EFFECT OF CORPORATE GOVERNANCE ONDISCRETIONARY LOAN LOSS PROVISION OF LISTED DEPOSIT MONEY BANKS IN NIGERIA

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EFFECT OF CORPORATE GOVERNANCE ON DISCRETIONARY LOAN LOSS PROVISION OF LISTED DEPOSIT MONEY BANKS IN NIGERIA

BY

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MAY, 2018

DECLARATION

I hereby declare that this dissertation titled "Effect of Corporate Governance onDiscretionary Loan Loss Provision of Nigerian Listed Deposit Money Bank" was written by me in the Department of Accounting, Faculty of Administration, Ahmadu Bello University, Zaria. The information derived from the literature has been duly acknowledged in the text and in the list of references provided. No part of this dissertation was previously presented for another Degree or any Certificate at any university. No part of this dissertation was previously presented for another degree at this or any other institution.

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CERTIFICATION

This dissertation titled "Effect of Corporate Governance on Loan Loss Provision of Nigerian Deposit Money Banks," written by Monday Emmanuel meets the requirement governing the award the of Degree of Master of Science (M.Sc.) in Accounting and Finance, Ahmadu Bello University, Zaria and is approved for its contribution to knowledge and literacy presentation.

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DEDICATION

This dissertation is dedicated to God Almighty and to my loving mother and delightful wife.

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LIST OF ABBREVIATIONS USED IN THE STUDY

LLP	Loan Loss Provisionss
DLLP	Discretionaryloan Loss Provisionss
INS	Institutional Shareholding
MRO	Managerial Ownership
BSZ	Board Size
ACZ	Audit Committee
FSZ	Firm Size
LEV	Leverage
CNPL	Change In Non Performing Loans
CIOL	Change In Outstanding Loans
WO	Write Offs
Cbn	Central Bank Of Nigeria
DMBs	Deposit Money Banks
VIF	Variance Inflation Factor
TIV	Tolerance Inflation Value
RE	Ramdom Effect
FE	Fixed Effect
REM	Ramdom Effect Model
FEM	Fixed Effect Model
LM	Langarian Multiplier
OLS	Ordinary Least Square

ABSTRACT

This dissertation investigates the relation between Corporate Covernance and discretionary loan loss provision of Nigerian Deposit Money Bank, using institutional shareholding, managerial ownership, board size and audit committee size to proxy for Corporate Covernances and Discretionary Loan Loss Provision was used as dependent variable. The relation was tested using OLS Multiple Regression for 10 years during the period 2007-2016 and based on correlation research design. Empirical result indicates that managerial ownership, audit committee and institutional shareholders are posively related, but board size is negatively related with discretionary loan loss provision. Next to this, findings indicate that it can be expected that an increase in the percentage of shares held by managerial ownership and moderate board size and audit committee will reduce manipulating loan losses. Overall, this study concludes that institutional shareholding, managerial ownership and audit committee positively influence bank Loan Loses while board size value negatively related to discretinary loan losses. Therefore, the study recommend that manager should participate in buying more shares in their banks and board size and audit committee size should be based on CBN and code of corporate governance guidelines.

CHAPTER ONE
INTRODUCTION

1.1 Background to the Study

The banking crisis being experienced highlights the unstable nature of banking. Following the failure of Lehman Brothers in September 2008, many banks went bankrupt. Although it all started in the United States, Europe and Africa were affected as well. During 2007-2008, the European banks wrote down a total of $200 billion in bad debts (Haq& Heaney, 2012). At the end of 2007, most of the banks had leveraged up 30 times their equity (Carmassi, Gros&Micossi, 2009). On the other hand, banks and governments are considering about new proposals that will increase the health and soundness of the banking sector. These proposals were designed to strengthen bank capital and liquidity regulation with a view to increase the stability of the banking sector (Hag & Heaney, 2012).

To increase the stability of the banking sector, banks are required by regulators to make provision which is known as loan-loss provisions (LLP) against expected credit losses. This right is exercised by the corporate executives of banks. Such discretion being exercised by bank executives are apparently misused for other purposes that could be of benefit to the banks executives and consequently, it will create information asymmetric thereby sending misleading information which could mislead the user of such information in terms of decision making. Banks executive use this LLP to increase loan loss reserves during good times, and draw resources from these reserves when the economy slows down and potential defaults become real.

In light of the above, Loan Loss Provisions (LLPs) are one of the banks' main accrual. From the perspective of banking system soundness and stability, they are to be set aside in order to cover future deterioration of the credit portfolio quality. In theory, from the perspective of the banking supervisory authorities, loan-loss provisions should be used only to face expected credit

losses, but in many countries they are left to the judgment of the bank manager, thus becoming a tool that managers can rely on to pursue various other goals. Even if banks' financial reporting system is highly regulated, managers still hold some discretion, for example, in determining when a loan can be considered impaired. This discretionary power gives them the opportunity to substantially influence a bank's reported net income, sending distorted signals to a bank's stakeholders, hiding the true economic substance of a bank's activity, and the actual value of the bank.In order to better understand the role that loan loss provisions play in modern banking activity, it must be highlighted that this statement of financial position account merges different information and behaviors (Bouvatier&Lepetit, 2008). Typically, accounting practice distinguishes between specific provisions and general provisions. The amount of specific provisions depends on credit losses and it increases specific reserves, which are deducted from the asset value. Specific provisions are also known as non-discretionary provisions and are used to cover expected losses in a bank's loan portfolio. General provisions are set aside against not yet identified losses and are added to general reserves on liabilities. Since they are linked to the expansion of customer loans, general provisions are highly judgmental and prone to be manipulated by bank managers for discretionary purposes.

The causes for loan default vary in different countries and have multidimensional aspects both in developing and developed nations. Some of these include depressed economic conditions, high real interest rate, inflation, and lenient terms of credit, credit orientation, high credit growth, risk appetite, and poor monitoring among others. Loan loss provisioning is a key accounting choice that directly influences the volatility of bank earnings, as well as information properties of banks' financial reports with respect to reflecting loan portfolios 'risk attributes. While the precise form that more forward-looking provisioning should take remain an open

question, proposals to date generally incorporate a broader range of information and create an expanded role for managerial discretion in assessing future expected losses. However, accounting discretion is regarded as double-edged sword (Dechow& Skinner, 2000). While increased discretion may facilitate in corporation of more information about future expected losses into loan provisioning decisions, it also increases potential for opportunistic or misguided accounting behavior by managers that can degrade bank transparency and lead to negative consequences along other dimensions (Wall & Koch, 2000).

Loan Loss Provisions (LLPs) is calculated based on an incurred loss approach and reflects the expected losses arising from their lending business. Banks' incentives to engage in earnings management with LLPs depend on their business objectives, governance, and performance. Especially the level and volatility of earnings and the need to build up capital reserves through retained earnings play an important role (Fan and Wong, 2002; Ahmed, Takeda, and Shawn1998; Liu, Ryan and Wahlen, 1997). On the one hand, banks might use the LLPs to stabilize earnings levels, to reduce the volatility in earnings, and to implement the desired payout policy. Hence, too high LLPs lower the reported profitability but increase the buffer against expected losses.

On the other hand, low LLPs increase the reported profitability but also increase the chance that a bank must use its capital to cover large losses. (Laeven&Majnoni, 2003). A key feature of LLPs, unlike accruals of non-financial firms, is that they simultaneously influence bank profitability and bank risk, which results in a trade-off (Bushman & Williams, 2012; Beatty & Liao, 2011).

According toSanusi (2012) and Brownbridge (1996) among others have provided some evidences of earnings manipulation in the Nigerian banking sector.Sanusi (2012) in

particular,explained that one of the eight reasons for banking crisis in 2008 was “inadequate disclosure and transparency about financial position of banks.” Various terms have been used to describe “inadequate disclosure and transparency”. Among the terms used are accounts manipulation, income smoothing, big bath accounting, creative accounting and earnings management. Whatever the term adopted, the whole essence is to mislead users of financial statements and to render financial reports unreliable with the motive of some private gains. However, Hassan (2011) stated that financial statement is misleading if it lacks the qualities of accuracy, relevance, comparability and it contains fundamental errors or is prepared with the intention to deceive/confuse users.

Conversely, the weakness of existing corporate governance mechanisms could facilitate process of earnings management in banks. However, the existence of strong corporate governance mechanisms in banks can lead to improvements in professional conduct in business transactions and limit the opportunities for earnings management. In contrast, the existence of weak corporate governance may encourage manipulation, corruption and mismanagement in the business (Leventis&Dimitropoulos, 2012; Vafeas, 2005).

Most of the previous accounting scandal that led to collapse of several banks was traced to earnings management and this have raised serious concerns about corporate governance practices in general and brought into sharp focus on the issues relating to the weak internal control systems in corporate firms (Rusmin, 2010). The collapses of such large corporations in the past have highlighted the intentional misconduct of managers. However, there is the need for sound corporate governance in other to forestall the frequent collapse of banks. Corporate governanceis one important monitoring system. Its primary objective is not to directly improve corporate performance, but to resolve agency problems by aligning management’s interests with

the interests of shareholders (Demsetz& Lehn, 1985). However, Gulzar and Wang (2011) support the effectiveness of corporate governance as a monitoring system. Also, Xie, Davidson and DaDalt (2003)and Klein (2002), among others, show that corporate governance reduces management's ability to manage earnings. Among the corporate governance variables institutional shareholding, managerial ownership, board size and audit committee are perceived to be important monitoring system that may help to align the interests of managers and shareholders and reduce the potential for opportunistic managers' behaviour.

Institutionalshareholding is argued to perform a monitoring role which reduces the opportunities available to managers to reported earnings (Jensen & Meckling, 1976). Managers will be more likely to engage in opportunistic activities in the absence of such monitoring activities. According to Moyer (1990), institutional' monitoring acted as an efficient device to reduce agency costs associated with the separation of ownership and control. Lang, Raedy, and Wilson (2006) argue that the monitoring activities of institutional shareholders motivate managers, thus reducing agency costs.

Managerial ownership represents the interest of managers in the equity shareholding of a firm is also considered in this study as a variable which may perform a great monitoring role of manipulating tendencies of managers. The reason behind the rise of this monitoring variable is rooted in the agency theory, which assumes that managers' equity holdings encourages them to act in a way that maximizes the value of the firm (Kantudu & Samaila, 2015) . However, Friend and Lang (1988) stated that if the management of a company owns shares in the same company, it becomes more efficient and effective in discharging its obligations and may translate to higher quality reporting for the firm. Also, the monitoring role of managerial ownership is also exercised through their numbers of shares and can use their voting right to align managers

interest with that of the banks. Thus, it is assumed that the more managers own shares the more they make decision that would minimize earnings manipulations.

It is not only themanagerial ownership that enhances corporate governance monitoring role but the size of the board of directors. For the board of directors, the code of corporate governance recommends a board size of not more than 15 and not less than 5 including executive and non-executive directors. The minority shareholders are also fully represented by at least one director on the board. An active board size is essential characteristics of effective corporate governance monitoring. Where there is larger board size, there is tendency of effective managers monitoring.

Studies of Lipton and Lorsch (1992), Jensen (1993) and Yermack (1996), suggest that the audit committee size affects management financial decision. Bédard, Chtourou, Courteau(2004) argue that the larger the audit committee, the more likely it is to disclose and resolve potential problems in the financial reporting process because it is likely to provide the necessary strength and diversity of views and expertise to ensure effective monitoring.

1.2 Statement of the Research Problem

While the debate on reasons of the severe banking crisis that burst in 2008 and plagued the economy for years to come remains unsettled, the banking sector is often presented at the centre of the events and as one of the key drivers behind the downturn. In particular, banks have been criticised for excessive loan losses, weak governance structures and lacking oversight. The study considers practices and tendencies within banks' corporate governance practices and changes in their ownership areas. Corporate governance should become subject to pressures from their surrounding institutions and the stakeholder society to correct practices which will safeguard depositor's money and give investors' confidence in the banking sector. The study

provide an assessment of whether such a connection can be demonstrated between corporate governance and discretionary loan loss provisions and if so which influences have been most effective in driving change in bank's corporate governance practices.

Studies such as (Abubakar, Abdu, & bdulmarooph, 2014; Shehu and Abubakar, 2012; Shehu, 2011; Devi &Hashim, 2010; Dugan,2009;Hasan, & McCarthy, 2007; Barako, Hancock &Izan, 2006; Rahman& Ali, 2006; Anandarajan& Borgia, 2005; Sanda, Mikailu, &Garba, 2005; Adams &Mehran, 2003; Bello, 2002; Ahmed, Takeda, & Thomas, 1999; Schipper 1989;Greenawalt&Sinkey, 1988) concentrated on either the manufacturing companies or they try to establish the link between loan loss provision and discretionary accruals in banking industry but the study fail to consider a controlled mechanism that can constrain managers from manipulating loan losses. In contrast to other sectors and loan losses, there are a number of reasons why banking is particularly well appropriate for our purposes. First, the sector was subject to intense turmoil during the financial crisis which may have increased the tendency to adjust to changes in their managerial approaches. Also, banks have been under closer inspection for its approach to risk-taking, in particular through prevailing financial incentive packages for key executives, which further reinforce the linkage between corporate governance and the earnings manipulation. Moreover, banks play a central role in the financial system and any banking failures will amount to risk spilling over on depositors. This means that banks face other governance issues than most other firms. Still, the crisis has shown how some of the largest and most financially strong banks, operating in the world's most developed economies, were subject to some of the most severe governance issues. This raises many questions, and we hope to present an approach which brings us closer to an understanding of the interplay between corporate governance and discretionary loan loss provisions.

1.3 Objectives of the Study

The main objective of the topic is to determine the effect of corporate governance on discretionary loan loss provision of listed deposit money banks Nigerian. However, the study seeks to achieve the following objectives:

i. To determine the effect of institutional shareholdingon discretionary loan loss provision of deposit money banks in Nigeria.

ii. To determine the impact of managerial ownership on discretionary loan loss provision of deposit money banks in Nigeria.

iii. To determine the impact of board size on discretionary loan loss provision of deposit money banks in Nigeria.

iv. To determine the effect of audit committee size on discretionary loan loss provision of deposit money banks in Nigeria.

1.4 Research Hypotheses

In line with the objectives, the following hypotheses are stated in null form to guide the study:

i. Institutional shareholdinghas no significant effect on discretionary loan loss provisionof deposit money banks in Nigeria.

ii. Managerial ownership has no significant effect on discretionary loan loss provision of deposit money banks in Nigeria.

iii. Board size has no significant effect on discretionary loan loss provision of deposit money banks in Nigeria.

iv. Audit committee size has no significant effect on discretionary loan loss provision of deposit money banks in Nigeria.

1.5 Scope of the study

This study is limited to only those Deposit Money Banks in Nigeria that are quoted on the Nigerian Stock Exchange (NSE) from January, 2007 and remain listed up till December 2016. The study is centred on corporate governance and discretionary loan loss provisions of Listed Deposit Money Banks in Nigeria.

The study covers the period of 2007 - 2016. This period is considered appropriate as it falls within the period when there was banks instability around the world which Nigerian banking sector was not completely out of it. Its further focuses on only four of the corporate governances; these are Institutional Shareholding (INS), Managerial Ownership (MRO), Board Size (BSZ) and Audit Committee (ACZ), the control variable are Log of Total Assets (FSZ) and Leverage (LEV) and the Discretionary Loan Loss Provisions (DLLP) which stand for the dependent variable.

1.6 Significance of the study

The findings of this study would have implications for users of financial statements such as shareholders, potential investors, policy makers, the regulatory bodies and also students. The study is expected to practically contribute in strengthening the areas of concern by practitioners such as external auditors and financial consultants about financial records of Nigerian DepositMoney Banks relating to the role of corporate governances on discretionary loan loss provision. And also to consider the prominent roles or activities that corporate governances play.

In particular, financial statement users wouldknowand identify income smoothing and the degree ofmanager involvement in such behavior so as to be able to make an informed decision on financial matters which relates to bank. Specifically, users would know the influence of the institutional shareholdings and the audit committee, managerial ownership and external auditors

on such behavior. Furthermore, the study will extend the existing literature by providing evidence on the determinants of Loan loss provisions in Deposit Money Bank context by utilizing some bank variables.

Apart from contributing to the literature, the study may also have important practical implications for deposit money banks managers and bank regulators in dealing with Loan loss provisions issues and coming up with policies that will safeguard depositors fund and investor's assets.Moreover, it may also serve as a source of reference and as a stepping stone for those who want to make further study on the issue of Loan loss provisions in the Nigeria banking context afterwards. It may provide a possible opportunity to all stake holders to gain deep knowledge about the leading cause of Loan loss provisions in Deposit Money Banks.

CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction

The chapter seeks to explain the concept of corporate governance and the review of empirical literatures on corporate governance (institutional shareholding, managerial shareholding, board size and audit committee) and discretionary loan loss provision. Furthermore, the various related theories will also be discussed as well as the one that underpin the study.

2.2 Concept of Corporate Governance

The concept of corporate governance is very wide considering the way and manner it has penetrate the minds of numerous researchers. Thus, the concept has various definitions from the accounting, economic, political and legal points of view.

From the stakeholders perspective, Aguilera (2005) took a broad view to define corporate governance as the study of the distribution of rights and responsibilities among different participants in the corporation such as managers, shareholders, the board of directors and other stakeholders for example employees, suppliers, and customers. He however ignored crucial issues such as management and social responsibility. Corporate governance can also be as the act of safeguarding the interest of stakeholders as they ensure that all parties interested in the wellbeing of the firm attempts to ensure that managers adopt mechanism that safeguards the interest of stakeholders (Sanda, Mikailu&Garba, 2005).

According to Borgia (2005), a shared definition of corporate governance, which is both valuable and consistent, is not easy to find corporate governance definitions, inconsistent, or partial and subjective. He thus went further to define corporate governance as the set of criteria and tools necessary to assure steady value creation in continuity and guarantee strategic

effectiveness and operational efficiency to an organization, in compliance with the rules, and in his paper, he gave the first step for the Organization for Economic Cooperation and Development (OECD 2005) took to defines corporate governance as; Corporate Governance is affected by the relationships among participants in the governance system.

Controlling shareholders which may be individuals, family holdings, bloc holders, or other corporations, acting through a holding corporation or cross shareholdings, can significantly influence corporate behavior. Corporate Governance is only part of the larger economic context in which firms operate, which includes, for examples, macroeconomic policies and the degree of competition in product and factor markets.

The Corporate Governance framework also depends on the legal, regulatory, and institutional environment. In addition, factors such as business ethics and corporate awareness of the environmental and societal interests of the communities in which it operates can also have an impact on the reputation and long-term success of a corporation.Earlier in 2003, in trying to tackle the qualitative and quantitative issues of efficiency in complex decision process, Adams and Mehran (2003) asserted that corporate governance has a major direct effect on the socioeconomic growth and development of a country as finance and investment decision have a strong impact on development process.

However,Shleifer and Vishny (1997) opined that corporate governance is the system by which companies are directed and managed. It influences how the objectives of the companies are set and achieved, how risk is monitored and assessed, and how performance is optimized. A good Corporate Governance structure encourages companies to create value through entrepreneurism, innovation, development and exploration and provide accountability and control systems commensurate with the risk involved.

The Commonwealth Business Forum representing the private and state-owned corporate sector emphasized the significance of corporate governance in 1997. A resolution was passed by the forum to the effect that capacity should be established in every Commonwealth country to create or reinforce institutions to promote best practice in corporate governance; in particular, codes of good practice establishing standards of behavior in the public and private sector should be agreed to secure greater transparency and to reduce corruption (Anyaoku, 2002).

However, in spite of these emphases, the corporate governance codes of best practice that were laid down but not strictly adhered to, led to a series of systemic collapse and financial crises around the world. During this period companies and banks in Nigeria record earnings, apparently, many also reported earnings that existed only briefly on their accounts ledgers (Beasley 1996).

To this end, Monks and Minor (2008) stated that seven of the twelve largest bankruptcies in American history were filed in 2002 alone. This is as a result of series of financial scandals, corporate meltdowns, frauds and other financial debacles. This catastrophe led to loss of jobs, criminal investigation, and destruction of a lot of billions of dollars among others, which necessitated a series of investigations by countries and regulatory authorities in order to address corporate issues. The investigation pin points the mystery about the disaster, and it was later found that corporate governance requires a complex system of check and balance. Monks and Minor (2008) also added that it requires a whole village to make it work. Thus just having elaborate corporate governance codes and highly qualified board does not prevent the collapse of firm as in the case of Enron. For a business to effectively and efficiently progress good corporate governance principles need to be inculcated into the way and manner the activities of the enterprise are carried out.

To achieve this, the organization must play a very significant role in encouraging the managers to exercise their rights by effectively communicating transparent, understandable and accessible information to the shareholders. Unfortunately, this is hardly the case as managers tend to abuse the freedom of choice by hiding under the cover of creative accounting to manipulate figures through window dressing or smoothening income, which is called earnings management- the practice of using accounting tricks to mask a firm's true operating performance (Warrick, 1999).

The quality of earnings is usually assessed from the financial reports while publicly reported accounting information can be used as important input information in various corporate governance mechanisms (Bushman & Smith, 2001). The Codes of Corporate Governance came up to solve the problems as it has address issues of shareholders, Institutional Ownership, Managerial Ownership, audit committee, Board Size.

2.3 Conceptof Earnings Management

One of the first definitions on earnings management was given by Schipper (1989), who defined it, as "...purposeful intervention in the external financial reporting process, with the intent of obtaining some private gain". A popular and more extensive definition has been given by Healy and Whalen (1999) which present earnings management as follows: "Earnings management occurs when managers use judgment in financial reporting and in structuring transactions to alter financial reports to either mislead some stakeholders about the underlying economic performance of the company or to influence contractual outcomes that depend on accounting numbers. This means that earnings management is the manipulation of financial statement by managers, using accounting choices, estimates and methods, to achieve some objectives that are largely in conflict with the underlying economic status of the firm.

The definitions of earnings management agree on the point that managerial intent is a prerequisite for earnings management, but whether this intent should be opportunistic in nature is not totally clear. Several presentations on earnings management also use the term in connection with managerial discretion that has the aim to communicate information to investors that is supposedly not opportunistic (Dechow& Skinner 2000,Switzer, 2007). When testing for income smoothing is opportunistic or not, Subramanyam (1996) refers to earnings management only in relation to opportunistic behaviour but not when managerial discretion is used to improve earnings persistence and predictability.

The intention to mislead someone about financial performance usually requires that earnings management will be difficult to detect. The search for a proper definition includes the question as to what activities can be regarded as earnings management. Judgment in financial reporting that fits under the earnings management definition includes estimations of, for example, the economic life-time of long-term assets, losses from bad debts and asset impairments that are dependent on the future and choices between accounting methods. Also judgment that goes beyond strictly accounting decisions is usually considered as earnings management, assuming that these activities are driven by the reporting incentive (Schipper, 1989, Healy &Wahlen, 1999). Thus, earnings can be managed through shifting expenditures between periods or realizing an accounting gain by selling an asset that is undervalued on the balance sheet. Whereas the Security and Exchange Commission (SEC) often also includes outright fraud as earnings management, academic literature usually focuses on earnings management activities that fall within Generally Accepted Accounting Principles (GAAPs) (Dechow& Skinner, 2000).

Although most of the earnings management research refers directly to income or income before extraordinary items, the definition of earnings management does not rely on any particular item in the income statement. As Schipper (1989) explicitly states, and which can be understood from the Healy and Wahlen (1999) definition, earnings management need not be directly connected to reported earnings, but has an impact through other accounting numbers. Thus, earnings management can also occur in supplementary disclosures and may target financial ratios instead of earnings. According to Barnea, Ronen and Sadan (1976) earnings management, is the deliberate dampening of fluctuations about "some level of earnings considered being normal for the firm.

Therefore, earnings management has a lot to do with accrual accounting. Dechow and Skinner (2000) noted that the border between earnings management and accrual accounting has become blurred. It deals with managers choosing accounting policies and accounting accruals, most likely for personal gain. Managers are responsible for the performance of their firm; they also have the most power to influence the financial numbers in the short run to achieve their objections. The actions of the managers that have consequences on the reported earnings numbers and key figures can be summarized under the term 'earnings management'.

Accounting regulations do not constrain managers' choices of accounting policies and procedures completely (Switzer, 2007); this makes it possible for earnings management to take place. Laws and regulation have some flexibility in the way of determining earnings and the manner of presentation and explanation in the financial statements. Between the boundaries of the accounting policies, managers are given some considerable ways to choose a policy that best fit their private purposes. Earnings management thus takes place without violating accounting regulation. By having certain choices in policy, management are giving the possibility to

influence the financial information it publishes. This means that management is able to manage earnings.

Earnings are an important object for managers to manipulate, since earnings are the ultimate performance measure. Many parties, such as investors, banks, employees, and other parties are interested in the financial information that is provided by the management to build their decisions on. The outcomes of the financial information thus, have an impact on the decisions of different stakeholders. Management is aware of this and will want to choose the best policy at that moment.

Whatdoes earnings management really mean? Defining the term earnings management is not an easy task, because there is no single description of earnings management. In the literature different definitions can be found, which may be positive, neutral or negative. A frequently used description is given by: Healy and Wahlen (1999 p12);"Earnings management occurs when managers use judgment in financial reporting and in structuring transactions to alter financial reports to either mislead some stakeholders about the underlying economic performance of the company or to influence contractual outcomes that depend on reported accounting numbers," Healy and Wahlen (1999) gave a negative view on earnings management; managers do not present the financial information of the firm in a fair manner, and mislead the stakeholders in this way. Management that intervenes in the accounting process is not presenting a true view on the financial information they provide and will have influence on the decision made by the users of the financial information. These decisions will be different when no intervention had taken place. Another negative approach of earnings management can be defined through the information perspective, which means that managers have the opportunity to reveal their private information. Such a definition is given by Schipper (1989 p5): "Disclosure management in the sense of a

purposeful intervention in the external financial reporting process, with the extent of obtaining some private gain, as opposed to merely facilitating the neutral operation of the process."

Earnings management can also have a positive value. Beneish (2001); state that earnings management is a way for managers to disclose their private expectations about the firm's future cash flows to investors. According to Fields, Lys, and Vincent (2001), earnings management will occur, because managers have the flexibility to choose accounting treatment, whereby they can maximize their own utility. In contrast to the definition of Healy and Wahlen (1999), the consequence of earnings management will not harm the stakeholders. This is a neutral approach on earnings management.

In a related study of Ronen and Yaari (2008) also investigated the different definitions of earnings management. They classify the definition of earnings management as white, gray and black. Where white is earnings management that improves the transparency of the statements, where the manager's private information on future cash flows is signaled. Black earnings management involves the reduction of transparency on the financial reports. Grey earnings management involves choosing an accounting method that is either opportunistic or economically efficient.

In this study all views will be taken into consideration, since no distinction can be made between the different intentions behind earnings management. Earnings management could however have a negative impact; this makes it interesting to investigate. The negative view shows that managers take actions with the intention to mislead some stakeholders to try to reach certain objections. Management can have a number of incentives to mislead stakeholders by manipulating reported earnings number. The management and large shareholders can both have incentives to mislead stakeholders.

2.4 Empirical Studies on Corporate Governance and Banks Earnings Management

Loan loss accounting is interesting in an earnings management context since it has material effects on banks' income statements and statement of financial position and requires a substantial degree of estimation and judgment (Nichols, Wahlen& Wieland, 2009). Expected loan losses are recognized through the expense account loan loss provision, which then increases the statement of financial position account loan loss reserve (LLR). A loan loss provision is hence an expense set aside for bad loans to reflect future losses on the bank's loan portfolio, while a loan loss reserve reflects Accounting Quality in Financial Institutions the total amount of expected future loan losses in the loan portfolio.

When loans at the end of the financial year are deemed uncollectible, they are charged off against the loan loss reserve and hence the bank acknowledges that the receivable no longer exists (Beatty, Chamberlain, &Magliolo, 1995). In addition, loan loss provisions reduce net income, the book value of equity, regulatory capital, and the net loans outstanding by increasing the loan loss reserve (Gebhardt& Novotny-Farkas, 2011). Wahlen (1994) distinguishes between the rather non-discretionary parts of banks' loan portfolio, non-performing loans and charge-offs, and the more discretionary types, namely loan loss provisions.

Bank managers possess more information regarding risks in the banks' loan portfolio compared to outside investors, since the latter mainly possess the information provided in the financial statements. In order to provide accurate information to the investors, the managers' professional judgment is a necessity when estimating loan loss provisions. On the other hand, decisions influenced by subjective judgment also give managers the possibility to use discretion in estimating the size and timing of loan losses to manage earnings, and thereby pursue own

objectives (Bouvatier&Lepetit, 2008). The underlying motivation for managers' estimation of provisions has been widely investigated in previous studies.

Lobo and Yang (2001) identified four motivations which have been suggested by previous studies, which include income smoothing, capital regulation, signaling and tax. On the other hand, Copeland (1968) states that "one manipulating goal widely attributed to management is the desire to smooth reported income", and describes income smoothing as the means to "moderate year-to-year fluctuations in income by shifting earnings from peak years to less successful periods". Every industry has its own specific approach to use the leeway given by the accounting standards.

Loan loss provisions are a non-cash expense and the regulatory principles give banks a leeway to determine the size of the annual provision. Therefore, the main approach in the banking industry is to use loan loss provisions to smooth income (Cornett, McNutt &Tehranian, 2007).

Fonseca and González (2008) made a cross-country study, and found that the incentives for income smoothing vary depending on different aspects. Their findings suggest that the incentives to smooth earnings decrease with stricter legal enforcement while it increases with market orientation and development of the financial system in a country.

Rivard, Bland, and Morris (2003) identify two main reasons to why bank managers use earnings management, which are to increase their own compensation and to report a stable income and appear as less risky. The first reason to engage in earnings management is to obtain higher earnings in the short term. When managers' compensation system is connected to the firm's performance or stock price it might increase the incentives to manage earnings on a short term. As compensation is tied to earnings, managers can use different accounting choices to

accomplish income growth, and thereby increase their own compensation (Fields, Lys & Vincent 2001; Rivard*e tal*(2003). For example, Cornett, McNutt and Tehranian (2009) present empirical findings that CEO's pay-for performance increases earnings management when incentive-based stock options make a large proportion of the CEO's total compensation. This can increase the incentives to engage in earnings management as higher earnings or a stable income can have as a positive effect on the stock-price. Furthermore, Cheng and Warfield (2005) find that it is more likely for managers with high equity incentives to manage earnings in order to meet or beat analysis forecasts.

The second reason to engage in earnings management is to present stable earnings. For various reasons, it is in the banks' interest to be perceived by the market as bearing low risk (Rivard*et al*. 2003). Volatile earnings are one indicator of high risk whereby bank managers may aim to present a stable income to manage the perceived risk of the bank (Fonseca & González, 2008). This emphasizes that managers might build up loan loss provisions during good times, and reclaims it in a downturn to absorb losses and smooth income (Fonseca & González, 2008; Cornett *et al*. 2009).

However, prior research is not completely unified in their conclusions to what extent loan loss provisions are used for earnings management in banks. Ahmed *et al*. (1999) do not find earnings management to be an important determinant for loan loss provisions. But other studies have found that listed banks engage in more earnings management than private banks (Beatty, Ke and Petroni,2012; Anandarajan*et al*. 2007). Lobo and Yang (2001) find strong support for income smoothing via loan loss provisions, and Cornett *et al*. (2009) find evidence of a relation between loan loss provisions, pay-for-performance and earnings management.

Furthermore, evidence is found by Lobo and Yang (2013) who state that managers continue to seek different methods to achieve their reporting objectives. In conclusion, the majority of analyzed prior research has found proof of earnings management in banking industry using discretionary loan losses. The second motive for managers' estimation of loan loss provisions is managing capital levels to meet the regulatory capital ratio requirements set by bank regulators. This motive is closely related to earnings management as the capital levels are affected by loan loss provisions effect on earnings and hence the equity capital.

Therefore, Greenawalt and Sinkey (1988) found that regional banks engaged in more aggressive income smoothing than money-centred banks. Bhat (1996) found that banks that engaged in aggressive income smoothing were in poorer financial health relative to others. All these studies had one common feature: they all found a positive association between LLPs and earnings management. Not all studies on LLPs and earnings management came to the same conclusion. For these reason, Wetmore and Brick (1994) studied what factors might be associated with income smoothing by banks and found no evidence that LLPs are used as a tool for earnings management. Beatty, Chamberlain, and Magliolo (1995) considered whether banks alter timing and magnitude of transactions and accruals to achieve earnings management, but found no association between LLPs and earnings management by the banks in their sample.

However, Warfield and Wild (1995) found that LLP is a better earnings management device than security gains and losses since the first is larger in magnitude, contains a larger discretionary component, and a change in loan loss provisions has no direct effect on future cash flows to it, whereas a sale of investment securities may result in foregone future investments returns. Similarly, Scholes, Wilson and Wolfson (1990) argue that LLP typically represents a very large fraction of income which makes it especially appropriate in relation to strategic choice

of accounting policies. As was the case with security gains and losses, proxies of earnings management within loan loss accounting are separated in income smoothing via discretionary loan loss provisions. In addition, loan loss provisions are well suited to measure the conservatism of banks' loan loss accounting.

2.4.1 Institutional Ownership and Discretionary Loan Loss Provision

As bulked investors, institutional investors use financial statement information to plan and evaluate their investments, making them capable of actively monitoring the quality of financial reporting and also for disciplining managers who report poor quality accounting numbers (Velury& Jenkins, 2006). A number of studies report evidence supporting the active monitoring hypothesis of the effectiveness of institutional owners in monitoring management. Generally, it is suggested that institutional ownership serves as an important complement in disciplining management (Karamanou&Vafeas, 2005) and could increase firm value with low price informativeness and good governance (Cheung, Jiang, Limpaphayom& Lu, 2008). Mallin (2008) argued that active institutional investors contribute towards the transparency of managerial decisions and the protection of shareholders' interests. Shehuand Abubakar(2012) noted that institutional ownership has emerged as an important tool for protecting minority interest. This is because large institutions have the opportunity, resources and ability to constrain manager's behavior (Roodposhti&Chashmi, 2011). Institutional investors have the opportunity, resources and ability to monitor, discipline and influence a manager's decision in the firm (Monks and Minow, 1995).

However, Karamanou and Vafeas (2005) find a significant positive relationship between institutional ownership and higher disclosure quality for the US sample. Cheung, Jiang, Limpaphayom, and Lu (2008) report a positive relationship between institutional ownership and

performance for listed firms in China and the US. Similarly, using a Korean sample, Jung and Kwon (2002) find that earnings become more informative with increases in the holdings of institutions, supporting the role of institutional investors as an active monitor. A recent study by Hadani, Goranova and Khan (2011) finds that largest institutional owners constrain self-serving manipulations of accounting numbers.

In some similar study of Moradi and Namazi (2011) investigated some Iranian companies and reported that there was a positive and significant relationship between institutional ownership and earnings quality. Hashim and Devi (2008) performed an investigation on 204 listed firms on Malaysian Stock Exchange in 2004 and reported that there was a positive and significant relationship between institutional investors and earnings quality. Cheng and Reitenga (2009) examined the relationship between the characteristics of institutional investors and discretionary accruals among U.S. firms. In this study, they used Jones and modified Jones models to estimate discretionary accruals. Their statistical sample formed 710 firm-years over the period 1987-1996. The results showed that there was a significant and positive relationship between institutional investors and discretionary accruals.

However, Moradzadefard, Nazemi, Mahdi and Farzani (2009) examined the relation of institutional stock ownership and earnings with 99% certainty it can be claimed that when there is an increase in the activities of institutional ownership, accruals management (earnings management) level falls. McConnell and Servaes (1990) support the above statement and report a significant relationship between the value of a firm and the percentage of share owned by institutional shareholders.

In the study of Pin SengKoh (2005) and Bita (2008) argued that institutional share ownership may have implications for earnings management as they are able to influence the

company's management. The results indicate that institutions with large shareholdings play an active role in monitoring managerial opportunism in managing the reported earnings. This is because when the institutions invest in the long term period, they are more concerned about the underlying profitability of the companies and be wary of the use of discretional accruals to manage the earnings.

According toDelGeurcio (1996) shows that banks have a high incentive in monitoring their equity stake. Koh (2003) argues that large shareholders who are long-term oriented are likely to reduce earnings management, which means that bank ownership in firms is negatively related with earnings management. Abdul Jalil and Abdul Rahman (2010) studied the impact of institutional investors on earnings management. They used the absolute value of discretionary accruals as an indication to earnings management. Statistical sample of this research included 94 listed companies in the Malaysian Stock Exchange over the period 2002-2007. Research findings showed that there was no significant relationship between institutional investors and earnings management.

Empirical studies on this issue have verified the above-mentioned assumption by documenting a negative association between earnings management and institutional ownership. For instance, Rajgopal, Venka-tachalam, and Jiambalvo (1999) found a negative relation between institutional share ownership and the absolute value of discretionary accruals flow from operating activities.In contrast, proponents of the private benefit hypothesis argue that larger investments by institutional investors provide an opportunity to access private information that may be exploited for self-interested behaviour on the part of institutions viewed as short-term oriented (Koh 2003). If this case is true, it is expected that concentrated ownership in the hands of institutional investors is likely to reduce the quality of reported earnings.

Also, Velury and Jenkins (2006) found a positive significant association between institutional ownership and earnings quality, but, as institutional ownership becomes concentrated, they find that institutional ownership has a negative effect on earnings quality. They suggest that the general positive relationship between institutional ownership and earnings quality affected by increased ownership concentration. The ability of managers to opportunistically manage reported earnings is constrained by the effectiveness of external monitoring by stakeholders such as institutional investors. Institutional investors have the opportunity, resources, and ability to monitor, discipline, and influence managers of firms (Monks &Minow, 1995).

In this circumstance, institutions have greater incentives to collect information, monitor management actions, and urge better performance. In support of this, McConnell and Servaes(1990) report a statistically significant relationship between the value of a firm (as measured by Tobin'sQ) and the percentage share ownership of institutional investors. When shareholdings are held for the long term, institutions will be concerned about the underlying profitability of the companies and will be wary of the use of discretionary accruals to manage earnings, and hence camouflage managers' performances.

Unfortunately, there is no strong consensus in the results from empirical research. McConnell and Servaes (1990), Nesbitt (1994), Bushman and Smith (2001), DelGuercio (1996) represent studies that report positive associations between institutional shareholdings and corporate performance. In contrast, Demsetz and Lehn (1985), Agrawal and Knoeber (1996), Karpoff, Malatesta and Walkling (1996), Wahal (1996), Duggal and Millar (1999), and Faccio and Lasfer (2000) represent research that found no association between institutional shareholdings.Although there has been lot of researches investigating the association between

institutional shareholdings and corporate performance, there are very few studies that have examined how institutions monitor and influence the specific actions of managers.

2.4.2 Managerial ownership and Discretionary Loan Loss Provision

Managerial ownership represents the interest of managers in the equity shareholding of a firm. The reason behind the rise of this corporate governance variable is entrenched in the agency theory, which assumes that managers' equity holdings encourages them to act in a way that maximizes the value of the firm. As in the study of Warfield, Wild and Wild (1995) suggest that the interest of both shareholders and management starts to converge as the management holds a portion of the firm's equity ownership. Several studies on the interaction between managerial shareholding and earnings management have revealed inconclusive results. This is evident in the following studies.

Yeo, Tan, Ho and Chen (2002) examined the relationship between managerial ownership, audit quality and earnings management, using a sample consisting of 490 firm-year observations drawn from the firms listed on the Stock Exchange of Singapore for the period between 1990-1992. Their findings suggest that when management ownership is less than or equal to 25%, managers' opportunistic behaviour is reduced. However, as it crosses 25%, management ownership is positively related with aggressive income-increasing discretionary accruals.

Similarly, Johari, MohdSaleh, Jaffar and Hassan (2008) investigate the impact of board independence, competency and ownership on earnings management. Using a sample of 224 firms listed on Malaysia Stock Exchange and employing different accruals estimation model, they find that management ownership is positively related with discretionary accruals in all models. This suggests that the higher the ownership of a firm's shares by its managers, the more the presence of earnings manipulation.

Conversely, You, Tsai and Lin (2003) examined the effect of managerial ownership on management adjustment of accounting accruals. With a sample of 393 corporations listed on Taiwan Stock Exchange between 1999 and 2000, the study documents a negative and significant relationship between managerial ownership and discretionary accruals. This study was conducted in China; a country which is inclined to the communist system of government and manufacturing sector was used as the sample is expected to have a different corporate governance mechanism and economic structure from that of Nigeria and bank.

Further study byHashim and Devi (2008) studied the interaction between corporate governance, ownership structure and loan loss provision in Malaysia, using a sample of 426 non-financial firms listed on Bursa Malaysia Main Board for the period between 1999 and 2005. The study fails to establish any significant relationship between managerial ownership and the quality of financial reports. The same results are obtained even as they further segregated between inside and outside ownership. The results that could be obtained from similar studies mentioned above could have been different if conducted in Nigeria, given the differences in governance structures and level of economic developments.

Nonetheless, Friend and Lang (1988) as cited in Muhammad (2009) theorised that if the management of a company owns shares in the same company, it becomes more efficient and effective in discharging its obligations. This may translate to higher quality reporting for the firm. There is no general consensus in prior research in regards of the effects of managerial ownership on earnings management. Moreover, findings from prior studies suggest that there can be no relation, a positive relation, a negative relation, and a U-shaped relation between managerial ownership and earnings management. The majority of the prior empirical studies

concerning earnings management and insiders' ownership identified a positive association between them.

To elaborate on that, where there is no clear distinction between owners and managers, the latter don't pay considerable attention to the short-term financial reports, because the financial markets don't pressure them enough to signal the firm value to the markets (Jensen, 1993). In this case, high managerial ownership and lack of discipline from the financial market creates incentives for managers to pursue an opportunistic behavior and attempt to maximize their gains in the expense of shareholders (Sanchez-Ballesta&Garsa-Meca, 2007).

According to the same study, the authors suggest that the constraining effects of the ownership structure are higher when the shares owned by the insiders are lower. On the other hand, when the insiders own a high percentage of shares, the relation between insider ownership and earnings management reverses, an argument consistent with the entrenchment theory, which stated that high levels of insider ownership may prevent insiders to make value-maximizing decision and thus to an increase in earnings management (Cornet, Marcus &Tehranian 2007).

To this extent, a study conducted by Morck, Shleifer, and Vishny(1988) showed that greater ownership will result in greater entrenchment and thus to stronger incentives to pursue an opportunistic behavior. In line with the results of Morck*et al.* (1988) are the findings of recent study from NedalAl-Fayoumi, Abuzayed, and Alexander (2010) and which also identified a positive, significant relationship between insider ownership and earnings management. Bergstresser and Philippon (2005) presented evidence that when a CEO's compensation is tied to the value of stock and options, the likelihood of profit manipulation occurrence increases.

Again, Koh (2003) using Australian data regarding the association between aggressive earnings management and managerial ownership practice and identified a positive relationship

between them. Furthermore, in line with Koh (2003) are the results of Hsu and Koh (2005). In this paper, the authors extended further their research by examining the potential effect of both short-term and long-term managerial ownership on the magnitudes of earnings management in Australia. Their results showed managerial ownership is statistically significant for all linear designations but insignificant for the non-linear models. Nevertheless, at the same study, managerial ownership is positively related with income-decreasing discretionary accruals and negatively related with income-increasing accruals.

In addition, Isenmila and Elijah (2012) using a sample of Nigerian banks examined the relationship between ownership structure and earnings management in Nigeria. The findings of the study indicated the existence of a positive relationship between insiders' ownership and earnings management statistically significant at 5% level. Despite the fact that the before studies support the notion that high managerial ownership levels are associated with lower levels of monitoring and therefore a positive relationship between earnings management and managerial ownership is documented, however, there are several studies that question and argue against this relationship.

To this extent, Warfield *et al*. (1995) hypothesized based on the theory of Jensen and Meckling (1976) that low managerial ownership provides deeper incentives for managers' to manipulate earnings for their own benefit. According to the findings of the same study, there is negative association between the absolute value of discretionary accruals (i.e. proxy for earnings management) and insider ownership in the U.S., consistent with the constraining effects of insider ownership on the opportunistic behavior, which drives earnings management. In line with the findings of Warfield*et al* (1995) are the findings of Klein (2002) and You, Tsai and Lin (2003) which suggest that insiders' ownership is negatively associated with discretionary

accruals. Dempsey, Hunt and Schroeder (1993) suggest that large insider's ownership reduces earnings management.

In contrast, SaBSZa (2012) using a sample of 34 non-financial listed Portuguese firms found a negative relationship between discretionary accruals and managerial ownership. In contrast to the findings of Warfield *et al*. (1995) and Francis, Maydewand Sparks (1999), finds that there is no significant systematic relationship between managerial ownership and accounting accruals in the U.S. Similarly, a research conducted in Denmark by Gabrielsen, Gramlich and Plenborg (2002) finds that there is a positive but not significant relationship between managerial ownership and accounting accruals. Other authors that didn't reach to any significant association between insider ownership and earnings management are Bowen, Rajgopal, and Venkatachalam (2008) and Peasnell, Pope, and Young (2005). Finally, Chung, Firth and Kim (2002) examined the constraining effect of the board of directors and the audit committee on earnings management will be more explicit when the level of managerial share ownership is low. However, the results of their research were not sufficient to present a direct relationship between managerial ownership and earnings management. According to the same research the authors found that boards continue to have a constraining effect on earnings management, even when shareholders' and managers' interests are aligned. Yeo *et al*. (2002), finds a U-shaped relation between director ownership and income-increasing discretionary accruals. More specifically, by examining Singapore-listed companies he found that earnings management decreases with managerial ownership at low levels but increases with higher levels of managerial ownership where the entrenchment effect sets in.

Finally, You, Tsai and Lin (2003) initially found a positive and significant relationship between total insider ownership and discretionary accruals, but after decomposing the total

insider ownership to make a more in-depth analysis found that discretionary accruals are positively associated with outside ownership and blockholders' ownership but U-shaped related with executive ownership. Nobuyuki and Akinobu (2008) found that the relationship between managerial ownership and the absolute value of discretionary accruals is significantly negative within low and high levels and significantly positive for intermediate levels of managerial ownership. Following prior studied that investigated the relationship between managerial and earnings management (SaBSZa, 2012; Al-Fayoumi, Abuzayed and Alexander 2010, Warfield *et al*. 1995) managerial ownership will be measured as the proportion of shares owned by executives divided by the total number of shares outstanding. From an agency perspective, where any employee can play the role of the agent and its supervisor the role of the principal, incentive contracts and information asymmetry can contribute towards manipulating earnings.

2.4.3 Board Size and Discretionary Loan Loss provision

The monitoring role of the board of directors is an important component of corporate governance. One of the important corporate governance characteristics that may have an impact on earnings management is size of the board. However, there is not yet any consensus about the optimal size composing board size (Kouki, Mondher; Elkhaldi, Abderrazek; Atri, Hanen; Souid& Slim 2011). Jensen (1993) argued that smaller boards are more effective in monitoring the CEO's action. Yermack (1996) in his empirical investigation found a clear inverse relation between firms' market valuation and the size of boards of directors, indicating that smaller boards are associated with better performance.

Similarly, Denis and Sarin (1999), Abdul Rahman and Mohamed Ali (2006), Ishak, Abdullah and Ramli (2011) and Gulzar and Wang (2011) provide evidence whereby earnings management is positively related to the board size showing that larger boards are less effective in their

oversight duties. However, Zahra and Pearce (1989) argued that larger boards are capable of monitoring the actions of top management. Their results are in line with John and Senbet (1998), which signify that the board's capacity for monitoring increases as more directors are.In another context, Abdul Rahkman and Ali (2006) examine how the board size affects the earnings management level by using a sample of 97 firms listed in the main board of Bursa Malaysia, during the period of 2002-2003, their findings show a positive association between board of directors' size and level of earnings management.

Several studies show that larger boards have greater monitoring power over management activities. Some studies use board size to measure board expertise (Bacon, 1973; Herman, 1981), while Jensen (1993) argues that size is a value-relevant aspect of corporate boards. Smaller boards are believed to work more effectively than larger boards because they are easier to coordinate (Jensen, 1993). Yermack (1996) links better firm performance with smaller boards, specifically for large industrial corporations in the US, where firms with smaller boards have a higher market value. Jensen (1993) and Lipton and Lorsch (1992) find that smaller boards are more effective than larger boards: the latter may be less efficient in carrying out oversight duties if the CEO tends to dominate board matters.In Ahmed, Hossain and Adams (2006) also provide evidence that the board size is negatively related to earnings management in New Zealand during the period 1991 to 1997. Moreover, larger boards may be subject to a greater degree of protocol and etiquette, making it easier for the CEO to control the board (Jensen, 1993).

Further study of Chin, Firth, and Rui (2006) fond a positive association between board size and earnings management.The other view is that larger boards are able to contribute more time and effort to supervising management (Monks &Minow, 1995). This argument is supported by Klein (2002), who suggests that larger boards are positively associated with effective

monitoring, given their collective experience and ability to allocate the workload across several board members. Peasnell, Pope and Young, (2005), Bédard, Chtourou and Courteau (2004), and Xie,*et al.*(2003) provide empirical evidence that earnings management practices are less common in firms with larger boards. Pearce and Zahra (1992) confirm that larger boards have a comparative advantage in terms of information and expertise over smaller boards. In most bankruptcy cases, for instance, firms are found to have smaller boards (Chaganti, Mahajan, & Sharma, 1985). To further support larger board size, Dalton, Daily, Johnson, and Ellstrand (1999) show that firm performance is positively associated with board size because larger boards have greater access to important resources such as financial support and expertise and more external linkages than smaller boards in executing company operations. Smaller boards are perceived as unable to detect or constrain earnings management (Yu, 2008) if dominated by large shareholders or management.

Therefore, there is no consensus as regards to the board size in the literature as others revealed positively significant relationship, others revealed negatively significant relationship. The possible reasons for the difference between these two results may not be far from the system of Corporate Governance Code in each country. Like in Nigeria, the code of governance stated that the number of non-executive directors should be more than that of executive directors subject to a maximum board size of 20 directors (Central Bank of Nigeria, 2010) but SEC states 15 directors. Also,the difference between the periods covered by each study may be part of the difference in findings.

2.4.4 Audit Committee Size and Discretionary Loan Loss Provision

Most of the banking regulations including that of Nigeria require the provision of equal number of shareholders and directors to run the audit committee. Section 359(6) of the

Companies and Allied Matters Act (CAMA) 1999 requires every public company to have an audit committee which shall have a maximum of six members of equal representation by three shareholders and three directors.In Nigeria, audit committee was introduced at the inception of Companies and Allied Matters Act (CAMA 1990). In addition to providing an audit report to the members, the audit committee shall in the case of public company also make a report to an audit committee which shall be established by the public company (section 359 (3), CAMA 1990). However, the exact number of members of audit committee is particularly important as it affects the commitment of memberships to monitor management and detect deceitful behaviours.

Existing literature on audit committee effectiveness maintain that the size of the audit committee is one of the significant attributes that contribute to its effectiveness. For these reasons, Vafeas (2005), argued that where the audit committee size is too small then an insufficient number of directors to serve the committee emanate and thus decrease its monitoring effectiveness. That is a small committee is not capable of fulfilling its duties efficiently as the responsibilities are always on the increase. Additionally, when a committee size is too large, the directors“ performance may decline because of the longer coordination and process problems and hence, weak monitoring and control (Jensen, 1993; Vafeas, 2005). However, Abbott, Parker and Peters (2004) and Vafeas, (2005) opined that the perfect average of the audit committee size is between 3 and 4 members. Accordingly, several studies group audit committees' size into small, medium and large sizes based on the number of audit committee members (Alkdai&Hanefah, 2012).

Therefore, Yang and Krishnan (2005) reviews that quarterly earnings management is lower for the firms that have large size of audit committee. This implies that having a sufficient number of audit committee members increases the efficiency of its monitoring function in terms

of financial reporting integrity. As such, most of the literature on audit committee size and performance believe that larger audit committee size is associated with higher financial reporting monitoring and control. Hence, Bédard,Coulombe and Courteau (2008) argue that it is important to increase the number of members of the audit committee to ensure more effective control of accounting and financial processes. Similarly, Hair, Black, Babin and Anderson (2010) reviews that large size audit committees can protect and control the process of accounting and finance with respect to small committees by introducing greater transparency with respect to the shareholders and creditors which has a positive impact on the financial performance of the company.

Apart from the proportion of the size of the committee, studies have shown that the size of audit committee have impacted on earnings management, while some are positively associated other studies revealed inverse association. In the study by Persons (2009) and Lin and Hwang (2010 p6) it indicated "that the audit committee size affects corporate disclosures". Abbott, Parker and Peters (2004) investigated forty one companies that presented deceitful financial statement and eighty eight companies which yearly restated their results for nine years (beginning from 1991 to 1999). The findings show that committee size has no considerable influence on quality of financial reporting.

Nelson and Jamil (2011) examined audit committees and financial reporting quality following the government transformation program in Malaysia. They took the sample of 20 out 33 Firms for the period of 2003 to 2009. They also adopted Dechow and Dichev (2002) model to measure earnings quality. The study revealed a positive relationship between audit committee size and earnings management.

This finding was buttressed by that of Rahman and Ali (2006) who used discretionary accruals as proxy for earnings management and Ismail, Iskandar and Rahmat (2008).Sharma and Kuang (2013) investigated on voluntary audit committee characteristics incentives and earnings management in New Zealand. The study used a sample of 194 Firms out of 393 Firms listed in New Zealand Stock Exchange Market for the period 2004. They adopted performance adjusted modified Jones model in measuring discretionary accruals. Their finding showed a significant positive relationship between audit committee size and earnings management. This is consistent with the proposition by Jensen (1993) that streamlined boards can operate more effectively in maintaining management and can be extended to audit committee size.

In a related study of Ojulari (2012) examines the relationship(s) that exists between audit committee characteristics in Nigeria and firms" value using five audit committee characteristics variable and five firm's value variables. The five audit committee characteristics adopted for the study are size of audit committee, directors" independence, financial literacy of directors, number of meetings held by the committee and multiple directorships. The result of the tests shows that the two variables (Audit committee and financial performance) are more positively related on the profitability. The study concludes that all the variables of audit committee effectiveness work together to improve firms" profitability. Moreover, the study infers that audit committee effectiveness does have an impact on a firm's value but the degree of the impact differs from profitability to investors' confidence.

Similarly, Bouaziz (2012) study the impact of the characteristics of the audit committee on the financial performance (ROA and ROE) of Tunisian companies using a sample of 26 Tunisian companies listed on the Tunis Stock Exchange. The results show that the audit committee size has a significant positive impact on financial performance measured by ROA and

ROE. The study concludes that the audit committee is significant in improving the financial performance. Abdul Rahman and Ali(2006) opine that the number of audit committee members is related positively with earnings management level in Malaysian firms.

On the contrary,Inaam, khmoussi, and Fatma (2012) empirically examined the effect of audit committee characteristics on real earnings management in Tunisian, context using 319 firm year observations during the period 2000 -2010. They reviews that the size of the audit committee is positively associated with the level of real earnings management. Their findings are however inconsistent with their expectations and the findings of most scholars that reviews that audit committee size has a negative impact on earnings management.

In the work of Lin, Li and Yang (2006) indicated negative association amid committee size and financial reporting. Palmrose (1988) examine the relationship between the internal corporate governance mechanism related to the board of directors, the audit committee characteristics and the performance of the Saudi companies listed in the Saudi Stock Exchange (TADAWL) in 2010, excluding financial companies. The study used Tobin"s Q ratio to measure performance; the statistical results of the study are contrary to agency theory that board of directors and audit committee might mitigate agency problems leading to reduced agency cost by aligning the interests of controlling owners with those of the company while Audit Committee size is reviews to have a significant relationship with firm performance, but in the negative relationship to expectation. Prior literature that investigate the relationship between earnings management and audit committee size found mixed results, and they relate this to the differences in corporate governance mechanisms in each country since each country has different structures for its corporate governance based on their legal system, culture and political issues. These inputs suggest that size constitutes a significant factor for the effective performance of the group.

Yang and Krishman (2005) who analyzed the relationship between audit committees and earnings management in US using a sample of 896 firm-year observations for the period 1996-2000, found that audit committee size has negative significant relationship with earnings management. Lin, at al. (2006) examine the association between certain characteristics of audit committees that were recommended by the BRC in 1999 such as size, independence, financial expertise, activity, and stock ownership. They test year 2000 using 106 publicly-held corporations in the USA. Their dependent variable is reported earnings restatement and their findings suggest a negative association between the audit committees" size and earnings restatement.

Hamdan, Sarea and Reyad (2013) attempted to measure earnings quality in Jordan companies through future continuity of cash flows as well as presence of discretionary accruals in returns. They found a negative relationship between audit committee size and earnings quality, as reflected through continuity of future returns.

Fodio, Ibikunle and Oba (2013) who investigated corporate governance mechanisms and reported earnings quality in listed Nigerian insurance Firms, took the sample of 25 companies for the period 2007 to 2010. The study showed that audit committee size is negatively and significantly associated with earnings management. This supports the work of Leslie and Okoeguale (2013) who examined the evaluation of the implication of earnings management determinants in the banking industry. They focused on 18 banks out of the 23 listed for the period 2005 to 2010, and used Pearson product moment correction as technique for analysis. This study revealed that audit committee size is negatively correlated with earnings management. Even though Leslie and Okoeguale (2013) used Pearson product moment correlation in determining the association between audit committee size and earnings management which is not

strong enough as it can only measure degree of relationship not causation as such it requires the use of strong and more sophisticated statistical tool of analyses like regression in order to measure the actual effect of audit committee and earnings management. Fodio*et al (2013)* still use discretionary accruals, measured by modified Jones model; in assessing the effect of corporate governance on reported earnings quality of insurance Firms in Nigeria. It is argued that modified Jones model is not applicable in some sectors like banks and insurance companies which was the domain of the researchers.

However, Baxter and Cotter (2009) investigate whether the size of audit committees is associated with earnings quality for a sample of Australian listed companies in 2001, prior to the introduction of mandatory audit committee requirements in 2003. They use two measures of earnings quality based on the Jones (1991) and Dechow and Dichev (2002) models. Their results indicate no association between audit committee size and earnings quality in either measure.

Abbott, Parker and Peter (2004) examine 41 firms that issued fraudulent reports and 88 firms which restated annual results in the period 1991-1999. They find that audit committee size had no significant impact on financial reporting quality. This study did not use discretionary accruals as a measure. Additionally, Abdul Rahman and Ali (2006) investigate the extent of the effectiveness of the audit committee in reducing earnings management among 97 Malaysian listed firms over the period 2002-2003. Their study reveals no significant relationship between audit committee size and earnings management.

In another dimension, Baxter and Colter (2009) studied audit committees and earnings management of listed manufacturing companies in Australia. The study used 309 companies out of 500 listed companies in Australia in the year 2001, and employed the use of OLS using modified Jones model. Their study found no significant relationship between audit committee

size and earnings management. A similar conclusion was reached by Davidson, Steward and Kent (2005). In their study of 434 listed Australian firms, they did not find any association between the level of discretionary accruals and size of audit committees.

A survey of the previous literature finds inconsistent conclusions on the impact of audit committee size on improving earnings quality. Taking the above finding into consideration, it can be observed that the period used for the study is not enough, for a one, two or three years study cannot be used for generalization as it only captures few periods of time thereby neglecting other periods that may be affected by some other factors like change in regulations, standards, financial crises among others. However, because of these different views provided by researchers and literature, the direction of relationship between audit committee size and earnings management is still controversial. Therefore, the committee's size should be appropriately stated. Based on the inconsistent results from the above studies, it implies that advanced and emerging countries might affect the nature of the relationship between audit committee size and level of earnings management.

2.4.5 Firm Size and Leverage

The study includes firm size and leverage as controlled variable in the study. Loan loss provisions as bank's major accruals management decisions are likely to beinfluenced by banks' size. Watts andZimmerman(1986)postulates that large firms are more politically visibleand are more likely to manage earnings to reduce their politicalvisibility (Moses, 1987; Hsu &Koh, 2005). However, Ashari, Koh, Tan, and Wong (1994) haveaconflicting view and argue that more informationis available about larger firms, which are closely examined by analystsand investors. Smoothed income signals from larger firms addlittle value; accordingly, they have less incentive to smooth income(Atik, 2009). Therefore, there is no specific prediction on the

associationbetween bank size and discretionary accruals. This study uses thenatural logarithm of total assets as a proxy for bank size.

The study also control for leverage. DeFond&Jiambalvo (1994) andSweeney (1994) state that managers use discretionary accruals tosatisfy debt covenant requirements. Because more highlyleveraged firms have greater incentives to increase earnings.Ting, Hui Yen and Shih (2009) argue that managing earningsenables managers to reduce estimates of various claimants of thefirm about the volatility of its earnings process and so lowers theirassessment of the probability of bankruptcy. Accordingly, asdiscussed by Atik (2009), this provides an opportunity to borrow atlower interest rates and decreases cost of capital. Consistent withthis debt hypothesis, the study expect that managers in more leveragedfirms are more likely to adopt aggressive earnings managementtechniques to prevent violation of debt covenants (Watts andZimmerman, 1986). Bank's financial leverage, measured as the ratioof debt (deposit) to assets, is included, as a proxy, because managersare more likely to exercise their accounting discretion whenthey are closer to default on debt covenants (Press &Weintrop,1990). Therefore, Leverage was used to control firms that are currently facing financial difficulties and return on assets was used to control firms with different performance (Abdul Rahman& Mohamed Ali, 2006).

2.5 Theoretical Framework

This area discusses the theoretical framework for study. It introduces the nature and types of theories in general. It then compares and contrasts views of what constitutes a theory including the views prevalent in the area of corporate governance and earnings management research. The conception of a theory and its relationship with research is discussed. The contributions, controversies, and gaps in the identified theories were discussed and analyzed.

Theory used in corporate governance and earnings management research is traced, and the most commonly used theory was identified for the study.

2.5.1 Stakeholder Theory

Different scholars have defined stakeholder theory in different ways. Stanford Research Institute (SRI) defined stakeholder theory in 1963 as "those groups without their support organisation would cease to exist". This definition was modified by Freeman (2004), (who defined stakeholder theory as those groups who are vital to the survival and success of the organisation. It is obvious that the definition given is organisation oriented. However, in earlier researcher stakeholder was defined as "any group or individual who can affect or is affected by the achievement of the organisation objectives" (Freeman, 2004). Friedman however argued that the definition given by Freeman is more balanced and takes wider area than the definition given by SRI (1963) this is because it includes individuals outside the firm and that groups may consider themselves to be stakeholders of an organisation without the firm considering them to be such. In addition, Gray, Owen and Adams, (1996) stated that stakeholders are identified by the organisation of concern, by reference to the extent to which the organisation believes the interplay with each group needs to be managed in order to further the interests of the organisation. Conventionally, interest of the organisation is nothing but profit seeking assumption. In Freeman's definitional perspective, the organisation is seen as part of a larger social system. Stakeholders would include shareholders, employees, customers, lenders, suppliers, local charities, various interest groups and governments.

Similarly, Craig, (2010) asserted that the view of stakeholder theory is that all the stakeholders have right to be provided with information about how the organisation is affecting them (perhaps through pollution, community sponsorship, provision of employment, safety

initiatives, etc.), even if they choose not to use the information and even if they cannot directly affect the survival of the organisation. Such practice will increase the transparency of organisational activities and performance.

Therefore, it can be said that stakeholder theory can assist firms to achieve one of the corporate governance mechanisms, which is transparency, while according to the Gray, Owen and Adams, (1996) practicing stakeholder theory helps organisation to achieve the or ganisational goals which include increasing profitability.

Disclosing necessary reporting to the shareholders is the duty of management and proper disclosure can build good relationship between owners and managers while at the same time reducing agency problem. However, stakeholder theory does not directly provide prescriptions about what information should be disclosed (Craig, 2010) other than indicating that the provision of information, including information within an annual report can, if thoughtfully considered, be useful for the continued operations of a business entity. And stakeholder theory does not constraint managers from manipulation earnings.

2.5.2 Stewardship Theory

According to scholars, though agency theory has its origin in economics, stewardship theory has evolved from psychology and sociology. Stewardship theory grew out of the seminal work by Donaldson and Davis, (1989) and was developed as a model where senior executives act as stewards for the organization and in the best interests of the principals. The model given by Donaldson and Davis, (1989) asserts that managers will make decisions and act in the best interest of the firm, putting collectivist options above self-serving options. Notably, stewards are motivated only by making the right decisions which are in the best interest of the organisation, as there is strong assumption that stewards will benefit, if the firm is prospered. At the same time,

stewardship theory presumes that executives and managers' main duty is maximizing firm performance, while working under the premise as so; both principal and stewards can be benefited from the performance of the organisation.

Davis, Schoorman and Donaldson, (1997) defined stewardship theory as "a steward protects and maximises shareholders wealth through firm performance, because by doing so, the steward's utility functions are maximized". In this definition, the writers identified firm executives and managers as the stewards working for the principal. Later, Block, (1996) suggested the stewardship role as "service over self-interest" believing that both organizational and individual needs will be achieved at the best by honouring relationships and treating followers like "owners and partners".

In extension of stewardship theory definition, Caldwell and Karri, (2005) posited that there are covenantal duties owed to all stakeholders that acknowledged the importance of a systemic fit of organization governance with the conditions of its environment. However, stewardship can simply be defined as a behaviour that places the long term interest of the organisation as well as the shareholders a head of individuals' self-interest.

Company executives and managers are aimed to protect and make profits for the principals (shareholders), while in agency theory, firm executives and managers aim to work for their self-interest. On the other hand, Donaldson and Daivis, (1989) argued that stewardship theory ignores individualism, rather firm executives and managers play their role as stewards by aligning their interest along with the organisation goals. In fact, stewardship concept suggests that successful organisation leads to happiness and hence motivate stewards, not individual success or goals attained (Abdullah and Valentine, (2009)).

Unlike agency theory, the principal espouses steward ship theory which empowers managers and executives with the information and the equipment and the power believing that they will make decisions in the best interest of the organisation and for the principals. It enables the decision makers to act on behalf of the firm and for the firm, having faith that they will maximise the long term return of the firm.

Argyris (1964) noted that placing control structure or monitoring on executives or managers ultimately discourages them and will result in un productive outcomes for the organisation as well as principals and stewards. Stewardship theory believes in acting in the best interest of the organisation, unlike agency theory, therefore it argues that any control or monitoring structure may demotivate decision makers, which may have negative impact on firm performance.

However, in order not to place the full authority to the stewards without any control and monitoring structures, principals are required to get rid of the typical assumptions which are the result of agency theory. Principals are required to build the requisite trusting relationship with executives and managers. Placing the authority can help the stewards to make decisions independently for best interest of the organisation. However, if the organization is allowed to be completely managed by the managers and executive, there is that tendency of allying the goal and the objective of the organization to their personal interest.

2.5.3 Institutional Theory

Coase, (1937) proposed that institutions were created by human beings to decrease the uncertainties of transactions between economic agents, where a major part of those uncertainties are due to opportunistic human behaviour (Williamson, 1985). Williamson (1985) further argued

that without institutions, markets firms may have never existed and transactions could have never begun.

Traditional definition of institutions are found as what we regard or do not regard as acceptable and thus determine the framework in which any action finds its legitimacy. Suchman (2005) argued that an organisation cannot survive without legitimacy: an approval of its general environment that its actions are desirable, suitable and are adapted, with the interior of the standards, values and beliefs system, socially built. Later in 2005, Krishna and Das (2005) made similar conclusion, where they posited that, institutional perspective assumes that the environment recognises and empowers institutions to award firms, or withhold from firms, resources such as legitimacy.

The tenets of institutional theory are also best met in a business environment with high level of regulation. A major paper in the development of institutional theory was by DiMaggio and Powell, (1983) who defined an institutional field as those organisations that in the aggregate, constitute a recognised area of institutional life: key suppliers, resources, regulatory agencies, and other organisations that produce similar products and services. DiMaggio and Powell, (1983) viewed the process by which organisations tend to adopt the same structures and practice.

Institutional theory pressures to meet certain standards of corporate governance (Shleifer and Vishny, 1997), which is linked to firm performance. Krishna and Das, (2005) argued that institutional perspectives on corporate governance are best met in an environment with high levels of regulatory efficiency. This finding is similar to Kathleen, (1988) where it mentioned that organisations are the way they are for no other reason than that the way they are is the legitimate way to organise. The key concept of this idea is that organisational actions evolve over time and become legitimated within an organisation and an environment.

Seal (2006) asserted that the significance of institution theory is the openness about human behaviour and organisational practices. This theory also offers the way, how to link the institutionally informed management accounting research that has been increasingly adopted at the organisational level to the wider political, legal and social processes associated with corporate governance and professionalization.

2.5.4 Information Theory

In the market place the study assume that investors possess heterogeneity of information. What this means is that different investors tend to possess varying degrees of information at their disposal leading to information asymmetry. Information asymmetry tends to vary over time as the sets of the information about the fundamentals of a company change. It does so temporarily with the arrival of new private information about operational or strategic activities of a company and decreases when at least some of this information is made public (Lensink and Sterken, 2000). The information perspective or theory according to Schipper (1989) is a key element underpinning the study of earnings management or creative accounting phenomenon. A conflict is created by the information asymmetry that exists in corporate structures between a privileged management and a more remote body of stakeholders. Managers may choose to exploit their privileged position for private gains by managing financial reporting disclosure in their own favour. The information perspective assumes that accounting disclosures have information content that possesses value to stakeholders in providing useful signals. It may be difficult or impossible for individual stakeholders to discern the fact and the effect of accounting manipulation, because of an insufficient personal skill, indifference or an unwillingness to engage in detailed analysis (Breton and Taffler, 1995).

No one theory can give us the best performance result but a combination of all can deliver the business need and keep the organization running while balancing the principal and the manager rights over the business. Like, the institutional theory states that firms not only engage themselves in competition but legitimised themselves. On the other hand, Stewardship theory is defined as "stewards protect and maximise shareholders wealth through firm performance. By doing so, the steward's utility functions are maximized". Hence the link is clear how institutional theory is a subset of stewardship theory.

2.5.5 Agency Theory

Agency theory addresses the relationship where in a contract 'one or more persons (the principal(s)) engage another person (the agent) to perform some service on their behalf which involves delegating some decision making authority to the agent' (Jensen and Meckling, 1976). This happens because of the separation of ownership and control, when the owner of the company or the board of directors (the 'principals') have to employ managers ('agents') to run the business and need to monitor their performance to ensure they act in the owner's interest. Alchian and Demsetz (1972) were the first to argue that monitoring the performance of individual work effort is always a cost of any firm and those organizational inefficiencies are created when the flow of information on individual performance is decreased or blocked. This can happen if there are large teams, unsupervized professionals, or executives of corporations who act autonomously.

The main concern of agency theory as proposed by Jensen and Meckling (1976) is how to write contracts in which an agent's performance can be measured and incentivized so that they

act with the principal’s interests in mind. Based on the idea that employees (at any level) will have diverse goals, two main agency problems are identified: how to align the conflicting goals of principals and agents, and how to ensure agents perform in the way principals expect them to. These problems can occur when executives or managers make self-interested decisions and manipulate information on performance, perhaps by moving numbers around or by ‘creative accounting’ to present better performance figures: ‘The problem here is that the principal cannot verify that the agent has behaved appropriately’ (Eisenhardt, 1989). Agency problems can also occur when executives or managers have a different attitude toward risk from that of the owners or shareholders. The problem of risk sharing, identified by Eisenhardt as the second agency problem, can be explained in terms of an information asymmetry between shareholders and managers which an information reporting regime should seek to minimise.

The solution to either of these agency problems is to ensure that executives or managers act in the best interests of the owners by increasing the amount and quality of information available to principals and making senior executives part owners of the firm through their compensation packages.

This theory has shown that the totality of firm control lies on the managers. Managers are expected to provide necessary report to the owners. This theory is in contrast with the study as the study is concentrating on the how banks earnings management can constraint managers from manipulating earnings.

Agency theory is based on the problems related to separation of ownership and controllability. In Freeman’s definitional perspective, the organisation is seen as part of a larger social system. Stakeholders would include shareholders, employees, customers, lenders, suppliers, local charities, various interest groups and governments. So we can see how various

stakeholders if left to make decision alone can open up sever loophole in principal wealth protection. Therefore, in order to strengthen corporation effectiveness we need to emphasise in all of them. But for the sake of this study, the study will adopt agency theory where it is expected that the right thing be done by the managers in order to safeguard the shareholders' investment.

CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction

In accordance with the objectives, this chapter discusses the research design, methods of data collection, population and sampling, techniques of data analysis employed in the research and measurement of variables.

3.2 Research Design

For this study, correlational research design is used. A correlational research design is used to describe the statistical association between two or more variables. It is therefore, most appropriate for this study because it allows for testing of expected relationships between and among the variables and the making of predictions regarding these relationships. This study involves the measurement of five independent variables and one dependent variable as well as assessment of the relationship between them.

3.3 Population and Sample of the Study

The population of the study comprises of all 16 quoted deposit money banks in the Nigerian Stock Exchange as at 31st December 2016. Out the 16 deposit money bank, 10 banks are used as sample for the study.

Table 3.1 List of Quoted Deposit Money Banks in Nigeria as at 31st December, 2016

S/N	BANK NAME
1	ACCESS BANK
2	DIAMOND BANK
3	ECOBANK
4	FIDELITY BANK
5	FIRST BANK

6	FIRST CITY MONUMENT BANK
7	GUARANTY TRUST BANK
8	KEYSTONE BANK
9	SKYE BANK
10	STANBIC IBTC BANK
11	STERLING BANK
12	UNION BANK
13	UNITED BANK FOR AFRICA
14	UNITY BANK
15	WEMA BANK
16	ZENITH BANK

Source: Fact Book of Nigerian Stock Exchange, 2007-2016

3.4 Sampling Techniques

The study adopted filter as the sampling techniques of the study. Afilter is employed to eliminate some of the banks that have no complete records of all the data needed for measuring the variables of the study within the period (2007-2016). Consequently, 6 banks are eliminated leaving 10 banks of the population. The filter employed categorisethe banks into two strata, that is, the banks that are more than ten years and those that are not. Those that are more than ten years are also categorised into banks that have not changed their identity within those ten years. After this process, 10 banks were arrived at within the period of the study (2007 – 2016).

Table 3.2 List of Sampled Quoted Deposit Money Banks in Nigeria as at 31st December, 2016

S/N	BANK NAME
1	ACCESS BANK
2	DIAMOND BANK
3	FIDELITY BANK
4	FIRST BANK
5	GUARANTY TRUST BANK
6	STANBIC IBTC BANK
7	UNION BANK
8	UNITED BANK FOR AFRICA
9	WEMA BANK

10	ZENITH BANK

Source: Fact Book of Nigerian Stock Exchange, 2007-2016

3.5 Sources and Methods of Data Collection

The study used panel data all from secondary sources because all the data needed for analysis was adequately and conveniently extracted from the audited financial reports of the selected banks within the period of the study. These financial reports are obtained from Nigerian Stock Exchange Fact Book.

3.6 Techniques of Data Analysis

For the purpose of deriving the residual used as dependent variable, Ordinary Least Square (OLS) was used to derive the residuals. Thereafter, the data analysis techniques employed is the descriptive statistics, correlation technique and multiple regression analysis by using OLS. Also, further robustness test were conducted using Shapiro test for normal distribution to test whether the data set is well modeled and Breush-Pagan test for heteroskedasticitywas employed to test the variability of the variable across the range of values of the second variable that predicts. For further test, Hausman Specification Test was employed to select between fixed and random effect. Thereafter, Langrangian Multiplier Test was also employed in order to select from OLM and random effect. Therefore, STATA was used as tool of analysis

3.7 Models Specification

The study adopted two models to test the hypotheses; the first model measure the extent of earnings management in banks using the discretionary loan loss provision (DLLP) as a proxy for earnings management. As in Beaver and Engel (1996), the model uses the residual from the following regression model as an estimate of the discretionary component of the (DLLP). The first model is stated below:

$LLP_{it} = \beta_0 + \beta_1 CINPL_{it} + \beta 2\ CIOL_{it} + \beta_3 WO_{it} + \epsilon_{it}$ ---------------1

Table 3.6.1Description of the Variables

Variable Name	Variable Measurement	Variable Definition
Loan Loss Provision	Loan Loss Provision/Average Loan	LLP
Non-Performing Loans	Change in Non-Performing Loans/Average loan	CNPL
Outstanding Loans	Change in Outstanding Loans/Average Loan	CIOL
Write-Offs	Write-Offs/Average Loans	WO
Discretionary Loan	Loss Provision Measured by Residuals	DLLP

Source: Adopted from Beaver and Angel (1996)

Regression Model Two.

The second model deploys residual (Discretionary Loan Loss Provision) for the test of the research hypotheses stated in chapter one. Base on Ahmed *etal* (1999), Gray and Clarkes (2004) and Chang *etal* (2008) the second model is stated as follows:

$DLLPit = \beta 0 + \beta_1 INS_{it} + \beta_2 MOS_{it} + \beta_3 BSZ + \beta_4 ACZ_{it} + \beta_6 LEV_{it} + \beta_7 FSZ_t + \epsilon_{it}$--------- 2

Table 3.6.2Description of the Variables

Variable Name	Variable Definition	Variable Measurement
Discretionary Loan Loss Provision	DLLP	Error Terms from Regression Model
Institutional Shareholder	INS	Institutional Shareholder/Total Shares
Managerial Ownership	MOS	Managerial Shares/Total Shares
Board Size	BSZ	Total Number of Directors
Audit Committee Size	ACZ	Total Number of Audit Committee
Leverage	LEV	Total Debt/Total Asset
Firm Size	FSZ	Log of Total Assets

Source: Researchers Compilation from Literatures, 2017

CHAPTER FOUR
DATA PRESENTATION AND ANALYSIS

4.1 Introduction

The chapter starts with the analysis of descriptive statistics. It is followed by the presentation of the results of the model estimations and the inferences drawn from the tests of the hypotheses. In addition, findings are analysed and policy implications are discussed. The chapter concludes with a discussion of the robustness of the results for variables of the study.

4.2 Descriptive Statistics

The sample descriptive statistics is first presented in Table 4.1 where minimum, maximum, mean, standard deviation, of the data were stated for the variables used in the study are captured.

Table 4.2: Descriptive Statistics of the variables

Variable	Observation	Mean	Std. Dev	Minimum	Maximum
DLLP	**100**	**0.11**	**0.01**	**0.07**	**0.13**
IST	**100**	**0.04**	**0.01**	**0.03**	**0.06**
MOS	**100**	**0.06**	**0.01**	**0.03**	**0.09**
BSZ	**100**	**15.29**	**1.42**	**12.00**	**19.00**
ACZ	**100**	**5.56**	**0.74**	**4.00**	**6.00**
LEV	**100**	**0.64**	**0.11**	**0.23**	**0.84**
FSZ	**100**	**0.36**	**0.11**	**0.08**	**0.75**

Source: Researcher' Result, 2017.

Table 4.2 presents the descriptive statistics for the dependent and independent variables respectively (DLLP = Discretionary Loan loss provision, MRO = Managerial Ownership, INS = Institutional Shareholding, BSZ = Board Size, ACS = Audit Committee, LEV=Leverage and FSZ= Firm Size. Institutional shareholding averages 0.04%, ranging from the minimum value of 0.03% and maximum value of 0.06% this is an indication that most shares in the banks are held by individuals rather than institutional shareholders. The average of managerial ownership revealed0.06% with a minimum of 0.03% and maximum of 0.09%. The result indicates that there is weak presence of managerial ownership in the Nigerian banking industry.The average board

size in this study is about 15 members (mean = 15.29), with the list members of 12 in some banks and the maximum members of 19 members, This shows that banks normally constitute a large number of their board of directors as this will restrain manager from earnings manipulations. The average audit committee is5 members (5.56) with a minimum of 4 members and a maximum of 6 members.While firms' average leverage ratio is 0.64% and have the minimum of 0.23% and maximum of 0.84%. Finally, the average firm size, which is the natural log of total asset is 0.36billion Naira, ranging from 0.08 to 0.75 billion. Overall, except for the board size there is no large difference between the means and the standard deviations of the variables. This is an indication that the data are normally distributed and are fit to produce a reliable result.

4.3 Correlation Matrix

The correlation matrix for the explained and explanatory variables are analysed and presented in Table 4.2

Table 4.3 Correlation Matrix

	EM	**INS**	**MOS**	**BSZ**	**ACZ**	**LEV**	**FSZ**
EM	**1.0000**						
INS	**0.1550**	**1.0000**					
MOS	**0.2361**	**0.7003**	**1.0000**				
BSZ	**-0.0931**	**-0.2455**	**-0.4317**	**1.0000**			
ACZ	**-0.0213**	**-0.0559**	**-0.0739**	**0.2761**	**1.0000**		
LEV	**0.7013**	**-0.0660**	**-0.0908**	**0.1104**	**-0.1911**	**1.0000**	
FSZ	**-0.2071**	**-0.0201**	**0.1109**	**-0.1141**	**-0.1538**	**-0.6041**	**1.0000**

Source: Researchers' Stata Result, 2017

Table 4.3 shows the correlation matrix with the top values containing the Pearson correlation coefficient between all pairs of variables and the bottom values containing two-tail significance of these coefficients. Examining the pattern of relationships between dependent and

independent variables, it is observed that the variables are fairly well (between 0.09 and 0.70). Thus, there is no correlation coefficient particularly large (greater than 0.70). On the other hand, the relationships between most of the explanatory variables are minimal and negligible. Hence collinearity does not appear to create a threat to the interpretation of regression coefficients of the model. Therefore, multicollinearity is not expected to pose a problem to the result of the study. Another significant and relatively high correlation is between managerial ownership (MOS) and institutional shares (INS), suggesting that experience managerial members will attract more institutions to invest. Better performed banks have a negativecorrelation with board size, audit committee and control variablefirm size, but positive correlated with managerial ownership,institutional ownership and the control variable leverage. All the variables are included in the same model hence therecorrelations are strong at (0.70).

4.4 Robustness Test

This section present the results of robustness tests conducted in order to improve the validity of all statistical inferences for the study. These tests include; multicollinearity test, heteroscedasticity test, cross-sectional dependence test, test of serial correlation, Hausman specification test and Lagrangian Multiplier test.

Table 4.4 Tolerance and Variable Inflation Factor

Variable	Variance Inflation Factor	Tolerance Inflation Value
MOS	2.37	0.42
INS	2.06	0.49
LEV	1.90	0.53
FSZ	1.87	0.53
BSZ	1.38	0.73

ACZ	**1.32**	**0.76**
Mean	**1.82**	

Source: Regression Result Using Stata, 2017

Multicollinearity test: This is to check whether there is a strong correlation between independent variables which will mislead the result of the study. Table 4.4 presents the matrix of the linear relationships among the continuous independent variables. To formally substantiate the lack of multicollinearity between the independent variables, colinearity diagnostics are observed and that the variance inflation factors (VIF) and tolerance inflation values (TIV) indicate no multicollinearity between the data variables. The values for TIV and VIF are shown in Table 4.3. The TIV and the (VIF) are two advanced measures of testing the presence of multicollinearity between the independent variables. Using STATA, the VIF and TIV are computed and found to be consistently smaller than ten and one respectively indicating absence of multicollinearity (Neter, Kutner, ACZhtsheim, & Wasserman 1996 as cited in Shehu and Abubakar (2012). This shows the appropriateness of the fitness of the model of the study with the four independent variables and two control variables. In addition, the tolerance values are consistently smaller than 1.00 thus further substantiates the fact that there is no multicollinearity between independent variables (Tobachnick&Fidell 1996). Further, Gujarati (2003, p.339) suggests that a VIF value of less than 10 is acceptable; the maximum VIF value is 2.37.

Normality Test: In view of the descriptive statistics results, the study employed the Shapiro test for normal data in appendix 1 to check the normality of the data. The method test the null hypothesis (that the data is normal), that is, the variables came from a normally distributed population. Appendix 1 indicates that the data DLLP, BSZ, ACZ, LEV and FSZ variables are not normally distributed, because the P-values are significant at 1% and 5% level of significance. On the other hand, the data INST and MOS variable is normally distributed because it is not

significant at all levels of significance (Prob>Z value of 0.079 and 0.833). Accordingly, the null hypothesis (that, the data is normally distributed) is not rejected. Therefore, this may have no effects on the results, as most of the parametric tools of analysis including regression presumed that the data is normally distributed.

Heteroscedasticity tests: Breusch -Pagan / Cook-Weisberg tests the null hypothesis that the error variances are all equal versus the alternative that the error variances are a multiplicative function of one or more variables. A large chi-square would indicate that heteroskedasticity was present. In this example, the chi -square value was small, indicating that heteroskedasticity was not a problem. This is evident by the more than 0.05 significance level (0.0557) indicating absence of heteroskedasticity. This confirms that, the data is homodastic in nature which allows use of ordinary least square when regressing explained and explanting variables of the study.

Choosing Random Effect (RE) and Fixed Effect (FE) Models: The results so far indicate that all CRLM assumptions are not violated, so the ordinary least square regression can be safely applied. However, since this study uses a panel data, there are two types of panel estimator approaches that can be employed, namely: Fixed Effects Models (FEM) and Random Effects Models (REM) (Brooks, 2008). To examine whether individual effects are fixed or random, a Hausman specification test was conducted providing evidence in favour of the REM model (Baltagi, 2005). The null hypothesis for this test is that unobservable heterogeneity term is not correlated or random effect model is appropriate, with the independent variables. If the null hypothesis is rejected then we employ Fixed Effects method. (Brooks, 2008). The Hausman Test have revealed that the statistical significance is greater than 0.05 level of significance, therefore the REM is to be choosen, that means the nule hypothesis is rejected.

Random effect model is appropriate. However, further test Lagrangian Multiplier (LM) test for ramdom effect has revealed that OLS regression model should adopted. This is evidenced in the LM test result which is not significant at 0.05.

4.5 Presentation and Discussion of Regression Results

This section presents the regression result of the dependent variable loan loss provision and the independent variables of the study. It follows with discussion of the association between dependent variable and each independent variable individually and cumulatively. The summary of the regression result obtained from the model of the study.

$DLLP_{it} = \beta 0 + \beta_1 INS_{it} + \beta_2\ MOS_{it} + \beta_3\ BSZ + \beta_4 ACZ_{it} + \beta_5 LEV_{it} + \beta_6 FSZ_{it} + \epsilon_{it}$ is presented in Table 4.5

Table 4.5 RegressionResult

Statistics Variable Coefficient	Beta	T. Value	Sig.
INS	0.1134	1.16	0.249
MOS	0.1794	2.13	0.036
BSZ	-0.0010	-2.28	0.025
ACZ	0.0041	5.00	0.000
LEV	0.0931	14.28	0.000
FSZ	0.0394	6.10	0.000
NO. OF OBSERVATION			100
F. Statistics			0.000
			0.72
R^2			0.70
AdjustedR^2			0.28
Hausman Test			1.00
LM Test			

Result from stata output, 2017

The results of the regression analysis are presented in Table 4.5above. DLLP is regressed on four explanatory and two control variables. The explanatory power of these models ranges

from 72 percent as denoted by the R^2 value. Overall, the regression modelis moderately significant. The moderate value of R^2 in some of the models shows that a reasonable part of the variability of DLLP is explained by the variability of the independent variables. However, this number is acceptable for any study employing DLLP as a proxy for earnings management (Peasnell et al., 2005). The R^2 (0.72) which is the coefficient of determination gives the proportion or percentage of the total variation in the dependent variable explained by the explanatory variables jointly. Hence, it signifies 72% of total variation in DLLP of Deposit Money Banks which is caused by their monitoring mechanisms of all the independent variables. Gujarati (2003) recommends 0.80 as the threshold at which multicollinearity concerns may threaten the regression analysis.

The regression model was estimated using random effect. The choice of a random effects model is based on the Hausmantest results reported in Table 4.4. The test compares the coefficients of fixed and random effects models for systematic differences. If the coefficients of both models are systematically different, the null hypothesis of no difference is not rejected. As shown in Table 4.4, the p-value of the Hausman test for all variables is above 5 percent (28%), thus supporting the use of random effects. However, having confirmed random effect, there is further need to test between random and ordinary least square model (OLS) by using the Lagrangian Multiplier Test (LM). LM test finally revealed that Ordinary Least Square (OLS) regression modelis adopted for the analysis as the probabilityis above 5 percent (1.00) which suggest the use of OLS regression model.

4.5.1 Institutional Shareholding and Discretionary Loan Loss provision

The institutional share has a t-value of 1.16 and a coefficient value of .113 with a significant value of 0.249. This signifies that institutional share (INS) positively but not

significantly affects the discretionary loan loss provision of listed Deposit Money Banks in Nigeria. It implies that for every one point increase in institutional shares of listed Deposit Money Banks, the financial information quality will increase by 0.1134,although the result was not significant at 5 percent.

4.5.2 Managerial Shareholding and Discretionary Loan Loss provision

The result in respect of managerial shareholding and discretionary loan loss provisionhas a t-value of 2.13 and a coefficient value of .179 with a significant value of 0.036. This implies that managerial shareholding (MOS) positively and significantly affects the discretionary loan loss provision of listed Deposit Money Banks in Nigeria. It implies that for every one point increase in managerial shareholding of listed Deposit Money Banks, the financial information quality will increase by 0.1794.

4.5.3 Board Size and Discretionary Loan Loss provision

On the contrary, the regression result reveals that board sizehas a T value of -2.28and a coefficient of -0.0010 with a significant value of 0.025. Board size is negatively and statistically significant at 5% level in determining the DLLP of Deposit Money Banks. This implies that for every increase in Board Size of listed Deposit Money Banks; the financial information quality will decrease by -0.0010.

4.5.4 Audit Committee and Discretionary Loan Loss provision

The regression result reveals that Audit Committeehas a coefficient of 0.0041and a t-value of 5.00 with a significant level of 0.000.Significant at 5% level in determining the DLLP of Deposit Money Banks. This indicates that Audit committee is positively and statistically significant at 5% level in determining the DLLP of Deposit Money Banks. This implies that for

every increase in Audit Committee of listed Deposit Money Banks, the financial information quality will increase by 0.0041.

4.4.5 Control Variable

The Leverage has a t-value of 14.28 and a coefficient value of 0.093 with a 1% significant value of 0.00. This signifies that Leverage (Lev) is strongly and positively influencing the discretionary loan loss provision of Deposit Money Banks in Nigeria. Again, Firm Size which has a coefficient of 0.039, with a t-value of 6.10 and a in each of the selected Banks is found to be positively significant at 1% level (0.000), which means that it has significant relationship with the financial earnings management of Deposit Money Banks in Nigeria.

4.6 Hypotheses Testing and Discussion of Result

In this section the statistical analysis to examine the effectiveness of institutional shareholders, managerial ownership, number of board members and audit committee size as well as its monitoring effect on the discretionary loan losses of deposit money banks in Nigeria is carried out in an attempt to test the hypotheses stated in chapter one of the study. Also, robustness checks were conducted to examine the outputs under varying circumstances. The robustness test provides greater dependability and reliability to the overall findings of the study. The regression result used for the hypotheses test is presented in Table 4.4. The results for each hypothesis are presented below:

4.6.1 Institutional Shareholding and Discretionary Loan Loss Provision

H_{01}: Institutional shareholding has no significant effect on discretionary loan loss provision of deposit money banks in Nigeria.

Institutional shareholders measured as institutional shareholding by the total shares is found to be statistically not significant and positively associated with the discretionary loan loss

provision at 25% level of significance indicating that, the hypothesis one, which predicted a significant relationship between these variables, is not empirically confirmed. A possible explanation for this result may be that most banks are owned by some big individuals and most institutions are rather focusing on other businesses that may give them immediate returns than on banks, perhaps making it impossible to identify a significant difference in relation to the discretionary loan loss provision by institutional shareholders with less participation in the banking industry. Several studies have attempted to document the relation between institutional shareholders and earnings management, but have provided mixed results, possibly due to a lack of consensus as to differences in some economic and political factors is not supported. This result is not surprising since Peasnell*et al.* (2005), in their study conducted in the UK, also showed no relationship between institutional ownership and earnings management, and Rajgopal*et al*. (1999) also found no relationship. The cause of this could be the fact that Nigerian banks are primarily owned by majorly individuals than institutions.

4.6.2 Managerial Ownership and Discretionary Loan Loss Provision

H_{02}**:** Managerial ownership has no significant effect on discretionary loan loss provision of deposit money bank in Nigeria.

In line with previous studies (both industrial and financial firms), the managerial ownership of the deposit money bank is significant at less than 5% level (p-value 0.036) with coefficient 0.179 and t-static 2.13. It can be understood that the significant size coefficient can be interpreted as a unit increase in the managerial ownership of the banks will be accompanied by 18% increase in reducing the ability of managers to manipulate discretionary portion of loan loss provision. This result is consistent with various prior empirical studies recurring finding of a positive relationship between the managerial ownership and discretionary loan loss provision,

both in financial and non-financial sectors. Isenmila*et al.* (2012) also identified a positive, significant relationship between insider ownership and earnings management. Generally, the positive and significant relationship between managerial ownership and discretionary loan loss provision in the result leads to reject the second hypothesis. In summary, the result is consistent with prior period research which indicates varied result between managerial ownership and discretionary loan loss provision. The study therefore infers that the managerial ownership is statistically significant mechanism in addressing the problems associated with the discretionary accruals of the deposit money banks in Nigeria.

4.6.3 Board Size and Discretionary Loan Loss Provision

H_{03}: Board size has no significant effect on discretionary loan loss provision of deposit money bank in Nigeria.

Moreover, the results from Table 4.4 indicated that board size of the sample deposit money banks in Nigeria has significant negative impact on the levels of discretionary loan loss provision of the banks, starting with the coefficients of -0.001 to a t-value of -2.28 which is statistically significant at 5% level of significance (p-value of 0.025). This also indicates an inverse relationship between the board size and discretionary loan loss provision, and is statistically significant. On the ground ofthis, the study rejects the null hypothesis three (H03), which states that board size has no significant impact on discretionary loan loss provision of Listed Deposit Money Banks in Nigeria. The study therefore infers that the size of the board members in the board is significant in addressing the problems related with the discretionary accruals of the deposit money banks in Nigeria.

4.6.4 Audit Committee Size and Discretionary Loan Loss Provision

H_{04}: Audit committee has no significant effect on discretionary loan loss provision of deposit money bank in Nigeria.

This hypothesis also indicated that the audit committee size (ACS) of the sample deposit money banks in Nigeria has significant positive impact on the discretionary loan loss provision of the deposit money banks, starting with the coefficients of 0.0041 with t-value of 5.00 which is statistically significant at 1% level of significance (p-value of 0.000). This implies a direct relationship between the size of the audit committee and the discretionary loan loss provision, that is, the larger the size of the audit committee, the higher the level of managerial discretion and earnings management, and the result is statistically significant. Based on this, the study fail to reject the null hypothesis, which states that audit committee has no significant effect on discretionary loan loss provision of deposit money bank in Nigeria. The study therefore infers that the size and presence of audit committee is positively significant in addressing the problems associated with the discretionary accruals of the deposit money banks in Nigeria. This result is in line with the findings of Ojulari (2012), Bouaziz (2012), but inconsistent with the findings of Inaam, khmoussi, and Fatma (2012) Lin, Li and Yang (2006),Palmrose (1988) who found inverse relationship.Consequently, the study infers that the size and presence of audit committee is statistically significant in addressing the problems associated with the discretionary accruals of the deposit money banks in Nigeria.

CHAPTER FIVE
SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

The study investigates corporate governances and discretionary loan loss provision of Nigeriandeposit money bank. It has developed a multiple regression model for the purpose of explaining and predicting empirically the discretionary loan loss provision behaviour as a result of changes in corporate governances. The model of the study estimates the relationship and effect of four explanatory variables institutional shareholding,managerial shareholding, board size and audit committee size while leverage and firm size are used as control variable on one explained variable discretionary loan loss provision by means of the least square regression. The study is predicated on the premise that managers of banks use their discretion by exercising unethical accounting to satisfy personal interest at the detriment of their banks by manipulating loan losses. Therefore, the study reveals the role corporate governance mechanisms play in determining the level of manipulative accounting by the managers.

The findings of this work are based on the balanced panel data collected for the period 2007 -2016 from a population of 16 commercial banks out of which 10 where sampled quoted commercial banks on the Nigerian Stock Exchange. The result of the study reveals that managerial ownership and audit committee size of the explanatory variables are positively and significant in explaining the discretionary loan loss provision,board sizerevealed negative and significant relationship. But institutionnal shareholding variable has no relationship with discretionary loan loss provision.

Therefore, corporate governance used in this study proved to be the determinants of discretionary loan loss provision through monitoring management in checking unethical accounting behavior of managers using loan losses.

5.2 Conclusions

Based on the findings of the research, the study concludes as follows:

Firstly, the study has provided both empirical as well as statistical evidence on the use of four independent variables that constitute corporate governances, managerial shareholding, board size, and audit committee in explaining and predicting loan loss provision of the sample DMBs, except for institutional shareholding which did not show significant relationship.

Secondly, institutional investors as one of the variable, does not prove any evidence of rejecting the null hypothesis. Their substantial institutional presence does not reduce the level of earnings management. In this sense, institutional investor does not improve the value of corporate governance and that of discretionary loan loss provision.

Thirdly, the value of shares held by managers should be increased in order to minimize unethical accounting and improve the transparency in reporting. The presence of managerial ownership will improve the overall quality of earnings as they play a vital role of internal control mechanism.

Fourthly, board size plays a prominent role of monitoring management in reducingmanager's opportunistic behavior in managing loan losses. Therefore, the presence of larger board size is likely to enhance the true picture of loan loss provision reported by the banks.

Fifthly, efficient monitoring from audit committee that is free from managerial influence is capable of improving the discretionary loan losses. Moreover,the presences of audit committee also reduce the activities of managerial manipulation. The presence of an elaborate audit committee will improve the overall quality of earnings as they play a vital role of internal control mechanism.

5.3 Recommendations

Having presented the findings as well as draw conclusion for the study, the following are therefore recommended:

i. To discourage shareholder engagement weather by institutional shareholder or by organise shareholders group. Shareholders with larger holdings (institutional and non-institutional) should act and influence the standard of corporate governance positively which improves stakeholder value and improve earnings, thus the institutional shareholders should be encouraged to invest more in the deposit money bank. This will increase the monitoring capability of institutional shareholders toward unethical accounting of management and improve earnings.

ii. In the case of the managerial shareholding, the shareholders should increase the value of shares owned by managers and encourage them from buying more in order to increase their overall ownership of their shares. This will go a long way in reducing unethical accounting and improving the quality of earnings in the Nigerian deposit money banks.

iii. The size of the board in Nigerian banks should be maintainedbase on the CBN banking regulationswhich stipulate a maximum size of 20and SEC which states maximum of 15 members. Therefore,the deposit money bank should maintain a minimum of 15 members and a maximum of 20 members in their board.The members of the board should be individuals with upright personal characteristics and relevant core competences, preferably with a record of tangible achievement, knowledge on board matters, a science of accountability, commitment to the task of corporate governance and institution building as well as having an entrepreneurial bias to enable them check made the unethical accounting of management. They should also measure the size of the bank by making sure that the larger it size, the larger the board size. This

will increase the monitoring capability of board toward unethical accounting of management and improve earnings.

iv. The composition of audit committee should be made in accordance with the provision of code of corporate governance; not more than six (6) members with at least one (1) financial expert. In addition, the members of the audit committee should be people of integrity and experience and meet not less than four times per annum as provided by the code. All these will play a prominent role and strengthen the audit committee to enable them check mate the unethical accounting activities by the managers and improve the earnings in the Nigerian deposit money banks. The banks should be involving more experienced audit firm and should work hand in hand with the audit committee in order to mitigate earnings manipulation of loan loss.

5.4 Limitation of the Study

It is noted that the sample size is limited. Since most of the banks could not meet the selection criteria, a smaller sample size was used in the analysis. Nevertheless, additional robustness analysis was performed to ensure the consistency of the conclusions arrived. Additionally, due to the following reasons, the conclusions in this thesis might be subjected to different interpretations than cited in this thesis. Such reasons may include:

The findings reported in the thesis had concentrated on generalsettings. In specificsituations, the results and interpretations might change against the conclusions made in the thesis. For example, in certain entities where there is a complex stakeholder structure, the agency issue might be very critical and may require stringent corporate governances, while in other entities it might not be the case. Thus, the conclusions based on general situations might be quite different in specific situations.

5.5 Area of Future Research

This research work examines effect of corporate governance on discretionary loan loss provision of listed deposit money banks in Nigeria and has paved the way for further research in the following areas.

1. The same research can be replicated using firms such as insurance firms, microfinance banks and other financial institutions.
2. As another future research direction, using of other earnings quality proxies (i.e., other than abnormal accruals and incidence of corporate fraud) could be taken into consideration.

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