra, 2021; Zhu *et al.*, 2016.

Non-executive directors' expertise and earnings quality

Directorship expertise measuring the academic and professional qualification of directors especially a background in accounting and finance was found to be non-significantly related to accruals. This implies that earnings quality is not affected by the academic discipline, professional qualification of an independent director. The result of this study is not in line with the findings of Li *et al.* (2016), Wang *et al.* (2015).

Non-executive directors' multiple directorship and earnings quality

While many studies have attributed firm performance on multiple directorship or interlocking directorship, the findings of this study revealed that multiple directorship is not a significant variable in determining the quality of earnings (coeff = 0.0031, p-value= 0.856), this is similar to the studies of Cong *et al.* (2015); Crespi-Cladera and Pascual-Fuster (2013). While Chee and Tham, (2020); Marra, (2021) found a significant relation between multiple directorship and accounting quality.

Non-executive directors' tenure and earnings quality

On tenure, there is an insignificant and negative association between accruals and directors' tenure (co-eff.= -0.0135, p= 0.098). This result posits that the period a director serve on a board does not affect earnings quality. This contradicts the findings of Davidson *et al* (2007), and Xiong (2016).

In relations to the control variables, board independence reveals a positive significant relationship to discretionary accruals (coeff = 0.0658, p-value = 0.060). This implies that the proportion of independent directors in a board is not enough to deter earnings management but the effectiveness on the board. This is in line with the findings of Al-Rassas and Kamardin, 2015; Al-Sraheen and Al-Daoud, 2018; Chee and Tham (2020); Marra, 2021 while Ianniello, (2013); Kapoor and Goel (2019) found that board independence is not significantly associated with earnings management. Firm size is significant and negatively associated with discretionary accruals (coeff = -0.0051, p-value = 0.022). It is documented that large firms have more internal controls in place to curb irregularities in financial reporting. This finding is consistent with Armstrong *et al.* (2014); Belot and Serve (2015); Chalaki *et al.* 2012; Chee and Tham (2020); Li *et al.* (2016); Song, *et al.* 2013; Zouari *et al.* (2015). Moreover, in large firms, the accounting process is more automated which gives less room for distorting any information (Ashraf & Qian, 2021; Godigbe *et al.* 2018; Harris *et al.* 2015; Zouari *et al* 2015).

Firm growth is found to positively influence accruals (co-eff: 0.0053, p-value = 0.089). That is, managers have more tendencies to report low quality earnings, as revenue increases. Managers could use the advantage of sales growth to conceal performance and distort financial information.

Table V: Regression Results

Variable	Coefficient	P-value
EQ		
EXP	0.0097	0.522
TENURE	-0.0135	0.246
SHARE	-0.0579	0.029**

NAT	-0.0805	0.000***
MULTIPLE	0.0031	0.856
BI	0.0658	0.060*
SIZE	-0.0051	0.022**
GROWTH	0.0055	0.063*
CONS	0.1625	0.000***
Model Stat		
Wald/Ch ²	33.55	0.000***

Source: Authors' computation, 2022

Note ***, ** and * denote statistically significant at 1%, 5% and 10% respectively.

CONCLUSION AND RECOMMENDATIONS

The preparation of financial report is the sole responsibility of management. This report is needed by users to make timely and relevant decisions. However, where there are distortions in the report, this eventually affect users' decisions. This study provides evidence that the influence of non-executive (independent) directors on earnings quality varies through directors' attributes. The study found that foreign independent directors and share ownership significantly influences earnings quality while directors' tenure, nationality and expertise were not significant. The study is limited to listed firms in Nigeria and assessed five (5) distinct features of non-executive directors.

- i. Therefore, the study recommends that attention should be given towards the appointment of independent directors in Nigerian companies and ensuring their effectiveness in the board.
- ii. In enhancing board diversity, shareholders should ensure more foreign directors are appointed in the board as well as stock-based compensation to independent directors.

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