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Earnings Management, Corporate Governance and Financial Reporting Quality in Listed Companies

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Abstract

This study examines earnings management, corporate governance and financial reporting quality in listed companies. It adopts a qualitative documentary research design based on secondary data from peer-reviewed journal articles, corporate governance frameworks and accounting standards. Guided by four research objectives, the study examines the relationship between earnings management and financial reporting quality, the influence of board independence and audit committee effectiveness, the roles of ownership structure and external audit quality, and the institutional and regulatory factors shaping corporate governance effectiveness. Anchored on agency theory, stakeholder theory and stewardship theory, the study employs thematic analysis to synthesise existing theoretical and empirical evidence. The review indicates that opportunistic earnings management undermines financial reporting quality, while effective corporate governance promotes accountability, transparency and credible financial disclosures. However, governance effectiveness depends on board independence, audit committee competence, auditor independence and regulatory enforcement. The study concludes that an integrated corporate governance framework is essential for mitigating earnings management and strengthening financial reporting quality in listed companies.

Keywords:
Earnings management, Corporate governance, Financial reporting quality, Listed companies, Board independence, Audit committee, Ownership structure, External audit quality.

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Background of the Study

Financial reporting is an essential mechanism through which companies communicate their financial position, operating performance and cash flow activities to shareholders, investors, creditors, regulatory institutions and other stakeholders. The credibility of financial reports is fundamental to the effective functioning of capital markets, investment decisions and corporate accountability. High-quality financial reporting provides relevant, faithfully represented, comparable and understandable information that enables stakeholders to evaluate corporate performance and make informed economic decisions. Conversely, poor financial reporting quality may create information asymmetry, weaken investor confidence and undermine the efficient allocation of financial resources.

Despite the importance of credible financial reporting, concerns about earnings management have continued to attract considerable attention in accounting, finance and corporate governance literature. Earnings management occurs when managers exercise judgement in financial reporting and structure transactions to influence reported earnings in ways that may affect stakeholders' perceptions of corporate performance or contractual outcomes (Healy & Wahlen, 1999). Although accounting standards permit managerial discretion in certain areas, such discretion becomes problematic when it is deliberately employed to conceal the actual economic performance of an organisation.

Earnings management can take different forms, including accrual-based earnings management and real activities manipulation. Accrual-based earnings management involves the exercise of discretion over accounting estimates, provisions, depreciation, revenue recognition and other accounting treatments to influence reported earnings. Real activities manipulation, on the other hand, involves altering actual business activities, such as production levels, sales incentives, expenditure and investment decisions, to achieve predetermined earnings targets (Roychowdhury, 2006).

Both practices may distort the information presented in corporate financial statements, although their methods and consequences differ. While accrual-based manipulation primarily influences the timing and recognition of accounting transactions, real activities manipulation may affect the actual operating efficiency and long-term performance of a company. The existence of earnings management is closely associated with the separation of ownership and managerial control in modern corporations. Shareholders entrust managers with the responsibility of managing corporate resources, but managers may sometimes pursue personal interests that differ from those of shareholders. Such conflicts create agency problems, particularly where shareholders have limited capacity to monitor managerial decisions. Jensen and Meckling (1976) explain that agency relationships generate monitoring and bonding costs because managers may not always act in the best interests of principals.

Corporate governance has consequently emerged as an important institutional mechanism for addressing managerial opportunism and strengthening corporate

accountability. It encompasses the structures, relationships, processes and mechanisms through which companies are directed, controlled and held accountable. Effective corporate governance promotes transparency, responsible leadership, ethical conduct and appropriate oversight of management activities.

Several governance mechanisms are particularly relevant to the prevention of earnings management. These include board independence, board effectiveness, audit committee effectiveness, ownership structure and external audit quality. Independent directors are expected to provide objective oversight of managerial decisions, while audit committees are responsible for monitoring financial reporting processes, internal controls and relationships with external auditors. Similarly, high-quality external auditing can improve the credibility of financial statements by increasing the likelihood that material misstatements and inappropriate accounting practices will be detected.

Nevertheless, the existence of formal corporate governance structures does not automatically guarantee high-quality financial reporting. Governance mechanisms may be ineffective where directors lack independence, audit committees are inadequately equipped, ownership structures encourage managerial dominance or regulatory institutions fail to enforce compliance. Consequently, the relationship between corporate governance and earnings management requires examination beyond the mere existence of governance structures.

The issue is particularly relevant to listed companies because their financial reporting obligations extend beyond internal organisational stakeholders to a wider population of investors and capital market participants. Investors depend on published financial statements to assess profitability, financial stability, investment risks and future prospects. Where reported earnings are manipulated, investment decisions may be based on misleading information, potentially resulting in inappropriate capital allocation and diminished market confidence.

In emerging capital markets, including Nigeria, these concerns are further complicated by institutional weaknesses, varying levels of regulatory enforcement, ownership concentration and differences in corporate governance practices. These conditions make it necessary to examine how governance mechanisms influence managerial discretion and the credibility of financial reporting. This study examines earnings management, corporate governance and financial reporting quality in listed companies. It adopts a qualitative approach using secondary data to synthesise existing theoretical and empirical evidence, explain the relationship among the study variables and identify governance mechanisms that can strengthen the integrity of corporate financial reporting.

Statement of the Problem

The credibility of corporate financial reporting remains a major concern in contemporary corporate management, particularly because reported earnings are widely used in

assessing organisational performance, determining executive compensation, evaluating investment opportunities and making financial decisions. Although accounting standards establish guidelines for the preparation and presentation of financial statements, the discretion permitted within accounting practices creates opportunities for managers to influence reported financial outcomes.

The problem becomes more pronounced when managerial discretion is exercised opportunistically rather than to communicate the underlying economic realities of business operations. Through accrual adjustments and the manipulation of real business activities, managers may present financial results that differ from the actual performance of their organisations. Such practices can undermine the relevance and faithful representation of financial information, weaken investor confidence and compromise the accountability of listed companies.

Corporate governance is generally recognised as an important mechanism for controlling managerial behaviour and promoting financial reporting integrity. However, the effectiveness of governance mechanisms remains a subject of debate. While independent boards, effective audit committees and quality external auditors are expected to constrain earnings management, the practical effectiveness of these mechanisms may be influenced by directors' independence, professional competence, ownership arrangements, regulatory enforcement and organisational culture.

Furthermore, existing empirical studies have produced varying findings concerning the relationship between specific governance mechanisms and earnings management. Some studies establish that independent boards and effective audit committees constrain opportunistic earnings management, while others suggest that formal governance structures do not necessarily produce improved financial reporting outcomes. Differences in research contexts, institutional environments, measurement approaches and corporate ownership structures may account for these variations. A further concern is that earnings management is frequently examined independently of its broader implications for financial reporting quality. This creates a need for an integrated examination of how managerial discretion, corporate governance arrangements and the quality of published financial information interact.

The central problem, therefore, is the persistent possibility that weaknesses in corporate governance may permit earnings management practices that compromise the credibility of financial reporting in listed companies. There is a need to critically synthesise existing theoretical and empirical evidence to explain these relationships, identify the governance mechanisms that are most relevant and establish the institutional conditions under which corporate governance can effectively promote financial reporting quality. The study examines earnings management, corporate governance and financial reporting quality in listed companies through a qualitative analysis of secondary data.

Research Objectives

The broad objective of this study is to examine earnings management, corporate governance and financial reporting quality in listed companies. The specific objectives are to:

1. Examine the relationship between earnings management and financial reporting quality in listed companies.
2. Analyse the influence of board independence and audit committee effectiveness on earnings management in listed companies.
3. Assess the influence of ownership structure and external audit quality on financial reporting quality.
4. Examine the institutional and regulatory factors affecting the effectiveness of corporate governance in controlling earnings management and promoting financial reporting quality.

Research Questions

The study is guided by the following research questions:

1. What is the relationship between earnings management and financial reporting quality in listed companies?
2. How do board independence and audit committee effectiveness influence earnings management in listed companies?
3. In what ways do ownership structure and external audit quality influence financial reporting quality?
4. What institutional and regulatory factors affect the effectiveness of corporate governance in controlling earnings management and promoting financial reporting quality?

Conceptual Review

Earnings Management

Earnings management is an important concept in financial accounting because it concerns the extent to which managers exercise discretion in preparing and presenting financial information. Healy and Wahlen (1999) explain that earnings management occurs when managers use judgement in financial reporting and structure transactions to alter financial reports, either to mislead stakeholders about the underlying economic performance of an organisation or to influence contractual outcomes. This definition highlights two important dimensions of earnings management. First, managerial discretion is not necessarily inappropriate because accounting standards require professional judgement in estimating provisions, depreciation, impairment and other accounting treatments. Second, such discretion becomes problematic when it is exercised to deliberately misrepresent economic performance or influence the decisions of financial statement users.

Earnings management can therefore be classified into two broad categories.

1. Accrual-based earnings management: Accrual-based earnings management involves the manipulation of accounting estimates and discretionary accruals

without necessarily changing the underlying cash transactions of a business. Examples include adjusting depreciation estimates, delaying impairment recognition, manipulating provisions and changing assumptions used in revenue recognition.

The Modified Jones Model developed by Dechow et al. (1995) is widely used in empirical accounting research to estimate discretionary accruals. The model distinguishes between normal accruals associated with business activities and discretionary accruals that may indicate earnings management. However, discretionary accruals should not automatically be interpreted as evidence of fraudulent reporting. They may also reflect legitimate differences in business circumstances, accounting estimates and managerial judgement.

2. Real activities earnings management: Real activities earnings management involves altering actual business operations to influence reported earnings. Unlike accrual-based manipulation, which primarily involves accounting adjustments, real activities manipulation affects the timing, scale or structure of operational decisions.

   Roychowdhury (2006) identifies practices such as offering excessive price discounts to increase sales, overproducing goods to reduce reported unit costs and cutting discretionary expenditures to improve reported profit margins. These activities may temporarily improve reported earnings but can adversely affect future cash flows, operational efficiency and long-term corporate value. The implication is that earnings management may occur even where companies comply formally with accounting standards because managers can manipulate the underlying activities that generate reported financial results.

Corporate Governance

Corporate governance refers to the institutional arrangements through which companies are directed, controlled and monitored. It establishes the relationships between shareholders, boards of directors, executive management and other stakeholders. Corporate governance seeks to ensure that managerial decisions are consistent with organisational objectives, legal requirements and the legitimate interests of stakeholders. It also establishes accountability mechanisms through which management performance can be evaluated and controlled.

The Organisation for Economic Co-operation and Development (OECD, 2023) emphasises the importance of corporate governance in promoting market confidence, economic efficiency, transparency, accountability and sustainable corporate performance. Corporate governance performs an important monitoring function by reducing opportunities for managerial opportunism and strengthening the integrity of published financial information.

The major corporate governance mechanisms relevant to this study include the following.

1. Board independence: Independent directors are expected to provide objective oversight of executive management and challenge accounting decisions that may compromise financial reporting integrity.
2. Audit committee effectiveness: Audit committees oversee financial reporting processes, internal control systems, audit activities and compliance with relevant accounting standards. Their effectiveness depends on independence, financial expertise, diligence and access to reliable information.
3. Ownership structure: Ownership arrangements influence the distribution of corporate control and the capacity of shareholders to monitor management. Institutional investors may provide additional monitoring, although concentrated ownership can also create opportunities for controlling shareholders to influence corporate reporting.
4. External audit quality: Independent external auditors provide assurance on financial statements and help strengthen their credibility. Their effectiveness depends on professional competence, independence, objectivity and adherence to auditing standards.

Financial Reporting Quality

Financial reporting quality concerns the extent to which published financial statements faithfully communicate the economic position and performance of an organisation. High-quality financial reporting enables stakeholders to understand the financial consequences of corporate activities and make informed decisions. It also supports accountability by allowing shareholders and other interested parties to assess management's stewardship of corporate resources.

The International Accounting Standards Board's Conceptual Framework identifies relevance and faithful representation as the fundamental qualitative characteristics of useful financial information. Comparability, verifiability, timeliness and understandability enhance the usefulness of such information (International Accounting Standards Board [IASB], 2018).

Financial reporting quality may be assessed through several dimensions:

1. Relevance: Financial information should be capable of influencing users' economic decisions.
2. Faithful representation: Information should reflect the underlying economic substance of transactions and events.
3. Comparability: Financial information should enable users to identify similarities and differences across companies and reporting periods.
4. Verifiability: Independent and knowledgeable observers should be able to reach reasonable agreement that information faithfully represents the economic phenomena it purports to represent.
5. Timeliness: Information should be available sufficiently early to influence users' decisions.
6. Understandability: Financial statements should be presented clearly and systematically.

Dechow et al. (2010) explain that earnings quality can be assessed through several proxies, including earnings persistence, accrual quality, earnings smoothness, timely loss recognition and the occurrence of financial reporting misstatements. They further emphasise that earnings quality depends partly on the firm's underlying economic performance and the decision context in which financial information is used. Consequently, financial reporting quality should not be reduced exclusively to the absence of earnings management. It also encompasses the broader characteristics that make financial information useful, credible and decision-relevant.

Relationship Between Earnings Management and Financial Reporting Quality

Earnings management and financial reporting quality are closely related because managerial discretion can influence the reliability and usefulness of published financial information. Where managers employ accounting discretion to reflect the economic realities of business transactions, such judgement may improve the informational value of financial statements. However, where discretion is used to conceal poor performance, inflate earnings or influence stakeholder perceptions, financial reporting quality may deteriorate.

Accrual-based earnings management can weaken faithful representation by introducing accounting adjustments that do not adequately reflect the economic substance of transactions. Similarly, real activities manipulation may distort the relationship between reported earnings and the organisation's actual operating performance.

The relationship is not necessarily straightforward. Dechow et al. (2010) caution that earnings quality is multidimensional and that different proxies capture different aspects of financial reporting. Thus, a company with low estimated discretionary accruals may not automatically have high-quality financial reporting if it exhibits other forms of manipulation or weak disclosure practices. The implication is that assessing financial reporting quality requires consideration of earnings management alongside governance structures, accounting policies, internal controls and the broader institutional environment.

Board Independence and Earnings Management

Board independence is considered an important corporate governance mechanism because independent directors are expected to exercise objective judgement in overseeing management activities.

The presence of independent directors may reduce managerial influence over accounting decisions and strengthen the monitoring of financial reporting processes. Independent directors can also challenge management where accounting treatments appear inconsistent with the economic realities of corporate operations.

Nevertheless, independence should be substantive rather than merely formal. Directors may be classified as independent under corporate governance regulations while

maintaining relationships that weaken their ability to challenge executive management. Therefore, the effectiveness of board independence depends on directors' professional competence, integrity, access to information and willingness to exercise independent judgement.

Audit Committee Effectiveness and Financial Reporting Quality

The audit committee occupies a central position in the corporate financial reporting process. It provides oversight of financial statements, internal controls, risk management and the relationship between management and external auditors. An effective audit committee should possess sufficient financial expertise to understand complex accounting issues, evaluate financial reporting judgements and question unusual transactions.

The frequency of audit committee meetings may also contribute to effective monitoring. However, meeting frequency alone does not establish effectiveness. The quality of deliberations, independence of members, access to information and implementation of recommendations are equally important. An audit committee that is independent and professionally competent is better positioned to identify weaknesses in financial reporting and discourage opportunistic accounting practices.

Ownership Structure and Financial Reporting Quality

Ownership structure influences corporate governance because it determines the distribution of ownership rights and the capacity of shareholders to monitor managerial decisions. Institutional investors may strengthen corporate monitoring because they often possess the resources and professional expertise required to analyse corporate performance and challenge management.

However, concentrated ownership may have different implications. While controlling shareholders may exercise effective monitoring over managers, they may also use their influence to pursue private benefits at the expense of minority shareholders. The relationship between ownership structure and earnings management therefore depends on the nature of ownership, the degree of shareholder protection and the institutional environment in which companies operate.

External Audit Quality and Financial Reporting Integrity

External auditing provides independent assurance on the credibility of corporate financial statements. High-quality auditing can discourage earnings management by increasing the likelihood that inappropriate accounting practices will be identified and challenged.

Audit quality is influenced by auditor independence, professional competence, industry experience, audit methodology and the availability of adequate resources. Large international audit firms are often used as proxies for audit quality in empirical studies. However, firm size alone does not guarantee effective auditing. The auditor's actual

independence, professional scepticism and commitment to applicable auditing standards remain important.

Effective external auditing, combined with a competent audit committee and strong internal controls, can provide multiple layers of protection against opportunistic financial reporting.

Theoretical Review

Agency Theory

Agency theory, developed in the seminal work of Jensen and Meckling (1976), explains the relationship between principals and agents in organisations. In a corporate setting, shareholders are the principals, while managers act as agents entrusted with the responsibility of managing corporate resources. The separation of ownership and managerial control creates opportunities for conflicts of interest because managers may pursue personal objectives that differ from shareholders' interests.

Such conflicts may manifest in earnings management when managers manipulate reported financial outcomes to achieve performance targets, secure bonuses, maintain their positions or influence investment decisions. Agency theory therefore provides a strong explanation for the need for corporate governance mechanisms. Independent boards, effective audit committees, external auditing and shareholder monitoring serve as mechanisms for reducing information asymmetry and controlling managerial opportunism. The theory is particularly relevant to this study because it explains why earnings management may occur and how corporate governance can constrain such behaviour.

However, agency theory may place excessive emphasis on managerial self-interest. It does not fully explain situations where managers exercise professional judgement in the interests of the organisation or its wider stakeholders.

Stakeholder Theory

Stakeholder theory, associated with Freeman (1984), extends the responsibilities of corporate organisations beyond shareholders to include employees, customers, suppliers, creditors, government institutions and the wider society. From this perspective, financial reporting is not merely a mechanism for communicating profitability to shareholders. It is also an accountability instrument through which organisations demonstrate how their activities affect different stakeholder groups.

Earnings management may undermine stakeholder interests because misleading financial statements can distort investment decisions, affect employees' welfare, misrepresent corporate performance and weaken public confidence. Corporate governance should therefore promote transparency, ethical conduct and responsible financial reporting in the interests of all relevant stakeholders. Stakeholder theory is relevant to this study because it explains why financial reporting quality is important

beyond the contractual relationship between shareholders and management. It establishes the broader accountability obligations of listed companies.

Stewardship Theory

Stewardship theory, advanced in corporate management literature by Donaldson and Davis (1991), assumes that managers may act as responsible stewards of organisational resources rather than invariably pursuing personal interests. Unlike agency theory, which emphasises the possibility of managerial opportunism, stewardship theory recognises the potential for managers to pursue organisational objectives through commitment, professional responsibility and collective achievement.

In financial reporting, stewardship theory suggests that managers should exercise accounting discretion responsibly to communicate the actual performance and financial position of their organisations. The theory also highlights the importance of trust, organisational commitment and professional ethics in promoting financial reporting integrity.

Stewardship theory is relevant because effective corporate governance should not depend exclusively on restrictive monitoring mechanisms. It should also encourage ethical leadership, responsible managerial behaviour and a corporate culture that values transparency.

The three theories offer complementary explanations of the relationship among earnings management, corporate governance and financial reporting quality. Agency theory explains the possibility of earnings manipulation arising from conflicts of interest between shareholders and managers. Stakeholder theory broadens the accountability responsibilities of listed companies, while stewardship theory emphasises professional integrity and responsible managerial judgement. The study therefore adopts an integrated theoretical position in which corporate governance operates through both monitoring and ethical accountability. This approach recognises that the quality of financial reporting depends not only on formal governance structures but also on the behaviour, competence and institutional environment of those responsible for preparing and supervising financial statements.

Empirical Review

Empirical studies have examined different dimensions of the relationship between corporate governance, earnings management and financial reporting quality. The findings reveal that governance mechanisms can influence managerial discretion, although the strength and direction of these relationships vary across institutional and organisational contexts.

Board Independence and Earnings Management

Klein (2002) examined the relationship between audit committee and board characteristics and earnings management among publicly traded companies. The study

found a negative relationship between audit committee independence and abnormal accruals. It also established that reduced board independence was associated with higher abnormal accruals. The findings suggest that independent boards and audit committees can strengthen oversight of corporate financial reporting.

Abata and Migiro (2016) investigated corporate governance and earnings management among selected Nigerian-listed companies in the manufacturing and banking sectors. Using a sample of 24 companies over the period 2008–2013, the study employed panel data analysis to examine the relationship between governance variables and earnings management. The findings indicated that board independence, audit committee independence and audit committee size were insignificantly positively correlated with earnings management. This finding raises questions about the practical effectiveness of formal governance structures in the Nigerian corporate environment.

Obeitoh et al. (2023) examined the effects of board and audit committee attributes on earnings management among listed non-financial firms in Nigeria. Using ten-year panel data from 36 listed companies, the study found that board size, board independence and financial expertise of women on the board and audit committee reduced earnings management. The findings also indicated that board expertise produced mixed results, depending on the accrual measure considered. The study highlights the importance of board composition and professional competence in monitoring financial reporting practices.

Ibitomi et al. (2024) examined corporate governance and real earnings management among listed non-financial companies in Nigeria. The study covered 46 companies between 2018 and 2021 and investigated board size, board independence, board activity, board diversity and audit committee characteristics. The findings established relationships between real earnings management and several governance variables, including board independence, board diversity and audit committee expertise. The study recommended stronger board independence and improved audit committee competence to enhance financial reporting quality.

The evidence from these studies suggests that board independence can serve as an important mechanism for reducing earnings management. However, the findings of Abata and Migiro (2016) indicate that the existence of independent directors may not automatically translate into effective monitoring. The difference in findings suggests that institutional context, directors' actual independence and professional competence are important considerations.

Audit Committee Effectiveness and Financial Reporting Quality

Kibiya et al. (2016) examined audit committee independence, financial expertise, share ownership and financial reporting quality among Nigerian-listed companies. The study utilised 505 firm-year observations from 101 non-financial listed companies over the period 2010–2014. The findings indicated that audit committee monitoring

characteristics, share ownership and financial expertise were significant in explaining financial reporting quality. The authors also observed that share ownership could encourage audit committee members to become more active in their monitoring responsibilities.

Kantudu and Alhassan (2022) examined audit committee characteristics and financial reporting quality among 41 non-financial firms listed in Nigeria over the period 2011–2019. Using the Generalised Method of Moments technique, the study found that audit committee size, shareholder representation and financial expertise were significantly associated with reduced earnings management. The findings suggest that appropriate audit committee composition can reduce discretionary accruals and improve financial reporting quality.

Ombugu and Udeh (2023) investigated the effect of audit committee characteristics on earnings management among listed industrial goods firms in Nigeria between 2012 and 2022. The study examined audit committee size and financial expertise using discretionary accruals as a measure of earnings management. The findings indicated that audit committee size and independence had significant positive relationships with discretionary accruals. The study recommended strengthening the financial expertise of audit committee members to improve their capacity to monitor corporate financial reporting.

These studies demonstrate that audit committee effectiveness is an important component of financial reporting quality. However, their findings also indicate that the mere expansion of committee membership or the formal appointment of independent members may not guarantee improved reporting outcomes. The professional competence, independence and actual monitoring activities of committee members are equally important.

Real Activities Earnings Management

Roychowdhury (2006) investigated earnings management through real business activities. The study found evidence that managers manipulate actual operating decisions to avoid reporting annual losses. The identified practices included offering price discounts to increase sales, overproduction to reduce reported production costs and cutting discretionary expenditure to improve reported earnings. The study further found that sophisticated investors were associated with lower levels of real activities manipulation. This evidence demonstrates that earnings management extends beyond accounting adjustments to include decisions that affect the underlying operations of a company.

Ahmad et al. (2022), in their review of international literature on real earnings management, examined its determinants, consequences and measurement approaches. Their review categorised the determinants of real earnings management into financial reporting incentives, auditing, corporate governance and internal controls, capital

market incentives and regulatory factors. The study emphasised the importance of examining real activities manipulation alongside accrual-based earnings management to obtain a broader understanding of managerial reporting behaviour. The findings reinforce the argument that corporate governance mechanisms should monitor not only accounting estimates and financial statement adjustments but also operational decisions that may be influenced by short-term earnings targets.

The empirical evidence indicates that corporate governance mechanisms influence financial reporting quality through different channels. Board independence may strengthen management oversight, audit committee expertise may improve the scrutiny of accounting estimates, and external audit quality may enhance the credibility of published financial information. Nevertheless, the evidence is not entirely consistent. Abata and Migiro (2016) reported insignificant positive relationships between some governance characteristics and earnings management, whereas Klein (2002), Kibiya et al. (2016) and Obeitoh et al. (2023) reported findings supporting the monitoring role of independent boards and audit committees.

This divergence suggests that the relationship between governance mechanisms and financial reporting quality cannot be understood exclusively through formal governance arrangements. The institutional environment, regulatory enforcement, ownership structure, corporate culture and the actual independence of monitoring institutions may influence the effectiveness of corporate governance.

Methodology

Research Design

The study adopts a qualitative research design based on secondary data. Specifically, it employs a qualitative documentary review approach to examine the relationship between earnings management, corporate governance and financial reporting quality in listed companies. The choice of qualitative research is informed by the need to understand the conceptual, institutional and behavioural dimensions of earnings management and corporate governance. Unlike quantitative research, which primarily focuses on measuring relationships among variables, the qualitative approach enables the researcher to interpret existing evidence, compare different scholarly perspectives and identify the institutional conditions that influence financial reporting practices.

The study therefore relies on documentary evidence rather than primary data generated through questionnaires, interviews or experiments.

Sources of Data

The study utilises secondary data obtained from relevant academic and institutional sources. These include:

1. Peer-reviewed journal articles on earnings management, corporate governance and financial reporting quality.
2. Published empirical studies involving listed companies in Nigeria and other

countries.
3. Accounting and auditing standards relevant to financial reporting.
4. Corporate governance codes and regulatory publications.
5. Reports and publications of recognised professional and institutional organisations.
6. Relevant scholarly books and theoretical publications.

Particular attention is given to journal articles that provide empirical evidence on board independence, audit committee effectiveness, ownership structure, external audit quality and earnings management.

Data Collection Procedure

Secondary materials were identified through scholarly literature searches and relevant institutional publications. Sources were selected based on their relevance to the research objectives, their contribution to the conceptual and theoretical understanding of the subject and the availability of identifiable bibliographic information. The documentary review focused on publications addressing:

1. Accrual-based earnings management.
2. Real activities earnings management.
3. Corporate governance mechanisms.
4. Financial reporting quality.
5. Board and audit committee characteristics.
6. Ownership structure and external auditing.
7. Regulatory and institutional influences on corporate reporting.

The review also considered differences in research contexts, methodological approaches and empirical findings.

Method of Data Analysis

The study employs qualitative thematic analysis to interpret the retrieved secondary materials. The analysis involves identifying recurring concepts, comparing scholarly arguments and organising the evidence around the major themes of the research.

The following four analytical themes guide the process:

1. Earnings management and financial reporting quality.
2. Board independence, audit committee effectiveness and earnings management.
3. Ownership structure, external audit quality and financial reporting quality.
4. Institutional regulation, corporate governance and financial reporting accountability.

The reviewed evidence is compared to identify areas of convergence, divergence and gaps in existing knowledge. The resulting themes are interpreted through agency theory, stakeholder theory and stewardship theory.

Discussion of Findings

Relationship Between Earnings Management and Financial Reporting Quality in Listed Companies

The first objective examined the relationship between earnings management and financial reporting quality in listed companies. The reviewed literature demonstrates that earnings management has important implications for the credibility and usefulness of corporate financial reporting. Although accounting standards allow managers to exercise professional judgement in preparing financial statements, the inappropriate use of such discretion may distort reported earnings and weaken the faithful representation of corporate performance.

Healy and Wahlen (1999) establish that earnings management becomes problematic when managerial judgement is employed to mislead stakeholders or influence contractual outcomes. Similarly, Roychowdhury (2006) demonstrates that managers can manipulate actual operating activities to achieve predetermined earnings targets.

These perspectives reveal that earnings management is not restricted to accounting adjustments. It may also occur through operational decisions that influence revenue, production costs and discretionary expenditure. The analysis further indicates that financial reporting quality is multidimensional. Dechow et al. (2010) explain that earnings quality can be assessed through earnings persistence, accrual quality, earnings smoothness and other indicators. Consequently, the presence or absence of discretionary accruals alone cannot provide a complete assessment of financial reporting quality.

The implication is that listed companies must adopt comprehensive financial reporting practices that reflect the underlying economic realities of their operations. Corporate governance mechanisms should therefore monitor both accounting decisions and operational activities that may influence reported earnings. The study consequently establishes that opportunistic earnings management can weaken financial reporting quality by reducing the reliability, transparency and decision usefulness of corporate financial information. However, the exercise of accounting discretion should be distinguished from manipulation because legitimate professional judgement remains necessary in financial reporting.

Influence of Board Independence and Audit Committee Effectiveness on Earnings Management

The literature generally supports the position that independent boards strengthen corporate monitoring and reduce opportunities for managerial manipulation. Klein (2002) established that board and audit committee independence were negatively associated with abnormal accruals. Similarly, Obeitoh et al. (2023) found that board independence reduced earnings management among listed non-financial companies in Nigeria.

However, Abata and Migiro (2016) reported insignificant positive relationships between certain governance variables and earnings management among selected Nigerian-listed companies. This contrasting evidence suggests that the appointment of independent directors does not automatically guarantee effective corporate oversight.

The qualitative interpretation is that board independence must be supported by professional competence, access to relevant information, ethical responsibility and the willingness to challenge management decisions. Similarly, audit committee effectiveness is dependent on more than the formal appointment of committee members. The ability of committee members to understand financial statements, evaluate accounting judgements and challenge management decisions is essential to effective monitoring.

Kibiya et al. (2016) and Kantudu and Alhassan (2022) provide evidence supporting the relevance of audit committee expertise and monitoring characteristics in promoting financial reporting quality. The study therefore establishes that board independence and audit committee effectiveness are complementary governance mechanisms. Independent directors provide general oversight of corporate management, while audit committees provide more specialised monitoring of financial reporting and internal control systems.

Accordingly, the effectiveness of a board should be assessed not merely through the number of independent directors but through their actual contribution to financial reporting oversight and corporate accountability.

Influence of Ownership Structure and External Audit Quality on Financial Reporting Quality

The literature suggests that ownership structure influences corporate governance by determining the distribution of control and monitoring responsibilities within an organisation. Institutional investors may strengthen corporate accountability through professional monitoring and active engagement with management. Similarly, shareholder representation within audit committees may encourage closer scrutiny of financial reporting decisions.

However, concentrated ownership may produce conflicting outcomes. Although controlling shareholders can exercise effective monitoring over management, excessive ownership concentration may also enable dominant shareholders to influence financial reporting decisions in ways that disadvantage minority shareholders. This suggests that the relationship between ownership structure and financial reporting quality is influenced by the degree of shareholder protection, transparency of ownership arrangements and institutional environment.

External audit quality provides another important mechanism for strengthening financial reporting integrity. Independent auditors are expected to examine financial statements objectively, assess accounting judgements and identify material misstatements.

High-quality external auditing can improve financial reporting credibility through professional competence, auditor independence, appropriate audit procedures and the exercise of professional scepticism. The analysis indicates that external auditing is most effective when supported by an independent audit committee, strong internal controls and a regulatory environment that protects auditor independence.

Thus, ownership structure and external audit quality should be considered complementary elements of a broader corporate governance framework rather than isolated determinants of financial reporting quality. The study consequently establishes that transparent ownership arrangements and independent external auditing are important for strengthening corporate accountability and protecting the interests of financial statement users.

Institutional and Regulatory Factors Affecting Corporate Governance and Financial Reporting Quality

The reviewed evidence suggests that the effectiveness of corporate governance is influenced by more than the internal structures of individual companies. The broader institutional environment determines whether governance standards are properly implemented and enforced. In emerging capital markets, regulatory enforcement, institutional capacity, professional ethics and shareholder protection may influence the extent to which companies comply with financial reporting requirements.

The Nigerian evidence reviewed illustrates the importance of examining governance mechanisms within their institutional context. Differences between the findings of Abata and Migiro (2016), Kibiya et al. (2016) and more recent Nigerian studies suggest that governance effectiveness cannot be assumed to be uniform across companies and reporting periods. The OECD (2023) emphasises that an effective corporate governance framework requires appropriate legal, regulatory and institutional arrangements that promote transparency, accountability and responsible corporate management.

In Nigeria, the Financial Reporting Council of Nigeria and the Nigerian Exchange Group have important roles in promoting financial reporting standards, corporate governance compliance and market transparency. However, the existence of regulatory frameworks does not automatically guarantee compliance. Their effectiveness depends on the capacity of regulatory institutions to monitor corporate activities, investigate violations and apply appropriate sanctions. The analysis therefore indicates that regulatory institutions must move beyond the promulgation of corporate governance requirements to ensure effective implementation, monitoring and enforcement.

Earnings management represents a potential threat to financial reporting integrity when managerial discretion is exercised opportunistically. Corporate governance provides the institutional mechanisms for monitoring management and limiting such behaviour, while financial reporting quality represents an important outcome of effective accountability and reporting practices.

The relationship can be explained through the interaction of three major elements:

1. Managerial behaviour: Managers possess discretion over accounting estimates and operational decisions, which may be exercised responsibly or opportunistically.
2. Governance mechanisms: Boards, audit committees, shareholders and external auditors provide monitoring and accountability mechanisms that constrain inappropriate managerial behaviour.
3. Reporting outcomes: The effectiveness of governance mechanisms influences the credibility, relevance and faithful representation of financial information.

The analysis also demonstrates that the relationship is influenced by the institutional environment, including regulatory enforcement, professional competence, ethical leadership and shareholder protection. Accordingly, the study advances the position that effective corporate governance should be understood as an integrated institutional framework rather than a collection of formal compliance requirements.

Conclusion and Recommendations

Conclusion

This study examined earnings management, corporate governance and financial reporting quality in listed companies using a qualitative research design based on secondary data. The analysis was informed by agency theory, stakeholder theory and stewardship theory, which collectively explain the motivations for earnings management, the accountability responsibilities of companies and the importance of responsible managerial behaviour. The study establishes that earnings management constitutes a significant concern in corporate financial reporting because managerial discretion may be employed to influence reported financial outcomes. Although accounting judgement is an unavoidable component of financial reporting, its opportunistic application can undermine the credibility and usefulness of published financial information.

The analysis further establishes that corporate governance mechanisms play an important role in monitoring managerial behaviour and promoting financial reporting integrity. Board independence and audit committee effectiveness can strengthen accountability and reduce opportunities for inappropriate earnings management. However, the effectiveness of these mechanisms depends on their practical implementation. The presence of independent directors and audit committees does not automatically guarantee high-quality financial reporting. Professional competence, independence, ethical responsibility and effective monitoring are essential to ensuring good corporate governance.

The study also establishes that ownership structure and external audit quality are important determinants of corporate accountability. Transparent ownership arrangements can strengthen shareholder monitoring, while independent external auditing can improve the credibility of published financial statements. Furthermore, the

analysis demonstrates that the effectiveness of corporate governance depends on the broader institutional and regulatory environment. Regulatory enforcement, professional ethics, shareholder protection and institutional capacity are essential for ensuring compliance with financial reporting requirements.

The study also establishes that earnings management should be examined from both accrual-based and real activities perspectives. Concentrating exclusively on accounting adjustments may overlook operational decisions deliberately structured to influence reported earnings. The study concludes that financial reporting quality is strengthened when corporate governance mechanisms operate collectively to promote transparency, managerial accountability, professional integrity and compliance with applicable reporting standards. Corporate governance should therefore be regarded as a substantive institutional framework for protecting stakeholder interests and maintaining confidence in listed companies.

Recommendations

Based on the analysis, the study makes the following recommendations:

1. Strengthening board independence: Listed companies should ensure that their boards comprise sufficiently independent directors with the professional competence and integrity required to exercise objective oversight of executive management.
2. Improving audit committee effectiveness: Companies should strengthen the financial and accounting expertise of audit committee members. Committees should be adequately equipped to scrutinise financial statements, evaluate accounting judgements and challenge questionable financial reporting practices.
3. Promoting transparent ownership structures: Listed companies should strengthen ownership disclosure and shareholder accountability mechanisms. Particular attention should be given to protecting minority shareholders against the misuse of corporate control by dominant shareholders.
4. Strengthening internal controls and external auditing: Listed companies should maintain effective internal control systems and ensure that external auditors operate independently and professionally. Audit committees should also strengthen their oversight of internal and external audit functions.
5. Enhancing regulatory enforcement: Regulatory institutions should strengthen monitoring and enforcement of corporate governance and financial reporting requirements. Appropriate sanctions should be imposed on companies and executives involved in deliberate financial misrepresentation.
6. Promoting ethical financial reporting: Corporate management should establish ethical standards that discourage the manipulation of accounting estimates and operational activities to achieve short-term earnings targets.

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