REDUCING EARNINGS MANAGEMENT THROUGH CORPORATE GOVERNANCE MECHANISM: EVIDENCE FROM LISTED MANUFACTURING FIRMS IN NIGERIA

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ABSTRACT

The study investigates whether earnings management can be reduced through corporate governance mechanism. Ownership concentration, board size, audit committee, CEO Duality were used to proxy corporate governance while total accruals was used to measure earnings management. Ordinary Least Square (OLS) regression analysis was used to test the hypotheses. The result revealed that: Board size has significant negative relationship with earnings management. Ownership concentration has insignificant positive relationship with earnings management. Audit committee positive but insignificant effect on earnings management. CEO duality has a negative effect on earnings management and it is statistically significant. It is recommended that the composition of audit committee should be clearly spelt out to enable them perform their oversight functions effectively. Also, diverse ownership is recommended unlike concentrated ownership in order to reduce earnings management in Nigeria Manufacturing firms. This will go a long way in bringing the economy out of the current recession.

Keywords: Earnings Management, Board Structure, Corporate Governance, Manufacturing, Nigeria, Total Accruals.

INTRODUCTION

Investors are concerned about earnings management as it distorts reported earnings leading to decisions that they otherwise would not have made. Corporate governance continues to be an area of importance while earnings management still appears to be a problematic issue. This paper investigates the effect corporate governance on earnings management. As Nigeria marches forward in her desire to become one of the top 20 economies of the world and to overcome this current recession, one dominant issue that remains on the front burner is how to build investors' confidence in the domestic economy through corporate governance and transparent financial reporting. The tragic collapse and scandals of giant firms such as the WorldCom, Xerox and Enron Corporation highlights the critical need to focus on the anchors of sound corporate governance both in developed and developing countries. The bankruptcy of these giant firms inarguably stemmed from earnings manipulation due to fraudulent practices by board of directors and weak governance mechanism in place. Consequently, many shareholders lost their confidence in the affected forms and major players globally.

Seemingly, corporate governance regulations turned out to be the most significant tool to regaining the lost confidence. The investing public customarily assumes that once financial statements have been externally audited, they provide information that can be relied upon and are thus useful in evaluating the firm's current and future financial prospects. Earnings

management has been a concern of regulators and practitioners for several years because it erodes the quality of financial reporting (Adams, R. & Ferreira, 2007). According to Roodposhti & Chasmi (2011), the role of corporate governance is to reduce the divergence of interests between shareholders and managers. Such divergence of interests could border along the management of earnings through the use of accounting accruals. Corporate governance is a mechanism that is employed to reduce the agency cost that arises as a result of the conflict of interests that existed between shareholders and managers. The conflict emanates almost naturally because of the separation of ownership from control of modern day business, places the managers at a privileged position that gives them the latitude to take decisions that could either converge with or entrench the value maximization objective of the firm. Thus, managers can use their control over the firm to achieve personal objectives at the expense of stakeholders. In this regard, kang & Kim (2011), noted that management could influence reported earnings by making accounting choices or making operating decisions discretionally. One of such discretionary decisions to manipulate reported earnings is embedded in the accrual-based accounting.

Accruals are a particularly important tool for manipulative accounting because they are "components of earnings that are not reflected in current cash flows and a great deal of managerial discretion goes into their construction" (Bergstresser & Phillippon 2006). Because management is accountable to shareholders and within the business, other shareholders are also present and each stakeholder has his own interest in the business, so each one is having anywhere any authority try to comment the result of that authority in his own favour. Earnings management is one of the examples which accountants by the will of authorities smoothen their earnings (Cornett, McNutt & Tehranian, 2008).

Over the past two decades, a number of prominent participant in the debates surrounding professional accounting and auditing standard have increased the attention given to the role of corporate procedure in financial reporting practices. Corporate governance is not just about the process by which elicited representatives as directors make decisions. It is also about the way organizations are held accountable. The obvious way is via financial reporting. Implicit in all of their recommendations is the assertion that the credibility of financial statement information is related to specific institutional features of corporate governance. Kang & Kim (2011), posited that earnings quality is a key ingredient in the corporate governance process, as accounting provides the information required for most governance mechanism to operate efficiently. However, many accounting principles such as historical cost, conservation etc cannot be ultimately comprehended unless they are viewed with corporate governance lens, Ipso facto, there is a fellowship between governance and financial reporting quality of which reported earnings is a major ingredient. The main objective of this work is to empirically evaluate how earnings management can be reduced through corporate governance mechanism while the specific objectives are to: ascertain the effect of ownership concentration, board size, Audit committee and CEO duality on earnings management.

REVIEW OF RELATED LITERATURE

Conceptual Framework

Before delving into what earnings management is, it is important to have an understanding of what is meant by earnings. Earning simply means the profits of a company. Investors look at earnings of the companies to determine the attractiveness of a particular stock. Companies with poor earnings prospects will typically have lower share prices than those with good prospects. The company's ability to generate profit in the future plays a very important role in determining a stock's price. Thus, companies manipulate their earnings in order to match a

pre-determined target. Rather than having years of exceptionally good or bad earnings, companies will try to keep the figures relatively stable by adding and removing cash from reserve accounts. The practice is what is usually referred to as earnings management. A number of phrase has been used to describe earnings management such as; income smoothing, aggressive accounting, financial reengineering, creative accounting, financial shenanigans, window dressing and so on.

According to Healy & Wahlen (1999), earnings management occurs when managers use judgment in financial reporting and structuring transaction 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. Earnings management may involve intentionally recognizing or measuring transactions and other events and circumstances in the wrong accounting period or recording fictitious transactions both of which may constitute fraud. A defence of earnings management behaviour can be made which rests upon agency and positive accounting theories. Jones (1991) discussed the selective financial misrepresentation hypothesis. He considers the problem in relation to both managers and shareholders and argues that each can draw benefits from loosely drafted accounting standards that permit latitude in determining the timing of income. Shareholders can benefit from the fact that managers are able to manipulate earnings to "smooth" income since this may decrease the apparent volatility of earnings and so increase the value of their shares.

Corporate Governance

Corporate governance as an internal system encompassing policies, processes and people that serve the needs of shareholders and other stakeholders by directing and controlling management. Emeka-Nwokeji (2017) noted that corporate governance is a control mechanism used to reconcile competing interests between company management and shareholders. One of the most important functions that corporate governance can play is ensuring the quality of the financial reporting process. Babatunde (2003) defines corporate governance as the stewardship of an organization in terms of the way it is run, directed and controlled. It is concerned with the respective roles, powers, responsibilities and accountability of stakeholders and the board. Corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation such as the board, managers, shareholders and other stakeholders and spells out the rules and procedures for making decisions on corporate affairs.

Earnings Management

Earnings management is the deliberate altering of financial information to either mislead investors on the underlying economic status of a firm or to gain some contractual benefits that depend largely on accounting numbers (Healy & Wahlen, 1999). Accruals are the most important management instruments that are used by managers to either increase or decrease reported income. This is because they are 'components of earnings that are not reflected in current cash flows and a great deal of managerial discretion goes into their construction' (Bergstresser & Phillippon, 2006). The incentives for earnings manipulation have been documented in the literature in a wide variety of contexts. Bhat (1996) linked it to the attempt to enhance shareholders value and to maximize executive compensation through income smoothing and earnings management respectively. Healy & Wahlen (1999), noted that the incentives to "window dress financial statements" encompass the motivation to increase manager's compensation and job security, to avoid the violation of debt covenants and to decrease regulatory costs or increase regulatory benefit. Income smoothing, occasional big

both, living for today and maximization of variability are identified by Koch & Wall (2000). Most recently, Chang, Shen & Fang (2008), noted three incentives to manage earnings. Firstly, because of capital market motivation which include initial public offerings, seasoned equity offerings, management buoyant plans and plans for mergers to meet earnings, forecast, to smooth earnings etc. Secondly, contract motivation such as; management compensation, debt agreement or job security also constitutes the incentive of earnings management. Thirdly, laws and regulations such as import regulation, industrial regulation, antitrust laws etc. also can serve as an incentive.

Corporate Governance and Earnings Management

Great attention has been drawn towards corporate governance monitoring role in recent years due to the prevalence of enormous financial scandals of large companies such as Enron and WorldCom (Larcker et al, 2004;). Prior research has found relationships between corporate governance mechanisms and the weak financial reporting quality of the firm, earnings management and financial fraud manipulation (Ali Shah et al 2009, Beasley, 1996; Hashim & Devi, 2008). According to Shleifer and Vishny (1997), the separation of ownership and control is the essence of the agency problem. The agency problem can be minimized by the emphasis of effective corporate governance measures in organizations. Therefore, the basic role of corporate governance is to define the relationship among the three key actors of the firm: shareholders, company management and the board of directors. Nevertheless, it should also be taken into consideration that the quality of information produced by the financial reporting system is fundamental for a corporate governance system to be effective. Levitt (1999) noted that the link between a company's directors and its financial reporting system has never been more crucial. Klein (2002) showed that board characteristics such as audit committee independence predict lower discretionary accruals. Warfield, Wild& Wild (1995), also examined the impact of corporate governance variables on earnings management. They found that a high level of managerial ownership is positively related to the explanatory power of reported earnings for stock returns. They also examine the absolute value of discretionary accruals and find that it is inversely related to managerial ownership. Like Klein (2002), they conclude that corporate governance variables may affect the degree to which latitude in accounting rules affect the informativeness of reported earnings but do not address the degree to which governance or compensation variables affect the average aggressiveness of accounting choice. Due to its adverse impact on management's ability to manage earnings and the difficulty markets may have in detecting earnings management, corporate governance is useful to shareholders in assessing the reliability of earnings. Thus, in situations when accounting earnings are less reliable, shareholders response to earnings is likely to depend on corporate governance as an indicator of earnings reliability. Shareholders perception is an outcome that depends on value-relevant cues (that is, corporate governance) to assist in understanding the degree of earnings reliability (Cheng et al, 1997).

Ownership Structure and Earnings Management

Corporate governance structure and earnings management are correlated with earnings informativeness and earnings quality. Prior studies have documented that ownership structures can influence firm's earnings quality (Anderson & Reeb, 2004; Ali, Chen & Radhakrishnan, 2007). Firms with higher dispersed ownership can reduce earnings management because no majority can control the operation of firms; insiders cannot enjoy private benefits from controlling firms and their interests can align with other owners. Firms must meet public expectations in terms of disclosure and improved earnings quality. Leuz et al (2003) indicate that earnings management appears to be lower in firms with dispersed ownership which can reduce insiders' incentive to conceal firm performance (Nenova, 2003;

Dyck & Zingales, 2004). Sanchez-Ballesta & Garcia-Meca, 2007), provide recent evidence that a lower level of insider ownership is associated with less earnings management which is consistent with previous studies. In contrast, Morck, Shleifer & Vishny (1988) indicates an entrenchment effect with concentrated ownership. In such cases, managers are more likely to manipulate earnings to cover their entrenchment behaviour. These firms are under ineffective corporate governance mechanisms including the boards of directors, the composition of boards and external capital market control over the firms. Warfield et al (1995) found that concentrated ownership can restrict the opportunistic behaviour of management, demonstrating a negative association between ownership concentration and discretionary accruals. The problems of lower earnings quality, more earnings management and less informativeness are not because of poor accounting standards, rather those problems are largely due to poor corporate structure; one of the elements of governance.

Board Size and Earnings Management

A further significant characteristic that can influence the monitoring ability of the board is the board size. The small boards are more effective at restraining earnings management. Empirical research has acknowledged that board size may be related to the level of discretionary accruals. Some studies demonstrate that there is a positive association between board size and earnings management (Chin et al, 2006; Dalton et al 1999; Gulzar & Wang, 2011). Some argue that a smaller board provides better financial reporting monitoring as some authors found that a board size of four to six members might be more effective; since they are able to effectively communicate and make timely strategic decisions (Yermack, 1996). Alternatively, a larger board may be able to draw from a broader range of combined experiences. According to Xie et al (2003), regarding earnings management; a larger board may be more likely to have independent directors with corporate or financial experience and in turn, may be better at preventing earnings management.

Audit Committee and Earnings Management

Audit committee fills various roles for the firm, management, shareholders, creditors and other stakeholders. One of these roles is to enhance the credible financial statements used by stakeholders for their decision making. Agency theory comes into play when there is a separation of ownership and management. In such cases, management may not align with the interest of shareholders; this may result in the misappropriation of assets. Managers are likely to cover their opportunistic behaviour by managing earnings. Thus, the audit committee can actively monitor the quality of work done by internal auditors and can choose better external auditors to improve the quality of financial statements. Another role of the committee is to maintain internal control effectiveness can reduce earnings management and improve financial information. Prior studies demonstrate that audit expertise can control fraud and earnings restatements which are measures that affect earnings management (Abbott, Parker & Peters, 2004). Carcello et al (2006) indicate a high correlation between the composition of the audit committee and earnings management. Further, for firms with other weak corporate governance mechanisms, both accounting and financial expertise can mitigate earnings management. They also find the most effective composition of the audit committee to control opportunistic earnings management includes independent audit directors with accounting or financial expertise.

CEO Duality and Earnings Management

Another important attribute of board is CEO duality. Gulzar and Wang (2011), states that "in CEO duality, the CEO of the firm wears two hats, a chairperson of the board of directors' hat and a CEO hat". Therefore, non-duality means that different individuals hold the position of

the chairperson of the board and the CEO of the same firm. Hashim and Devi (2008) argue that the separation between the position of the CEO and the chairman of the board will most likely provide an essential check and balance over the management's performance. Moreover, Chtourou et al (2001), stated that "the power to control the board of directors comes from the fact that the chairperson is responsible for setting the agenda and running board meetings and from the importance of the board's role in appointing and monitoring management. Based on the findings of prior studies on the corporate governance mechanism and earnings management, the following assertions in their null form are made:

1. Ownership concentration does not have significant influence earnings management
2. Board size has no significant effect on earnings management
3. Audit committee has no significant effect on earnings management
4. CEO duality does not significantly affect earnings management

RESEARCH METHODOLOGY

This study adopts ex post factor research design. Cross sectional data was collected from annual report of ten selected manufacturing companies for 2015. The secondary data were analysed using pooled ordinary least regression. Before analysing the cross sectional data, some preliminary statistics such as descriptive statistics and correlation analysis was conducted.

Model Specification

The model attempts to determine the effect of corporate governance on earnings management. Total accrual was used as the dependent variable. Total accrual (TACC) is defined as the difference between net income (NI) which is the earnings before taxation and extra ordinary item and cash flow from operating activities while the independent variables include; ownership concentration, board size, audit committee and CEO duality.

Determination of the Model

The model in its econometric and functional form is shown below;
Y = X
Where;
Y = Dependent variable
X = Independent variable
EMGT = Ownership concentration + Board size + Audit committee + CEO duality
The regression model utilized to test the effect of corporate governance on earnings management is as follows;
EMGT = B_0 + B_1 BDSIZE + B_2 OWNERC + B_3 AUDTC + B_4 CEOD + £.... (1)

$$EMGT_{it} = \alpha_0 + \beta_1 BDSIZE_{it} + \beta_2 OWNERC_{it} + \beta_3 AUDTC_{it} + \beta_4 CEOD_{it} + \varepsilon_{it}$$

Where;
EMGT = Earnings management measured as Total Accruals.
B_0 = Intercept coefficient
B_1 = Coefficient of each of the independent variables
BDSIZE = Number of directors on the board.
OWNERC = Cumulative percentage of shares held by block shareholders who own at least 5% of the firm's shares.
AUDTC = Proportion of non-executive audit committee members to total audit committee members.
CEOD = Value zero (0) if the same person occupies the position of the chairman and the chief executive officer (CEO) and the value one (1) if otherwise.

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£ = Gaussian white noise (stochastic error term).

DATA PRESENTATION AND ANALYSIS

This study investigates the effect of corporate governance on earning management. Unlike previous studies, we examined how corporate governance proxy as total accruals (TACC) affects earnings management by interacting it with ownership concentration (OWNRC), Board Size (BDSIZE), Audit Committee (ADTCOM), and CEO Duality (CEOD). We conducted a descriptive statistical analysis and table 4.1 provides the summary of the descriptive statistics of the sampled 10 Nigerian quoted companies that we sourced from their 2015 financial statements.

Table 4.1 Descriptive Statistics

Variables	Mean	Max	Min	Std.Dev.	JB (P-Value)
EMGT	0.54	567	-1.28	1.79	0.02
BD SIZE	10.00	15.00	7.00	2.51	0.77
OWNRC	10.70	1.00	0.00	0.48	0.39
AUDTC	2.00	4.00	0.57	0.57	0.88
CEOD	0.90	1.00	1.00	0.32	0.00

Source: Researchers Computation, 2017.

Table 4.1 shows the mean (average) for each of the variables, their maximum values, minimum values, standard deviation and Jarque-Bera (JB) statistics (normality test). The above table provided some insight into the nature of the selected quoted Nigerian companies that were used in this study. Firstly, it was observed that on the average, the sampled quoted companies in Nigeria were characterized by positive earnings management (EMGT = 0.54). We also observed that on the average, the sampled quoted companies are dominated by companies with CEO-duality as the value in the table was 90%. Secondly, the higher value of the Board size, standard deviation of 2.51, is an indication that the sampled quoted companies are not dominated by either small or large board size companies but the companies are fully represented in our sample, both large board size companies and small board size companies. Lastly, the look at the Audit Committee Composition (AUDTC) shows that 57% of our sampled quoted companies are dominated by high audit committee composition companies, which is not too hard because it is slightly above average of 50%. The Jarque-Bera (JB) which tests for normality or the existence of outhers or extreme values among the variables, shows that all the variables are normally distributed especially CEO-duality (CEOD) which has a P-value of 0.00. This shows that it is significant at 1% level. This means that variables with outher are not likely to distort our conclusion and therefore reliable for drawing generalizations.

Correlation Analysis

In examining the relationship that exists among the variables, we used the Pearson moment correlation coefficient (correlation matrix) and the result is presented in table 4.2,

Table 4.2 Pearson Correlation Matrix

	EMGT	BD SIZE	OWNRC	AUDTC	CEOD
EMGT	1.00				
BD SIZE	0.34	1.00			
OWNRC	0.32	0.39	1.00		
AUDTC	0.02	0.30	0.28	1.00	
CEOD	0.89	0.27	0.22	0.68	1.00

Source: Researchers Computation, 2017.

Correlation matrix is mostly used in regression analysis to check for multi co-linearity presence in a model and to explore the relationship between the explanatory variables and the dependent variables. Therefore, table 4.2 was used to investigate the correlation between earnings management (EMGT) and board size (BDSIZE), ownership concentration (OWNRC), audit committee (AUDTC), and CEO-duality (CEOD). The result from the correlation matrix table shows that all the variables studied are positively correlated with earnings management. However, only CEO-duality is positive and highly correlated at 89% while board size (BDSIZE), ownership concentration (OWNRC) and audit committee (AUDTC) are weakly associated with earnings management (EMGT) at 34%, 32% and 2% respectively. In checking for multi co-linearity, we observed that no two explanatory variables were perfectly correlated as none was above 90%. This means that there is no multi co-linearity problem in our model specified. Multi co-linearity between explanatory variables may result to wrong signs or implausible magnitudes in the estimated model coefficients when present in a model and can also lead to the bias of the standard errors of the coefficients.

Test of Hypothesis

We formulated four (4) hypotheses for this study and in order to test our hypothesis, we used Ordinary Least Square (OLS) regression analysis and the result is presented in table 4.3 below.

Table 4.3 Ordinary Least Square (OLS) Regression Result

Variables	Coefficient	Prob.
BD SIZE	-0.47	0.06
OWNERC	0.07	0.94
AUDTC	0.49	0.64
CEOD	-2.09	0.09
R-squared	0.82	
Adjusted R-squared	0.67	
F-statistics	5.63	
Prob (Wald F-Statistics	0.00	

Source: Researchers Computation, 2017. Significant at 10% level, coefficients are t-statistics.

In table 4.3, we observed that the R-squared and adjusted R-squared values were 0.82 and 0.67 respectively. This means that all the independent variables jointly explain about 67% of systematic variations in earnings management. The above average R-squared value is realistic as it clearly shows earnings management and its interaction with Board size (BD SIZE), ownership concentration (OWNERC), audit committee (AUDTC) and CEO duality (CEOD). The F-Statistics and its P-value (0.00) shows that our model is significant at 1% level. In addition to the above, the specific findings for each explanatory (independent) variable are provided as follows;

Board Size (BD SIZE): Based on the coefficient value of -0.47 and P-value of 0.06 was found to be negative and statistically significant to affect earnings management. This result therefore suggests that we should accept our alternate hypothesis (H2) which states that board size has significant effect on earnings management.

Ownership Concentration (OWNERC): Based on the coefficient value of 0.07 and the P-Value of 0.94 was found to be positive but statistically not significant in affecting earnings management. The result shows that ownership concentration though has positive effect on earnings management but its effect is not statistically significant. This led us to accept our

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null hypothesis (H1) which states that ownership concentration does not have significant influence on earnings management.

Audit Committee (AUDTC): Based on the coefficient value of 0.49 and P-value of 0.64 was found to be positive and statistically not significant to affect earnings management. This made us to accept our null hypothesis (H3) which states that audit committee (AUDTC) has no effect on earnings management; however, its effect is not statistically significant.

CEO-Duality (CEOD): Based on the coefficient value of -2.09 and P-value of 0.09 was found to negatively affect earnings management and it is statistically significant at 10% level of significance. This led to accepting of the alternate hypothesis (H_4) which states that CEO-Duality significantly affects earnings management.

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATION

Summary of Findings

Reducing earnings management through corporate governance mechanism was the study carried out by the researcher in this research exercise. Ten selected manufacturing companies quoted in the Nigerian Stock Exchange formed the focus of this study. The study in consideration of its objectives had made some useful findings from the data collected from already annual reports of the selected companies and also from the hypotheses formulated and tested. Based on the outcome of the investigation in determining the effect of corporate governance on earnings management, it was observed that board size had a negative relationship with earnings management. This finding contradicts with Beasley (1999) who finds a positive relationship between board size and likelihood of the financial statement fraud. Also, Yarmack (1996) who concludes that small board are more effective monitors than large boards. This study suggests that board size has no effect on earnings management which implies that board size can reduce the extent of earnings management hence, triggering higher reported earnings quality. This study revealed that the ownership concentration on the board has a positive relationship with earnings management though not statistically significant. The finding agrees with Leuz et al (2003) who conclude that earnings management appear to be lower in firms with dispersed ownership which can reduce insider incentive to conceal firm performance. Also, Sanchez-Ballesta & Garcia-Meca (2007) provide recent evidence that a lower level of insider ownership is associated with less earnings management which is consistent with previous studies. Also, Morck, Shleifer & Vishny (1998) indicates an entrenchment effect with concentrated ownership. The study revealed that the audit committee has a positive relationship with earnings management, though not statistically significant. This contradicts with Bedard et al (2004) who finds out that audit committee with financial expertise can reduce earnings management. The study also reveals that CEO duality has a negative effect on earnings management and it is statistically significant at 10% level. This finding agrees with Hashim & Devi (2008) who argue that the separation between the position of the CEO and the chairman of the board will most likely provide an essential check and balance over the managements' performance. Abdul Rahman & Haniffa (2005) reveals significant evidence that companies with CEO duality do not perform as well as its competitors. This finding contradicts with Chtourou et al (2001) who states that power to control the board of directors comes from the fact that the chair is responsible for setting importance of the board's role in appointing and monitoring management.

Conclusion

This study was motivated by the interest surrounding the appropriateness and timeliness of reforms instituted by corporate governance mechanisms in Nigerian companies in response to corporate failures, global best practice and their implied potency in the face of tangible

reform in financial reporting. It was targeted at unveiling the importance of corporate governance in enhancing financial reporting credibility and reducing opportunistic behaviour in some selected Nigerian manufacturing companies. Results revealed that board size has a negative relationship with earnings management. Ownership concentration was found to be positively affecting earnings management, audit committee has a positive relationship with earnings management and CEO duality was found to be negatively affecting earnings management at a 10% statistical significant level. This indicates that board size can reduce the extent of earnings management, hence triggering the reported earnings quality. However, ownership concentration, audit committee and CEO duality might not reduce the extent of earnings manipulation by managers.

Recommendation

Based on the findings, the study makes the following recommendations:
The audit committee should have high degree of independence; the chairman of the audit committee should be a person with strong financial analysis background or a professional accountant. Furthermore, the composition of audit committee should be clearly spelt out so as to enable them perform their oversight functions effectively.

It is recommended that diverse ownership should exist in companies because it reduces insider incentive to conceal earnings management. Also, companies should eliminate concentrated ownership because their managers are more likely to manipulate earnings.

Investors and shareholders should not merely concentrate on the size of the board for a reliable financial statement but on the quality of the financial statement and reporting in order not to be misled.

There should be separation between the position of the CEO and the chairman of the board in order to provide an essential check and balance over management's performance on earnings.

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