International Journal of Scientific Research in Social Sciences & Management Studies
p-ISSN: 2579–101X | e-ISSN: 2579–1928
Volume 9, Number 1 May, 2026
IJSRSSMS

Corporate Governance Mechanisms and Earnings Quality of Listed Companies in Nigeria

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Article DOI: 10.48028/iiprds/ijsrssms.v9.i1.35

Abstract

Earnings quality is fundamental to financial reporting credibility, shareholder protection and capital market efficiency. This study examines corporate governance mechanisms and earnings quality among listed companies in Nigeria, focusing on board independence, board composition, audit committee effectiveness, ownership structure, board diversity and external audit quality. It adopts a qualitative research design based on secondary data obtained from peer-reviewed journal articles, corporate governance reports and regulatory publications. Data are analysed using thematic content analysis to identify recurring patterns, convergences and contradictions in existing empirical evidence. The review indicates that effective corporate governance enhances earnings quality through improved managerial accountability, reduced information asymmetry and constraints on opportunistic financial reporting. However, effectiveness depends on substantive independence, professional competence, monitoring capacity and regulatory enforcement. The study concludes that strengthening board oversight, audit committee effectiveness, shareholder monitoring and external audit independence is essential for promoting reliable financial reporting. It contributes to the literature by providing a qualitative synthesis of the Nigerian evidence and highlighting institutional conditions influencing earnings quality.

Keywords: *Corporate governance, Earnings quality, Board independence, Audit committee effectiveness, Earnings management, Listed companies*

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Background of the Study

Corporate governance has become an increasingly important component of contemporary corporate management, particularly in economies where capital markets play a significant role in mobilising investment, facilitating business expansion and promoting economic development. The increasing complexity of corporate organisations, separation of ownership from managerial control and growing expectations of corporate accountability have made effective governance structures essential for ensuring that companies operate in the interests of their shareholders and other stakeholders. Corporate governance provides the institutional and organisational framework through which companies are directed, controlled and monitored. It establishes the mechanisms for balancing managerial authority, protecting investors, strengthening accountability and ensuring the credibility of corporate disclosures.

One of the fundamental responsibilities of corporate governance is to promote the integrity and reliability of financial reporting. Financial statements provide essential information about the financial position, performance and cash flows of companies. Investors, creditors, regulators and other stakeholders rely on these statements when making decisions concerning investment, lending, resource allocation and corporate performance. However, the usefulness of financial statements depends considerably on the quality of the earnings information presented. Where reported earnings do not adequately reflect the underlying economic performance of an organisation, the decision-making process of financial statement users may be distorted.

Earnings quality refers broadly to the extent to which reported earnings faithfully represent a company's underlying economic performance and provide useful information for decision-making. Dechow et al. (2010) explain that earnings quality can be assessed through several dimensions, including earnings persistence, accrual quality, earnings smoothness, timely loss recognition and the responsiveness of investors to reported earnings. These dimensions demonstrate that earnings quality is multidimensional and cannot be adequately assessed through profitability figures alone. High-quality earnings should be sustainable, transparent, supported by underlying cash flows and relatively free from opportunistic managerial adjustments.

The relationship between corporate governance and earnings quality is particularly important because corporate managers exercise considerable discretion in preparing financial statements and making accounting estimates. Although accounting standards permit certain managerial judgements, such discretion can be used opportunistically to influence reported earnings. Healy and Wahlen (1999) explain that earnings management occurs when managers use judgement in financial reporting and the structuring of transactions to alter financial reports, either to mislead stakeholders about the underlying economic performance of an organisation or to influence contractual outcomes that depend on accounting figures. Such practices may involve discretionary accruals, manipulation of revenue recognition, inappropriate estimation of provisions, premature recognition of income and the alteration of operational decisions to achieve predetermined earnings targets. Although not every exercise of accounting judgement represents fraudulent conduct, excessive opportunistic discretion can undermine the reliability and comparability of financial statements.

Corporate governance mechanisms are therefore expected to serve as monitoring and accountability instruments that constrain managerial opportunism. These mechanisms include board independence, board composition, separation of the positions of board chairperson and chief executive officer, audit committee independence, financial expertise, ownership structure, institutional monitoring and external audit quality. Collectively, they establish checks and balances within corporate organisations and improve the oversight of financial reporting processes.

In Nigeria, the significance of corporate governance has increased alongside the development of the capital market and the growing participation of institutional and individual investors in publicly listed companies. The Nigerian corporate environment has experienced several governance-related concerns involving inadequate disclosure, weak internal controls, conflicts of interest, financial reporting irregularities and failures of corporate oversight. These developments have reinforced the importance of regulatory intervention and the establishment of governance standards capable of promoting transparency and accountability.

The introduction of the Nigerian Code of Corporate Governance (NCCG) 2018 represented an important development in the country's corporate governance framework. The Code, issued by the Financial Reporting Council of Nigeria, became applicable in 2019 and emphasised the principles of responsible corporate governance, effective board oversight, risk management, ethical business conduct, transparency and stakeholder engagement. Similarly, the Companies and Allied Matters Act 2020 strengthened aspects of directors' duties and corporate accountability, while the Financial Reporting Council Act 2011 established an institutional framework for promoting high-quality financial reporting standards.

Despite these regulatory developments, questions remain concerning the extent to which corporate governance mechanisms have translated into improved earnings quality among companies listed on the Nigerian Exchange. The existence of governance structures does not necessarily guarantee effective monitoring. Boards may be formally independent but lack the practical authority or information required to challenge management. Audit committees may satisfy statutory composition requirements without possessing sufficient financial expertise or independence to scrutinise complex accounting decisions. Similarly, concentrated ownership may facilitate effective monitoring in some companies while creating opportunities for controlling shareholders to influence financial reporting in others.

Empirical evidence from Nigeria reflects these complexities. Olaoye and Adewumi (2020) found that board size, board independence and gender diversity significantly influenced earnings quality among selected listed manufacturing companies. However, Olojede et al. (2023) reported mixed relationships between individual corporate governance mechanisms and earnings management among non-financial listed companies. More recently, Ibitomi et al. (2024) identified significant relationships between selected board and audit committee characteristics and real earnings management. These findings suggest that corporate governance mechanisms do not necessarily produce uniform outcomes across companies and

sectors. This study undertakes a qualitative examination of corporate governance mechanisms and earnings quality among listed companies in Nigeria. Rather than estimating statistical relationships from newly collected numerical observations, it critically synthesises existing empirical findings and relevant institutional literature to explain how governance mechanisms influence the credibility, reliability and usefulness of reported earnings.

The study focuses on corporate governance mechanisms and earnings quality among companies listed on the Nigerian Exchange. It examines six major governance dimensions: board independence and composition, audit committee effectiveness, ownership structure, external audit quality, regulatory frameworks and governance enforcement. The study adopts a qualitative approach and relies exclusively on secondary information obtained from peer-reviewed journal articles, corporate governance publications, regulatory documents and relevant scholarly literature. Its geographical scope is Nigeria, although selected international studies are considered to provide theoretical and conceptual perspectives.

Statement of the Problem

The credibility of corporate financial reporting remains a major concern in capital markets, particularly where weaknesses in corporate governance create opportunities for managerial opportunism and earnings manipulation. Although listed companies in Nigeria operate within an established regulatory framework, the effectiveness of corporate governance mechanisms in promoting reliable earnings information remains an important issue for investors, regulators and other stakeholders. A major concern is the possibility that reported earnings may not adequately reflect the underlying financial performance of companies. Management may exercise accounting discretion to influence reported profitability, smooth earnings fluctuations or achieve financial targets. Such practices can reduce the usefulness of financial statements and create information asymmetry between corporate managers and external stakeholders. Consequently, investors may make decisions based on financial information that does not sufficiently represent the economic realities of the companies concerned.

Corporate governance mechanisms are designed to address these concerns through monitoring, supervision and accountability. However, their practical effectiveness is not always assured. The independence of board members may be compromised by personal relationships, controlling shareholders or management influence. Audit committees may lack adequate accounting and financial reporting expertise, while ownership concentration may either strengthen monitoring or facilitate the entrenchment of controlling interests. External auditors may also encounter challenges relating to auditor independence, commercial relationships and the quality of audit engagement.

The Nigerian empirical literature has examined different aspects of this relationship, but findings remain mixed. For instance, Olaoye and Adewumi (2020) reported significant relationships between board characteristics and earnings quality, whereas Olojede et al. (2023) found that several governance variables did not jointly restrain earnings management. Similarly, Abata and Migiro (2016) identified insignificant positive relationships between

selected board and audit committee characteristics and earnings management. In contrast, Kibiya et al. (2016) established the importance of audit committee monitoring, financial expertise and share ownership in improving financial reporting quality.

These differences raise questions about the conditions under which individual governance mechanisms become effective in improving earnings quality. They also suggest that examining corporate governance through isolated variables may provide an incomplete understanding of the institutional, organisational and behavioural factors influencing financial reporting outcomes. Furthermore, much of the existing Nigerian research adopts quantitative approaches based on panel regression and selected proxies for earnings quality. Although such studies provide useful statistical evidence, there remains a need for qualitative synthesis that examines the underlying mechanisms, institutional constraints and contextual explanations for the observed relationships.

The problem addressed by this study, therefore, is the insufficient integrated understanding of how corporate governance mechanisms influence earnings quality within the institutional environment of listed companies in Nigeria. The study addresses this gap by critically reviewing existing empirical evidence and explaining the conditions under which governance arrangements can promote transparent, reliable and decision-useful earnings information.

Research Objectives

The broad objective of this study is to examine corporate governance mechanisms and earnings quality of listed companies in Nigeria. The specific objectives are to:

1. Examine the influence of board independence and board composition on the earnings quality of listed companies in Nigeria.
2. Assess the role of audit committee independence and financial expertise in promoting earnings quality.
3. Examine how ownership structure and shareholder monitoring influence earnings quality among listed companies.
4. Analyse the contribution of external audit quality to the credibility and reliability of reported earnings.
5. Evaluate the influence of regulatory frameworks and corporate governance enforcement on earnings quality in Nigeria.
6. Identify the institutional and organisational challenges limiting the effectiveness of corporate governance mechanisms in improving earnings quality.

Research Questions

The study is guided by the following research questions:

1. How do board independence and board composition influence the earnings quality of listed companies in Nigeria?
2. What role do audit committee independence and financial expertise play in promoting earnings quality?
3. How does ownership structure influence earnings quality among listed companies in Nigeria?

4. In what ways does external audit quality contribute to the credibility of reported earnings?
5. How do regulatory frameworks and corporate governance enforcement influence earnings quality in Nigeria?
6. What institutional and organisational challenges limit the effectiveness of corporate governance mechanisms in improving earnings quality?

Conceptual Review

Corporate Governance

Corporate governance refers to the structures, processes, relationships and institutional arrangements through which companies are directed and controlled. It establishes the distribution of rights and responsibilities among the board of directors, management, shareholders and other stakeholders, while providing mechanisms for setting corporate objectives, monitoring managerial performance and ensuring accountability.

The Organisation for Economic Co-operation and Development (OECD, 2023) identify corporate governance as an important framework for promoting market confidence, economic efficiency, sustainable investment and corporate accountability. Effective governance requires transparent disclosure, responsible board oversight, equitable treatment of shareholders and appropriate mechanisms for managing conflicts of interest.

Corporate governance can be understood through two broad dimensions: internal and external mechanisms. Internal mechanisms operate within the organisation and include the board of directors, audit committees, internal control systems, ownership arrangements, remuneration structures and risk management frameworks. External mechanisms operate beyond the immediate organisational structure and include external auditors, capital market regulators, institutional investors, corporate governance codes, financial reporting standards and market discipline.

The effectiveness of corporate governance depends on the interaction between these mechanisms. An independent board, for instance, may be less effective where external auditing is weak or where regulatory enforcement is inadequate. Similarly, a technically competent audit committee may encounter limitations where management withholds relevant information. Corporate governance should therefore be understood as an integrated system rather than a collection of independent organisational structures.

Earnings Quality

Earnings quality refers to the extent to which reported earnings provide a faithful, relevant and reliable representation of an organisation's underlying economic performance. It reflects the usefulness of accounting earnings in assessing corporate performance and predicting future financial outcomes. Dechow et al. (2010) emphasise that earnings quality is not a single, universally measurable attribute. Rather, it is assessed through different accounting and market-based characteristics depending on the decisions for which the earnings information is intended.

The major dimensions of earnings quality include:

1. Earnings persistence: This refers to the extent to which current earnings are sustainable and capable of predicting future earnings. Persistent earnings are generally considered more useful because they indicate the sustainability of corporate performance.
2. Accrual quality: This concerns the extent to which accounting accruals correspond with underlying cash flows. Large unexplained or discretionary accruals may indicate greater managerial discretion and potentially lower earnings quality.
3. Earnings predictability: High-quality earnings should provide useful information for forecasting future profitability and financial performance.
4. Earnings smoothness: This concerns the stability of reported earnings over time. Although smooth earnings may reflect stable business operations, excessive smoothing may indicate managerial intervention to conceal underlying performance volatility.
5. Timely loss recognition: This refers to the prompt recognition of economic losses in financial statements. Delayed recognition may distort financial information and conceal deteriorating corporate performance.
6. Value relevance: This concerns the extent to which reported earnings provide information relevant to investors' valuation decisions.

It is important to distinguish earnings quality from profitability. A company may report high profits without necessarily demonstrating high-quality earnings if those profits are unsustainable, unsupported by cash flows or significantly influenced by opportunistic accounting decisions.

Corporate Governance Mechanisms

1. **Board Independence**

Board independence refers to the extent to which directors can exercise objective judgement without undue influence from management, controlling shareholders or other interested parties. Independent directors are expected to provide impartial oversight, challenge managerial decisions and protect the interests of shareholders. Their presence is particularly important in financial reporting because they can scrutinise management estimates, accounting policies and financial disclosures.

From an agency perspective, independent directors reduce the possibility of managerial opportunism by strengthening the monitoring function of the board. However, formal independence may not necessarily translate into effective independence. Personal relationships, appointment arrangements, financial interests and inadequate access to corporate information may weaken directors' capacity to challenge management. Board independence is therefore more meaningful when accompanied by professional competence, integrity, access to information and the authority to question management decisions.

2. **Board Composition and Diversity**

Board composition concerns the size, structure, qualifications, experience and diversity of the

board of directors. A well-composed board should possess an appropriate balance of executive and non-executive directors, independent judgement, industry knowledge and professional expertise. Diversity in gender, professional background, education and experience may broaden the perspectives available for corporate decision-making.

Board diversity can contribute to earnings quality by improving deliberation, reducing groupthink and strengthening the scrutiny of managerial decisions. Directors with accounting, finance, legal and industry experience may also improve the board's capacity to understand complex financial reporting issues. However, board size alone does not guarantee effectiveness. An excessively large board may experience coordination difficulties, while a small board may lack the range of competencies required for effective oversight.

3. **Audit Committee Independence and Financial Expertise**

The audit committee is an important component of the corporate governance structure because it provides oversight of financial reporting, internal control systems, internal audit functions and external audit relationships. An effective audit committee is expected to review financial statements, examine significant accounting estimates, monitor compliance with accounting standards and evaluate the independence of external auditors.

Independence is essential because committee members must be able to question management without fear of undue influence. Financial expertise is equally important because the committee requires members capable of interpreting accounting policies, understanding financial risks and evaluating complex reporting decisions. Kibiya et al. (2016) identify audit committee monitoring, share ownership and financial expertise as important factors influencing financial reporting quality among Nigerian listed companies. The effectiveness of audit committees, therefore, depends not merely on statutory composition but also on professional competence, independence, diligence and access to relevant information.

4. **Ownership Structure**

Ownership structure refers to the distribution of shareholding and control among individuals, families, institutional investors, government and other corporate entities. Ownership arrangements influence the monitoring relationship between shareholders and management. Institutional investors may possess the resources and expertise required to monitor corporate decisions, question financial reporting practices and demand accountability.

However, concentrated ownership has both positive and negative implications. On the positive side, large shareholders have stronger incentives to monitor management because they bear a substantial proportion of the financial consequences of poor corporate performance. On the negative side, controlling shareholders may exercise excessive influence over corporate decisions and potentially compromise the interests of minority shareholders.

Managerial ownership may also align management interests with those of shareholders, although excessive managerial control can create entrenchment and weaken external monitoring. Consequently, ownership structure influences earnings quality through its capacity to strengthen or weaken corporate accountability.

5. **External Audit Quality**

External audit quality refers to the extent to which an independent auditor is capable of detecting material misstatements in financial statements and reporting identified irregularities in accordance with professional and regulatory requirements. External auditors provide independent assurance that financial statements have been prepared in accordance with applicable accounting standards and reporting requirements.

Audit quality is influenced by auditor independence, professional competence, audit experience, resources, ethical standards and the effectiveness of audit procedures. A high-quality external audit can discourage opportunistic earnings management by increasing the likelihood that inappropriate accounting treatments will be identified and reported. However, auditor reputation or affiliation with a large audit firm does not automatically guarantee audit quality. Independence, professional scepticism, adequate audit procedures and regulatory oversight remain essential.

6. **Regulatory Framework and Governance Enforcement**

Corporate governance operates within a broader institutional environment that establishes standards for corporate conduct and financial reporting. In Nigeria, the principal institutional and regulatory instruments relevant to this study include:

1. The Financial Reporting Council of Nigeria Act 2011.
2. The Nigerian Code of Corporate Governance 2018.
3. The Companies and Allied Matters Act 2020.
4. The Investments and Securities Act 2025.
5. Applicable Nigerian Exchange listing and disclosure requirements.
6. Applicable International Financial Reporting Standards.

These instruments provide requirements and guidance concerning directors' responsibilities, financial reporting, corporate disclosures, shareholder rights, audit oversight and organisational accountability. The effectiveness of these frameworks depends on the capacity of regulatory institutions to monitor compliance, investigate violations and impose appropriate sanctions.

Theoretical Framework

This study is anchored on agency theory, stewardship theory and stakeholder theory. These perspectives provide complementary explanations of the relationship between corporate governance mechanisms and earnings quality

Agency Theory

Agency theory, principally associated with Jensen and Meckling (1976), explains the relationship between principals and agents in organisations. In corporate organisations, shareholders act as principals, while managers serve as agents entrusted with the responsibility of managing corporate resources. The separation of ownership from managerial control creates opportunities for conflicts of interest because managers may pursue personal objectives that do not necessarily correspond with shareholder interests. Information

asymmetry further complicates this relationship because managers generally possess more information about the organisation's operations and financial position than external shareholders. Such information advantages may provide opportunities for earnings management and the manipulation of reported financial performance.

Corporate governance mechanisms are therefore necessary to minimise agency costs and strengthen managerial accountability. Independent directors, audit committees, external auditors and institutional shareholders serve as monitoring instruments that can reduce managerial discretion and improve financial reporting quality. Agency theory is particularly relevant to this study because it explains why corporate governance mechanisms are expected to constrain earnings manipulation and promote reliable financial reporting.

Stewardship Theory

Stewardship theory, developed within the corporate governance literature by Donaldson and Davis (1991), offers an alternative perspective to the assumption that managers are primarily motivated by personal interests. The theory suggests that managers can act as responsible stewards whose interests are aligned with organisational objectives. Managers may therefore pursue corporate growth, organisational sustainability and shareholder wealth maximisation without necessarily requiring excessive external monitoring.

From this perspective, effective governance should not only focus on control and supervision but also on creating an organisational environment that promotes trust, professional commitment and responsible managerial behaviour. Stewardship theory is relevant because the quality of financial reporting depends partly on managerial integrity, ethical values and commitment to transparent corporate practices. However, stewardship should not eliminate accountability. Rather, effective governance requires a balance between managerial empowerment and appropriate oversight.

Stakeholder Theory

Stakeholder theory, associated with Freeman (1984), extends corporate accountability beyond shareholders to include employees, creditors, customers, suppliers, government and the wider society. The theory recognises that corporate organisations depend on multiple stakeholder groups and that their long-term sustainability requires responsible consideration of these interests. Earnings quality is important from a stakeholder perspective because unreliable financial reporting may adversely affect creditors, employees, investors, regulators and other parties that rely on corporate financial information.

High-quality earnings therefore contribute to stakeholder confidence, transparency and organisational legitimacy. Stakeholder theory is relevant to this study because it explains the broader implications of corporate governance beyond shareholder wealth maximisation.

The three theories provide complementary explanations of corporate governance and earnings quality. Agency theory explains the need for monitoring mechanisms to constrain managerial opportunism. Stewardship theory highlights the importance of ethical leadership,

managerial integrity and organisational commitment. Stakeholder theory explains the responsibility of companies to provide reliable financial information to all relevant stakeholder groups. The combined theoretical perspective suggests that earnings quality is more likely to improve when effective monitoring, responsible management and stakeholder accountability operate together.

Empirical Review

This section reviews existing empirical studies examining corporate governance, earnings management and earnings quality, with particular attention to evidence from Nigerian listed companies.

Board Independence and Earnings Quality

Board independence is widely recognised as an important mechanism for controlling managerial discretion and promoting credible financial reporting. Independent directors are expected to provide objective oversight and protect shareholders against opportunistic managerial practices. Olaoye and Adewumi (2020) examined corporate governance and earnings quality among 37 quoted manufacturing companies in Nigeria over the period 2011–2017. The study investigated board size, board independence and gender diversity using secondary data obtained from corporate annual reports. The findings indicated that the three corporate governance variables significantly influenced earnings quality. The authors further observed that governance variables were sensitive to the particular measure of earnings quality employed. This finding suggests that board characteristics may influence different dimensions of earnings quality in different ways.

Similarly, Udeh and Ogodor (2023) investigated board independence and earnings quality among listed Nigerian companies before and after the 2011 corporate governance code requirements. Their study covered the periods 2003–2010 and 2011–2018. The findings indicated that board independence had a positive and significant effect on earnings quality in the post-2011 regulatory period. However, the authors concluded that governance reforms had not completely resolved the challenges associated with earnings quality.

Olojede et al. (2023) examined whether corporate governance mechanisms restrained earnings management among 49 non-financial companies listed on the Nigerian Stock Exchange between 2012 and 2017. Their findings revealed mixed relationships between governance mechanisms and earnings management. While board independence was associated with reduced earnings management, other governance variables produced less favourable results. The study recommended stronger enforcement of corporate governance requirements.

These findings suggest that board independence can improve earnings quality, but its effectiveness depends on the actual independence, competence and authority of directors.

Audit Committee Effectiveness and Earnings Quality

Audit committee effectiveness is another important dimension of corporate governance

because of its direct responsibility for overseeing financial reporting processes. Kibiya et al. (2016) investigated audit committee independence, financial expertise, share ownership and financial reporting quality among Nigerian listed non-financial companies. The study examined 505 firm-year observations covering 101 companies between 2010 and 2014. The findings indicated that audit committee monitoring, share ownership and financial expertise significantly influenced financial reporting quality. The authors concluded that effective audit committee monitoring could strengthen the reliability of corporate financial information.

Kantudu and Alhassan (2022) examined audit committee characteristics and financial reporting quality among 41 non-financial firms listed on the Nigerian Stock Exchange between 2011 and 2019. Using the Generalised Method of Moments approach, the study found that audit committee size, shareholder representation and the inclusion of financial experts were negatively associated with earnings management. The findings suggest that these characteristics can reduce discretionary accruals and improve financial reporting quality.

Obeitoh et al. (2024) examined audit committee attributes and earnings quality among listed financial services firms in Nigeria. Their study used 11 years of panel data covering 41 listed firms. The findings showed that audit committee independence, accounting expertise, the expertise of women on audit committees and committee meetings contributed positively to earnings quality. This evidence reinforces the importance of professional competence and active oversight.

Ibitomi et al. (2024) also examined corporate governance and real earnings management among 46 non-financial listed companies between 2018 and 2021. Their findings indicated that board size, board independence, diversity and audit committee expertise had significant relationships with real earnings management. The evidence generally supports the importance of audit committee effectiveness, although the contribution of individual committee characteristics may differ according to the sector and earnings quality measure employed.

Ownership Structure and Earnings Quality

Ownership structure influences the incentives and capacity of shareholders to monitor corporate management. Oyebamiji (2021) examined ownership structure and earnings quality among listed financial firms in Nigeria. The study considered the ownership arrangements of selected financial institutions over the period 2009–2018, using information obtained from audited financial statements and Nigerian Stock Exchange publications. The research focused on the relationship between ownership structure and earnings quality, demonstrating the relevance of shareholder monitoring in corporate financial reporting.

Olojede et al. (2023) also examined ownership concentration and managerial ownership in relation to earnings management. Their findings indicated positive relationships between these ownership variables and earnings management within the sampled companies. This outcome suggests that concentrated ownership and managerial shareholding do not automatically guarantee improved financial reporting quality. The difference between these

findings highlights the complexity of ownership arrangements. While shareholder monitoring may strengthen corporate accountability, controlling shareholders may also exercise influence in ways that weaken the protection of minority shareholders.

External Audit Quality and Earnings Quality

External audit quality is important because independent auditors provide assurance regarding the credibility of published financial statements. Abata and Migiro (2016) examined corporate governance and earnings management among selected listed companies in Nigeria's manufacturing and banking sectors. The study covered 24 companies between 2008 and 2013. The findings indicated that board independence, audit committee independence and audit committee size had insignificant positive relationships with earnings management. This finding raises questions about the practical effectiveness of formal governance arrangements.

Bala et al. (2018) investigated audit committee attributes and auditor brand name among listed companies in Nigeria. Using 440 firm-year observations from 88 companies between 2012 and 2016, the study found positive relationships between selected audit committee characteristics and the engagement of Big Four audit firms. Although auditor brand name does not independently establish earnings quality, the findings suggest that audit committee characteristics may influence the choice of external audit providers.

The evidence indicates that external audit quality should be considered alongside board oversight and audit committee effectiveness. The credibility of financial reporting requires auditors who are professionally competent, independent and capable of exercising appropriate professional scepticism.

Corporate Governance Reforms and Earnings Quality

Regulatory reforms are designed to strengthen corporate governance and improve financial reporting practices. The Nigerian corporate governance framework has undergone important developments, particularly through the introduction of the 2011 corporate governance requirements and the Nigerian Code of Corporate Governance 2018.

Udeh and Ogodor (2023) examined the relationship between board independence and earnings quality before and after the 2011 corporate governance requirements. Their findings suggested that board independence became more effective in influencing earnings quality during the post-reform period.

Imagbe et al. (2024) examined the effect of the 2011 corporate governance reform on earnings quality among listed Nigerian companies. Their study considered the regulatory reform within the broader context of corporate accountability and financial reporting. The study provides additional evidence on the relevance of governance reforms to the quality of reported earnings.

However, the effectiveness of governance reforms depends on implementation and enforcement. Regulatory requirements may have limited influence where compliance is treated as a formal reporting obligation rather than an institutional commitment to transparency and accountability.

Methodology

The study adopts a qualitative research design based exclusively on secondary data to examine how corporate governance mechanisms influence earnings quality among listed companies in Nigeria. The approach involves a documentary review and critical synthesis of existing scholarly evidence, institutional publications and regulatory frameworks. Data are obtained from peer-reviewed journal articles, published empirical studies, corporate annual reports, financial statements, Nigerian Exchange publications, Financial Reporting Council of Nigeria reports, the Nigerian Code of Corporate Governance 2018, the Companies and Allied Matters Act 2020, and relevant Organisation for Economic Co-operation and Development publications. Academic materials are identified through Google Scholar, Crossref, Scopus-indexed publication records and publishers' journal repositories. Literature selection is guided by relevance to the research objectives, empirical evidence on corporate governance and earnings quality, publication credibility and relevance to the Nigerian corporate environment. Particular attention is given to studies published between 2016 and 2024, alongside earlier foundational theoretical contributions.

The collected information is analysed using thematic content analysis, involving documentary identification, thematic classification, comparative interpretation and synthesis of findings. The analysis focuses on board independence, board composition, audit committee effectiveness, ownership structure, external audit quality and regulatory enforcement. Similarities, differences and contradictions in existing findings are examined to identify recurring patterns and contextual explanations. The credibility of the study is enhanced through the use of verifiable scholarly publications, recognised regulatory documents and multiple documentary sources.

Discussion of Findings

Board Independence, Board Composition and Earnings Quality

The reviewed literature indicates that board independence and composition are important mechanisms for improving earnings quality among listed companies in Nigeria. The findings of Olaoye and Adewumi (2020) demonstrate that board size, independence and gender diversity have significant relationships with earnings quality. Similarly, Udeh and Ogodor (2023) found that board independence became more effective following the introduction of the 2011 corporate governance requirements.

These findings support the argument that effective boards provide an important monitoring structure through which managerial discretion can be controlled. Independent directors are expected to question accounting decisions, scrutinise management performance and ensure that financial disclosures reflect the organisation's underlying economic position. However, the findings of Olojede et al. (2023) demonstrate that individual governance mechanisms may

produce mixed outcomes. This suggests that board independence should not be assessed merely through the numerical representation of independent directors.

The substantive independence of board members, their professional competence, access to relevant information and willingness to challenge management are equally important. The discussion therefore establishes that board independence is most effective when supported by professional diversity, transparent appointment procedures and an organisational culture that encourages objective oversight.

Audit Committee Independence, Financial Expertise and Earnings Quality

The reviewed evidence identifies audit committee effectiveness as a significant component of reliable financial reporting. Kibiya et al. (2016) found that audit committee monitoring and financial expertise influenced financial reporting quality. Similarly, Kantudu and Alhassan (2022) established that audit committee size, shareholder representation and financial expertise were associated with reduced earnings management.

The findings of Obeitoh et al. (2024) further indicate that committee independence, accounting expertise and meeting frequency contribute to earnings quality. These findings suggest that audit committees provide an important institutional link between corporate management, internal auditors, external auditors and the board of directors.

However, the effectiveness of audit committees depends on more than formal compliance with regulatory requirements. Committee members must possess the technical capacity to examine accounting estimates, assess financial reporting risks and challenge management where necessary. The study therefore establishes that audit committee independence and professional competence are complementary requirements for improving earnings quality.

Ownership Structure and Earnings Quality

The findings concerning ownership structure indicate that shareholder monitoring can influence the quality of financial reporting, although the relationship is not necessarily straightforward. Institutional and large shareholders may possess sufficient financial resources and incentives to monitor corporate management. Their involvement can strengthen accountability and discourage opportunistic reporting.

Nevertheless, concentrated ownership can also create opportunities for controlling shareholders to influence corporate decisions in ways that may disadvantage minority investors. The findings of Olojede et al. (2023), which identify positive relationships between ownership concentration and earnings management, illustrate this potential difficulty.

The implication is that ownership concentration should not automatically be regarded as a mechanism for improving earnings quality. Its effectiveness depends on the nature of shareholder relationships, the protection of minority interests and the independence of corporate oversight structures. Consequently, companies should strengthen shareholder accountability and ensure that ownership arrangements do not compromise the integrity of financial reporting.

External Audit Quality and Earnings Quality

The review indicates that external audit quality is essential for strengthening confidence in corporate financial statements. The findings of Bala et al. (2018) demonstrate that audit committee characteristics are associated with the engagement of reputable external audit firms. This relationship suggests that internal governance structures may influence the quality of external assurance obtained by listed companies.

However, the findings of Abata and Migiro (2016) caution against assuming that formal governance arrangements necessarily translate into reduced earnings management. External auditors must therefore maintain professional independence, exercise appropriate scepticism and conduct sufficient audit procedures to identify material misstatements.

The study establishes that external audit quality should operate alongside internal governance mechanisms. Effective boards and audit committees must ensure that external auditors are independent, adequately resourced and capable of reporting identified irregularities without undue interference.

Regulatory Frameworks and Corporate Governance Enforcement

The Nigerian corporate governance framework provides important institutional foundations for promoting financial reporting quality. The Nigerian Code of Corporate Governance 2018 emphasises board accountability, ethical leadership, risk management, transparency and stakeholder engagement. Similarly, the Companies and Allied Matters Act 2020 reinforce directors' responsibilities and corporate accountability.

The reviewed evidence suggests that regulatory reforms can strengthen the relationship between corporate governance and earnings quality. The findings of Udeh and Ogodor (2023), particularly concerning the post-2011 period, provide support for this position. Nevertheless, regulatory effectiveness depends on enforcement, monitoring and institutional capacity. Companies may comply with the formal requirements of corporate governance without necessarily adopting the underlying principles of transparency and accountability. The implication is that regulatory institutions should move beyond procedural compliance monitoring towards substantive evaluation of governance effectiveness.

Institutional Challenges Limiting the Effectiveness of Corporate Governance Mechanisms

The review identifies several challenges that may limit the effectiveness of corporate governance mechanisms among listed companies in Nigeria.

1. Formal rather than substantive board independence may undermine the ability of directors to exercise objective judgement.
2. Inadequate financial expertise among board and audit committee members may weaken the examination of complex financial reporting decisions.
3. Concentrated ownership and management influence may create conflicts of interest that compromise minority shareholder protection.
4. Weak internal control systems may provide opportunities for inappropriate

accounting practices to remain undetected.

5. Inadequate enforcement of corporate governance requirements may reduce the deterrent effect of regulatory provisions.
6. The absence of a consistent organisational commitment to ethical financial reporting may weaken the practical effectiveness of otherwise appropriate governance structures.

These challenges indicate that improving earnings quality requires institutional and organisational reforms rather than simply increasing the number of governance structures within companies.

Implications of the Study

The findings have important implications for corporate governance practice, financial reporting regulation and investment decision-making in Nigeria.

1. Managerial implications: Corporate management should promote ethical financial reporting and ensure that financial statements reflect underlying economic performance. Management should also strengthen internal controls and facilitate effective board and audit committee oversight.
2. Board governance implications: Listed companies should prioritise the appointment of independent directors with relevant financial, accounting, legal and industry expertise. Board diversity should be considered in terms of professional competence and the quality of deliberation, rather than numerical representation alone.
3. Audit committee implications: Audit committees should be sufficiently independent, technically competent and actively involved in reviewing financial reporting processes. Their responsibilities should extend beyond formal approval of financial statements.
4. Regulatory implications: The Financial Reporting Council of Nigeria, the Nigerian Exchange and other relevant institutions should strengthen compliance monitoring, disclosure requirements and sanctions for governance failures.
5. Investor implications: Investors should evaluate governance quality alongside conventional financial indicators when assessing corporate performance. Particular attention should be given to audit committee effectiveness, earnings persistence, accrual quality and cash flow support for reported profits.

Conclusion

This study examined corporate governance mechanisms and earnings quality among listed companies in Nigeria using a qualitative research design based on secondary data. The study reviewed relevant theoretical perspectives, regulatory frameworks and empirical studies to explain how corporate governance structures influence the credibility and reliability of reported earnings. The review establishes that corporate governance mechanisms play an important role in promoting earnings quality through managerial monitoring, financial reporting oversight, shareholder accountability and external assurance. Board independence and appropriate board composition strengthen managerial supervision, while audit committee independence and financial expertise improve the scrutiny of accounting decisions and corporate disclosures. Ownership arrangements influence shareholder monitoring,

whereas external audit quality provides an additional layer of assurance concerning the credibility of financial statements.

However, the relationship between corporate governance and earnings quality is not uniform. Existing Nigerian empirical studies report mixed findings, suggesting that the effectiveness of governance mechanisms depends on their actual implementation, institutional independence, professional competence and regulatory enforcement.

The study concludes that improving earnings quality among listed companies in Nigeria requires a coordinated corporate governance framework that goes beyond formal compliance. Independent and competent boards, effective audit committees, responsible ownership structures, credible external auditors and consistent regulatory enforcement are necessary for strengthening the integrity of financial reporting. Ultimately, earnings quality should be understood not merely as an accounting outcome but also as an institutional reflection of corporate accountability, transparency and responsible management. Strengthening corporate governance is therefore essential for improving investor confidence, protecting stakeholders and promoting the sustainable development of the Nigerian capital market.

Recommendations

Based on the findings and discussion, the study makes the following recommendations:

1. Strengthening board independence: Listed companies should ensure that independent directors possess the professional competence, integrity and institutional authority required to provide effective oversight of management.
2. Improving board composition: Companies should promote appropriate board diversity, including accounting, financial, legal, technological and industry expertise, to strengthen the quality of corporate deliberations.
3. Enhancing audit committee effectiveness: Audit committees should comprise members with relevant financial and accounting expertise, adequate independence and sufficient time to discharge their responsibilities effectively.
4. Strengthening shareholder monitoring: Institutional investors and other significant shareholders should exercise their monitoring responsibilities while ensuring that the interests of minority shareholders are protected.
5. Promoting external audit independence: Listed companies should strengthen auditor independence, transparency in auditor appointment and appropriate monitoring of audit quality.
6. Improving regulatory enforcement: Regulatory institutions should strengthen compliance monitoring, investigate material reporting irregularities and apply appropriate sanctions where corporate governance requirements are violated.
7. Strengthening internal control systems: Companies should invest in effective internal audit functions, risk management procedures and financial reporting controls to reduce opportunities for earnings manipulation.
8. Promoting ethical financial reporting: Corporate boards and management should institutionalise ethical reporting practices and discourage the use of accounting discretion to misrepresent corporate performance.

9. Improving financial reporting transparency: Companies should provide timely, comprehensive and understandable financial disclosures that enable investors and other stakeholders to evaluate reported earnings.

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