CORPORATE GOVERNANCE AND EARNINGS MANAGEMENT: EVIDENCE FROM LISTED INSURANCE COMPANIES IN NIGERIA

Owoeye Taiwo Omolade[1] and Oshatimi Omowumi Olanike[2]

[1&2]Department of Accounting, Federal University Oye Ekiti, Nigeria
Email: omowumi.oshatimi@fuoye.edu.ng, taiwo.owoeye@fuoye.edu.ng,
07069353948-Coresponding Author

ABSTRACT
This study was motivated by the imperative to enhance financial transparency and stability within Nigeria's critical insurance sector. Its primary objective was to evaluate board independence, audit committee expertise, and ownership structure on earnings management. Employed an ex-post facto research design, the study analysed secondary panel data collected from the annual reports of 34 Nigerian insurance companies (selected from a population of 67) spanning the years 2015 to 2024.Using Ordinary Least Squares (OLS) regression, the findings were mixed: Board independence ($\beta=-0.074$, p=0.25) and audit committee expertise ($\beta=-0.019$, p=0.75) were found to have no statistically significant impact on earnings management. However, ownership concentration ($\beta=+0.045$, p=0.041) showed a significant and positive relationship with an increase in earnings manipulation. The regression models were statistically robust, evidenced by high adjusted R^2 values (0.865 for discretionary accruals and 0.945 for real earnings management). This suggests a notable gap between formal corporate governance structures and actual oversight, implying that dominant shareholders may prioritize short-term gains. Consequently, the study recommended improving accountability by enhancing legal protections for independent directors, increasing ownership transparency, and strengthening regulatory oversight.

Keywords: Audit committee efficacy, board independence, board size, corporate governance, earnings management.

Introduction

Falsifying accounting data to improve the financial situation is a global practice known as earnings management (EMGT) (Natarajan, Ng & Katina, 2021). To meet analyst expectations, strategies include avoiding reported losses, increasing bonuses linked to performance targets, and smoothing earnings (Menicucci & Menicucci 2020). Although self-interest is often the driving force behind EMGT, agency concerns, pressure from investors and creditors, and the need to follow debt covenants also have an impact (Yusuf et al., 2022). Its wide-ranging effects could skew capital allocation, reduce investor confidence, and impair market efficiency (Goldmann et al., 2023). Ultimately, these acts compromise the accuracy of monetary statement, which may result to systemic risks in the financial system (Roszkowska, 2021).

Businesses in Nigeria frequently fabricate financial statements to make them appear more favourable due to a lack of regulatory enforcement and personal incentives (Bassey, 2020). This practice undermines investor confidence and hinders the expansion of an open capital market (Akpan et al., 2022). Additionally, it can damage Nigerian companies' reputation abroad, so stakeholders and regulators must work together to enhance ethical business practices (Attia et al., 2022). Market inefficiencies and ill-informed investment decisions are among the repercussions of this (Bai, 2022). A business's name can be brutally affected, which makes may hinder business from attracting investors and secure funding. One of the most important strategies for EMGT mitigation is good corporate governance.

Sound corporate governance is necessary to mitigate earnings management (EMGT), which involves manipulating financial data to create a more favourable financial picture (Fowler, 2023). This calls for independent boards to oversee management and robust audit committees with financially savvy members (Moyinoluwa, 2020). Manipulation can be avoided and detected with the help of robust internal controls and clear disclosure policies (Balagobei & Keerthana 2022). The insurance industry's long-term contracts and complex financial instruments make the potential for EMGT particularly relevant for Nigerian listed insurance firms (Odusina & Okunuga, 2024). Many significant questions about the connection among firm's oversight mechanisms and its monetary reporting strategies in the Nigerian insurance sector still need to be answered, despite the fact that studies in this area are expanding. Strong governance frameworks encourage transparency and accountability, which can reduce the prevalence and effects of EMGT.

Previous research has often neglected a thorough examination of the ways in which various governance mechanisms affect earnings management (EMGT) by focusing on other industries or using limited methodologies (Adeniyi, 2019; Owolabi & Adewumi, 2020; Attia et al., 2022; Hassan et al., 2023; Mnif and Cherif 2021). Examining how EMGT is affected by key tenets (or pillars) of sound corporate governance, specifically board independence, board size, and audit committee efficacy in publicly traded Nigerian insurance companies, The research intends to fill that void by shedding light on the calibre of financial reporting, the results will assist investors in making better decisions. The study will also help develop regulatory frameworks to counteract EMGT and enhance governance practices within the insurance sector.

Literature Review
Conceptual Review
Corporate Governance

Mrabure and Abhulimhen-Iyoha, (2020) opened that corporate governance is a structure or guidelines, observes, and practices that guide organisation in direct and control its day-to-day activities. It ensure the company functions appropriately to benefits its participants,

like stockholders, employees, customers, and the communal. It does this by creating a system that promotes culpability, clearness, and moral policymaking. (Solomon, 2020). Essential components of effective governance include robust internal controls, a board of directors that operates independently, and transparent financial reporting. (Jerab, 2023). A company's reputation and financial performance are improved by strong governance, which is essential for ensuring that there are no conflicts of interest, decisions support long-term value (Hyatt & Gruenglas, 2023; Bebchuk & Fried, 2004). Ecological, societal, and authority factors are progressively significant in business policy. They are now seen as vital for realising lasting achievement in modern vibrant corporate ecosphere. (Semet, 2020; Celestin & Sujatha, 2024 & Efunniyi et al., 2024).

Board Independence

The situation where the businesses executives are free from manager guidance is refers to as board independence, this allow them to offer objective and impartial oversight. (Fayad et al. 2025). Because they have no financial or personal connections to executives, independent directors are able to make unbiased choices that prioritize the best for the company and its investors, employees, and customers in the future (Karim et al., 2023). This objectivity serves as a crucial check on potential self-interest by allowing independent evaluation of management proposals and promoting transparent and ethical decision-making (Roffia et al., 2022). Independence is essential for maintaining financial integrity and compliance with accounting standards, which helps stop earnings manipulation, by ensuring objectivity. (Fayad and others, 2025). By guarding against dishonest financial practices, independent boards promote public and investor trust, which is essential for a continued existence, reputation, and capacity to raise capital (Karim et al., 2023).

Audit Committee Independence & Expertise

Zainal et al. (2021) and Akpoghelie (2022) a non-management audit committee is the autonomy and absence of conflicts of interest of its members, allowing for impartial decision-making on matters pertaining to financial reporting and auditing. The specific knowledge that committee members have in financial reporting and auditing is known as expertise, and it is often obtained through backgrounds in accounting or finance (Al Lawati & Hussainey, 2021). Expertise and independence are essential for discouraging earnings manipulation. As a gatekeeper against manipulative practices, an independent committee can critically assess financial reporting free from management influence (Akpoghelie, 2022; Rahman, 2024). To guarantee the accuracy of reported earnings, an expert committee can work with external auditors, identify warning signs, and analyse financial data more successfully (Raweh et al., 2021; Al Lawati & Hussainey, 2021).

Ownership Structure

Share ownership structure or shareholder breakdown affects its governance and decision-making (Al Lawati & Sanad, 2023). This encompasses elements like ownership stability, which gauges how stable ownership is over time, ownership diversity, which takes into account the various kinds of investors, and ownership concentration, where a small number of people or organizations hold sizable stakes (Onguka et al., 2021; Wen et al., 2023). Closer monitoring and oversight may result from a concentrated ownership structure, particularly when there are significant institutional investors involved. This could reduce the manipulation of earnings (Owoeye et al., 2024). These investors usually put long-term growth ahead of short-term gains (Pandey & Sahu, 2021). However, a dispersed ownership structure with a large number of short-term shareholders may result in less effective oversight and allow for the fabrication of earnings in order to appease short-term pressures (Wen et al., 2023).

Earnings Management.

Intentionally changing a company's financial statements is called earnings management this is to present better performance than what actually obtainable in the real sense (Hussain et al., 2024). To misrepresent the firm's true financial status, this strategy usually involves adjusting reserves or timing income and expenses using a variety of bookkeeping techniques (Dalimunthe et al., 2024). Although there is some room for discretion in financial reporting, deliberate deception of stakeholders through earnings management presents moral questions (Zalukhu & Reskino, 2024). Earnings management is the deliberate manipulation of a company's financial records to show better performance than is actually the case (Hussain et al., 2024). To misrepresent the firm's true financial status, this strategy usually involves adjusting reserves or timing income and expenses using a variety of bookkeeping techniques (Dalimunthe et al., 2024). Although there is some room for discretion in financial reporting, deliberate deception of stakeholders through earnings management presents moral questions (Zalukhu & Reskino, 2024). This practice is often motivated by the desire to meet specific financial objectives, such as executive compensation targets or analyst projections (Kliestik et al., 2021). However, over time, it may negatively impact investor confidence, distort market perceptions, and even lead to legal problems (Gajdosikova et al., 2023). When a company manages its earnings, it compromises the accuracy of its financial data, so investors and creditors cannot make well-informed choices. (Yahaya, 2022).

Theoretical Underpinning

Jensen and Meckling's 1976 work Originated agency theory focused on the inherent conflict of interest between a company's principals (owners/shareholders) and its agents (managers). This conflict arises primarily from information asymmetry, where managers possess more operational knowledge than owners, and from divergent motivations; managers may prioritize personal benefits, like short-term wealth or prestige, which can lead to decisions detrimental to the company's long-term value. The theory, therefore, underscores the critical role of corporate governance mechanisms in ensuring that managerial actions align with the best interests of the shareholders.

While agency theory offers a foundational perspective for this study by considering an agent's abilities, risk tolerance, and opportunities thereby providing an in-depth understanding it faces notable critiques. Critics argue the theory oversimplifies human behaviour, assuming solely self-interested, rational motivations and neglecting ethical or social considerations. It is also faulted for its narrow focus on the relationship between a company's owners and managers, thereby disregarding the interests of other stakeholders. This contrasts with alternative frameworks like Stewardship Theory, which posits that managers are inherently trustworthy and will act morally in the company's best interest.

Empirical Review

Ali et al. (2025) Studied how corporate governance affects earnings management. yielding context-dependent results. Utilized advanced statistical technique that's useful for analysing data where some of the variables might be related to each other in complex ways on Ethiopian insurance companies and found that audit committee financial expertise and board size positively affect earnings management, with the effect varying depending on the Real Earnings Management (REM) metric used; this finding contrasts with or varies from the implications of Boachie & Mensah (2022). Similarly, Hassan et al. (2023) analysed board independence and earnings management in London Stock Exchange-listed SMEs using fixed-effects regression, concluding that the relationship's direction and significance depend on the company's stage of development: specifically, the board's wealth-creation function was inversely related to earnings management during introductory, growth, and decline phases,

while its wealth-protection role was positively correlated with earnings management during growth and maturity stages, consistent with results from Assenso-Okofo et al. (2021).

The collective findings suggest the effectiveness of specific governance mechanisms (board size, audit expertise, independence) in curbing earnings management is not uniform but is instead contingent on factors like the economic context (e.g., country/industry as in Ali et al.), the governance metric employed in (Ali et al. 2025), or the firm's lifecycle stage and the specific board function being assessed in (Hassan et al. 2023).

Dewi and Lekok (2022) analysed 297 non-financial companies on the Indonesia Stock Exchange (IDX) from 2017 to 2019 identified several factors influencing earnings management. Using purposive sampling and multiple regression analysis, the study found that a company's auditor size, the industry specialization of the auditor, and the company's corporate diversification were all positively linked to earnings management. These findings are consistent with numerous other studies that have investigated the factors influencing earnings management, particularly those focusing on corporate governance and ownership structure. For example, Kristanti et al. (2024) found that for Iraqi companies between 2013 and 2018, the percentage of directors who are also majority shareholders significantly moderated the relationship with earnings management, unlike board meeting regularity. This finding is consistent with broader corporate governance research, including a study by Onmonya and Ebire (2023) audit committee features correlate with firm performance. Similarly, Musma et al. (2024) investigated Indonesian banks from 2019 to 2023 and established that institutional ownership notably improved earnings management. Collectively, these studies illustrate the complex ways in which ownership and internal governance structures impact a company's financial reporting. Bashir et al. (2024) studied 111 non-financial firms on the Pakistan Stock Exchange, institutional investors played a key role in reducing earnings management. However, this finding contrasts with research by Mwangi and Nasieku (2022). Their analysis of manufacturing companies on the Nairobi Securities Exchange revealed only a minor negative impact from various ownership metrics—including institutional and managerial ownership on earnings management.

Hypotheses

Hypotheses are as follows;

H_{01}: Board independence has no effect on earnings management in Nigerian insurance companies that are publicly traded.

H_{02}: audit committee independence and expertise does not affect earnings management in Nigeria's listed insurance companies.

H_{03}: ownership structure has no effect earnings management in listed Nigeria insurance companies.

Conceptual Framework

The conceptual model guiding this research facilitates the link between the explanatory and outcome variables
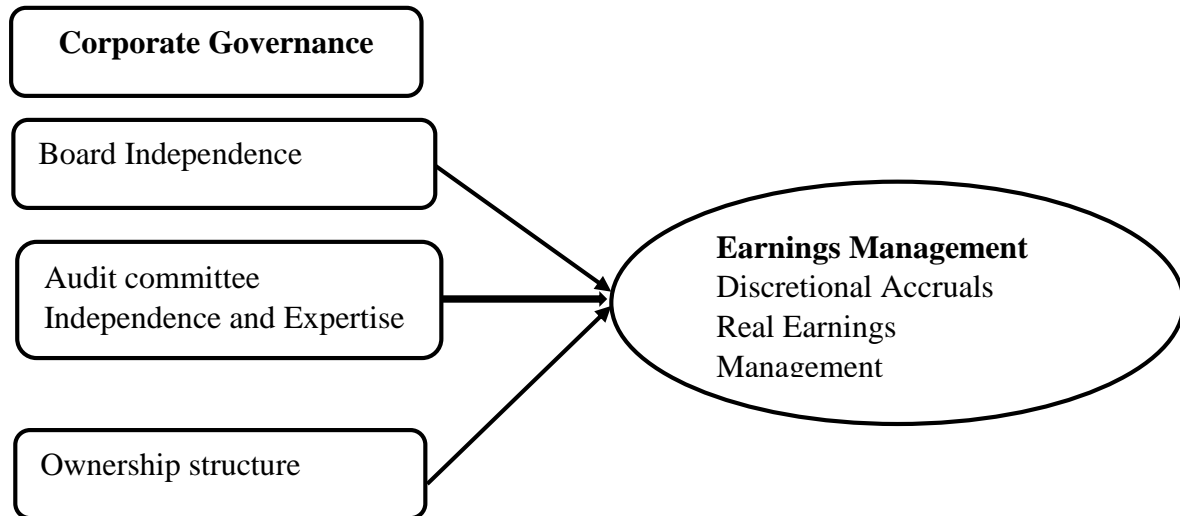

Figure 2.1: Conceptual Framework Source: Author's Conceptualization (2025)

Methodology

This study employed causal-comparative to evaluate the correlation between corporate governance elements and how earnings management affects Nigerian insurance companies of the 67 insurance companies registered with the National Insurance Commission (NAICOM) as of December 31, 2024, a study was conducted on a sample of 34 publicly traded firms. The researchers used a simple random sampling method, excluding any companies that had been delisted or had incomplete data. The study used secondary panel data from the companies' annual reports for the fiscal years 2015 to 2024. The analysis specifically examined the link between earnings management (measured by discretionary accruals and real earnings management) and several corporate governance factors. These factors included ownership structure, board independence, and the independence and experience of the audit committee.

This study used Ordinary Least Squares (OLS) regression to investigate how corporate governance influences earnings management in Nigerian insurance companies from 2015 to 2024. The research first validated the OLS model's assumptions by performing several diagnostic tests, including checks for normality, multicollinearity, autocorrelation, and heteroscedasticity to ensure the reliability of the analysis.

This research adapts a model from a study by Ali (2024), which originally examined the relationship between earnings management, discretionary accruals, audit committee expertise, and audit committee independence in Ethiopian insurance companies. The models adopted two metrics: discretionary accruals, real earnings management proxies for earnings management which is a dependent variable against the independent variables of Board independence, audit committee independence and expertise, and ownership structure. The econometric form of the two models is presented thus:

Model 1:

$$EM = f(CG)\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \quad (3.1)$$

$$EM = f(BI, ACIE, OS)\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \quad (3.2)$$

$$DA_{it} = ß_0 + ß_1 BI_{it} + ß_2 ACIE_{it} + ß_3 OS_{it} + e \ldots\ldots\ldots\ldots\ldots\ldots \quad (3.3)$$

Model 2:

EM = f (CG)…………………………………………….…………........ (3.4)

REM = ƒ (BI, ACIE, OS) ………………………………….……………... (3.5)

REMit = ßo + ß1BIit + ß2ACIEit + ß3OSit + e ………..…….….……….... (3.6)

Where:

DA= Discretionary accruals,

REM = Real Earnings Management

BI= Board Independence

ACIE = Audit Committee Independence and Expertise

OS= Ownership Structure

ß0, ßI, ß2, & ß3 are all the parameter estimates while e is the error term. #

ε = error term.

A-*Priori* Expectation

The a-priori expectation is such that $ß_I, ß_2, ß_3, > 0$. The implication of this is that a positive relationship is expected between ß1BIit + ß2ACIEit + ß3OSit and VR

Data Analysis and Discussion of Findings
Descriptive Statistics

Descriptive statistics provide an essential first look at the distribution, central tendency, and dispersion of both the corporate-governance proxies and the earnings-management measures. Below is an essay-style interpretation for each variable in turn.

Table 2: Descriptive Statistics

	AUDIT_COMMITTEE_INDEPENDENCE_AND_EXPERTISE__ACIE_	BOARD_IND EPENDENCE __BI_	OWNERSHIP_STRUCTURE__OS_	DISCRETION ARY_ACCRU ALS__DA_	REAL_EARNI NGS_MANAG EMENT__RE M_
Mean	0.835357	0.735500	0.650214	0.043814	0.044136
Median	0.900000	0.750000	0.620000	0.040000	0.030000
Maximum	1.000000	1.000000	1.000000	0.126000	0.152000
Minimum	0.350000	0.330000	0.320000	0.010000	0.010000
Std. Dev.	0.175284	0.181010	0.143007	0.026906	0.038659
Skewness	-1.131015	-0.493988	0.195920	0.909858	1.061434
Kurtosis	3.267092	2.376344	2.632648	2.951989	2.715115
Jarque-Bera	30.26402	7.962746	1.682836	19.32976	26.76176
Probability	0.000000	0.018660	0.431099	0.000063	0.000002
Sum	116.9500	102.9700	91.03000	6.134000	6.179000
Sum Sq. Dev.	4.270682	4.554265	2.842694	0.100629	0.207734
Observations	140	140	140	140	140

Source: *Researcher's Computation (2025)*

The sampled insurance firms demonstrate generally high levels of Audit Committee Independence and Expertise (ACIE), with an average score of 0.835 and a median of 0.900, suggesting committees are largely composed of independent, expert directors. This high level is consistent across the sample, as indicated by the small standard deviation (σ) of 0.175 and a narrow range of 0.350 to 1.000. The ACIE distribution is negatively skewed (Sk= −1.131) with a kurtosis of 3.267, signifying that most scores are clustered at the high end, though the Jarque–Bera test (30.26, p<0.001) confirms the data is not normally distributed due to a few firms with markedly lower scores. Separately, the firms also exhibit strong board independence, with an average score of 0.736 and a median of 0.750, implying that around 75% of directors are non-executive. However, board independence scores show greater variability than ACIE scores, as reflected by a standard deviation (σ) of 0.181 and a wider range of 0.330 to 1.000.

The statistical analysis of the data reveals two distinct distributions. For the first variable (implicitly earnings management based on the preceding context), the distribution is slightly negatively skewed at −0.494 and exhibits a kurtosis of 2.376, indicating a flatter shape than a standard normal distribution. Although the Jarque-Bera statistic (7.96, p=0.0187) formally rejects normality, this deviation is considered moderate, primarily driven by the slight skew. Regarding ownership concentration, the mean is 0.650 and the median is 0.620, signifying that, on average, approximately 65% of equity is held by major shareholders. This variable shows only a small amount of variation, with a standard deviation (σ) of 0.143 and a range from 0.320 to 1.000. Its distribution is slightly flatter and skewed to the right, with a skewness of 0.196 and a kurtosis of 2.633. Importantly, the Jarque-Bera test (1.68, p=0.431) confirms that the Ownership Concentration data is approximately normally distributed.

The study used Discretionary Accruals (DA) as its key indicator of earnings management with a mean of 0.044 and a median of 0.040. The data shows relatively low dispersion, with a standard deviation (σ) of 0.0269 and a range from 0.010 to 0.126. However, the distribution is not normal, exhibiting a positive skewness of 0.910; the Jarque-Bera statistic (19.33, p<0.001) confirms this non-normality, indicating the presence of outliers in the right tail. Similarly, the second earnings management proxy, Real-Activity Manipulation (REM), also has a mean of 0.044 but a lower median of 0.030. REM shows greater variability than DA, demonstrated by its higher standard deviation of 0.0387 and a wider range of 0.010 to 0.152. The distribution has a significant positive skewness of 1.061, and the Jarque-Bera statistic of 26.76 (p < 0.001) confirms its non-normal distribution due to extreme positive values. The data shows that while corporate governance measures are high and consistent, earnings management proxies, specifically DA and REM, exhibit right-skewed distributions with noticeable outliers. This sets the foundation for a regression analysis to determine how board independence and ownership structure influence this heterogeneity.

Correlation Matrix

The correlation matrix reveals several notable relationships among corporate-governance variables (ACIE, BI, OS) and earnings-management proxies (DA, REM).

Table 4: Correlation Statistics

	AUDIT_COMMITTEE _INDEPENDENCE_AND_EXPERTISE__ACIE_	BOARD_INDEPENDENCE__BI_	OWNERSHIP_STRUCTURE__OS_	DISCRETIONARY_ACCRUALS__DA_	REAL_EARNINGS_MANAGEMENT__REM_
AUDIT_COMMITTEE _INDEPENDENCE_AND_EXPERTISE__ACIE_	1.00	0.97	0.39	-0.91	-0.91
BOARD_INDEPENDENCE__BI_	0.97	1.00	0.55	-0.89	-0.86
OWNERSHIP_STRUCTURE__OS_	0.39	0.55	1.00	-0.31	-0.17
DISCRETIONARY_ACCRUALS__DA_	-0.91	-0.89	-0.31	1.00	0.97
REAL_EARNINGS_MANAGEMENT__REM_	-0.91	-0.86	-0.17	0.97	1.00

Source: *Researcher's Computation (2025)*

Regression Analysis
DISCRETIONARY_ACCRUALS__DA_

A fixed-effects panel regression was used to analyse the effect of corporate governance on discretionary accruals in 14 Nigerian insurance companies from 2015-2024. The model's validity was supported by a significant Hausman test ($p < 0.001$). The model showed a strong explanatory power, with an R^2 of 0.8807 and an adjusted R^2 of 0.8652, and a highly significant F-statistic ($F = 56.77$, $p < 0.001$). The Durbin-Watson statistic of 2.19 and a non-significant Breusch-Pagan test ($p = 0.4405$) indicate that the classical OLS assumptions were met.

Table 5

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.085698	0.017459	4.908665	0.0000
AUDIT_COMMITTEE_INDEPENDENCE_ AND_EXPERTISE__ACIE_	-0.019441	0.060091	-0.323518	0.7469
BOARD_INDEPENDENCE__BI_	-0.074309	0.064268	-1.156244	0.2498
OWNERSHIP_STRUCTURE__OS_	0.044616	0.021567	2.068717	0.0407

Effects Specification				
Cross-section fixed (dummy variables)				

R-squared	0.880731	Mean dependent var	0.043814
Adjusted R-squared	0.865217	S.D. dependent var	0.026906
S.E. of regression	0.009878	Akaike info criterion	-6.283598
Sum squared resid	0.012002	Schwarz criterion	-5.926398
Log likelihood	456.8518	Hannan-Quinn criter.	-6.138443
F-statistic	56.76780	Durbin-Watson stat	2.189222
Prob(F-statistic)	0.000000		
Heteroskedasticity LR Test	14.12448		
Prob (Heteroskedasticity LR Test)	0.4405		
Hausman Test	24.329934		
Prob (Hausman Test)	0.000000		

Source: Researcher's computation (2025)

The intercept of 0.0857 ($t = 4.91$, $p < 0.001$) indicates that firms, on average, have a positive discretionary accrual of about 8.6% even without changes in governance metrics. Neither ACIE ($\beta = -0.0194$, $t = -0.324$, $p = 0.747$) nor BI ($\beta = -0.0743$, $t = -1.156$, $p = 0.250$) had a statistically significant effect on discretionary accruals, despite their negative coefficients aligning with theory. In contrast, OS showed a significant positive association ($\beta = 0.0446$, $t = 2.069$, $p = 0.041$), suggesting that concentrated ownership may be linked to greater upward accrual bias. This implies that in Nigerian insurance firms, ownership structure has a more direct, but enabling, role in earnings management than traditional board governance.

DISCRETIONARY_ACCRUALS__DA_

Panel regression of real earnings management (REM) on corporate-governance variables again employs a firm-fixed-effects specification—confirmed by a highly significant Hausman test ($\chi^2 = 119.74$, $p < 0.001$)—over a balanced panel of 14 insurance firms from 2015 to 2024. With $R^2 = 0.9513$ (adjusted $R^2 = 0.9449$), the model explains over 94 percent of the within-firm variation in REM. The F-statistic (150.12; $p < 0.001$) indicates that the explanatory variables jointly contribute meaningfully to predicting real activity manipulation. Durbin–Watson at 1.995 suggests no first-order autocorrelation, while cross-sectional PCSE standard errors address the significant heteroscedasticity detected (LR Test = 46.65; $p < 0.001$).

Table 6

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.073057	0.016905	4.321617	0.0000
AUDIT_COMMITTEE_INDEPENDENCE_ AND_EXPERTISE__ACIE_	0.003452	0.057284	0.060260	0.9520
BOARD_INDEPENDENCE__BI_	-0.092770	0.060603	-1.530787	0.1284
OWNERSHIP_STRUCTURE__OS_	0.056024	0.020055	2.793509	0.0060

Effects Specification

Cross-section fixed (dummy variables)

R-squared	0.951286	Mean dependent var	0.044136
Adjusted R-squared	0.944949	S.D. dependent var	0.038659
S.E. of regression	0.009070	Akaike info criterion	-6.454195
Sum squared resid	0.010120	Schwarz criterion	-6.096996
Log likelihood	468.7937	Hannan-Quinn criter.	-6.309040
F-statistic	150.1219	Durbin-Watson stat	1.994874
Prob(F-statistic)	0.000000		
Heteroskedasticity LR Test	46.65204		
Prob (Heteroskedasticity LR Test)	0.000000		
Hausman Test	119.741341		
Prob (Hausman Test)	0.000000		

Source: Researcher's computation (2025)

In Nigerian insurance firms, managers engage in real-activity manipulation (REM) at an average rate of 7.3% of normal operations, which is indicated by a constant term of 0.0731 (t = 4.32; p < 0.001). The study's findings show that conventional governance tools, such as audit-committee independence and expertise (ACIE), The regression analysis revealed that neither Audit Committee Independence and Expertise (ACIE) nor Board Independence (BI) significantly controlled Real-Activity Manipulation (REM) in the sampled firms. Specifically, ACIE showed an insignificant positive effect with a coefficient of 0.00345 (t=0.060; p=0.952), and BI had an insignificant negative effect with a coefficient of −0.0928 (t=−1.531; p=0.128).This result contradicts much of the existing literature, which posits that these governance mechanisms help curb opportunistic reporting (e.g., Attia et al., 2022; Usman et al., 2022; Mnif and Cherif, 2021). Instead, the study found that Ownership Structure (OS) was the only governance variable with a statistically significant positive effect (β=0.0560; t=2.794; p=0.006). This significant finding suggests that a greater concentration of shareholding is associated with an increase in REM, a result that diverges from findings in other markets, such as those reported in studies from Pakistan (Bashir et al., 2024) and Malaysia (Al-Duais et al., 2022) suggested that dominant shareholders may prioritize short-term gains, highlighting that governance mechanisms may be ineffective without stronger external monitoring and enforcement. The analysis shows a complex relationship in which earnings management is driven by a "concentrated-ownership paradox" and traditional oversight is insufficient. This emphasizes how context affects governance and earnings management, and how ownership transparency and regulatory enforcement should be addressed in Nigerian reforms.

Summary

Despite high adherence to independence standards, this study on Nigerian insurance companies discovered that formal corporate governance is ineffective at preventing earnings management. Neither the independence of the board nor the fact that its members are not influenced or controlled by the management nor experience of the company statistically significantly reduced either real earnings management or discretionary accruals. Surprisingly, higher levels of both forms of earnings management were consistently and favourably

correlated with ownership concentration, indicating that powerful shareholders might be involved in these practices for short-term benefit.

Conclusion

The analysis of the results demonstrated a nearly perfect correlation between the two measured types of earnings management (discretionary accruals and real-activity manipulation), suggesting that companies engaging in one form of manipulation are highly likely to also engage in the other. A significant portion of within-firm variation was explained by the reliable regression models that were employed. The results show that formal governance regulations and real oversight in Nigerian insurance companies differ significantly. One important finding of the study is the "ownership paradox," which holds that concentrated ownership seems to encourage opportunistic reporting rather than prevent it. This implies that the legal and policy framework, board culture, and shareholder incentives all have a significant impact on how well governance structures perform.

Recommendations

Based on the findings of this study the following recommendations were made;
Reforms must focus on establishing true accountability, strengthening the real authority and incentives of the supervision of non-affiliated directors, and moving beyond technical compliance if governance is to be truly effective in this situation. A number of reforms are suggested to address the governance issues that have been identified. In order to give independent directors more legal protections and enable them to conduct true oversight, regulators should first update corporate governance codes. To improve transparency about large shareholdings, the Securities and Exchange Commission (SEC) should also strengthen its release policies. Finally, to ensure accountability beyond simple compliance, supervisory bodies like the SEC and the National Insurance Commission (NAICOM) need to strengthen risk-based inspections and apply harsher penalties to companies with earnings management irregularities.

References

Adeniyi, P. O. (2019). The impact of corporate governance on financial performance of quoted companies in Nigeria. *International Journal of Economics, Commerce and Management, 7(3), 1-17.*

Akpan, D. C., Simeon, U. J., Nkpodot, U. C., & Osurua, I. (2022). Audit committee gender diversity, CSR and earnings management of selected consumer goods firms in Nigeria. *AKSU Journal of Administration and Governance*, 2(2), 1-14.

Akpoghelie, E. O. (2022). A critical analysis of the development of the roles and responsibilities of the UK audit committee for effective and good governance. *Global Journal of Arts, Humanities and Social Sciences, 10(3), 18-42.*

Akpuokwe, C. U., Bakare, S. S., Eneh, N. E., & Adeniyi, A. O. (2024). Corporate law in the era of globalization: a review of ethical implications and global impacts. *Finance & Accounting Research Journal*, *6*(3), 304-319.

Al Lawati, H. M. A., & Hussainey, K. (2021). The impact of audit committee financial expertise on corporate financial decisions. *Corporate Ownership and Control, 18(3), 348-359.*

Al Lawati, H., & Sanad, Z. (2023). Ownership concentration and audit actions. *Administrative Sciences, 13(9), 206. https://doi.org/10.3390/admsci13090206*

Ali, A. (2024). Audit committee characteristics and earning management of insurance companies in Ethiopia. *Cogent Business & Management, 11(1), 2301136.*

Ali, A., Wodajio, S., & Teshoma, T. (2025). The link between corporate governance and earnings management of insurance companies in Ethiopia. Doi: 10.58414/SCIENTIFICTEMPER.2025.16.7.07 https://scientifictemper.com

Assenso-Okofo, O., Jahangir Ali, M., & Ahmed, K. (2021). The impact of corporate governance on the relationship between earnings management and CEO compensation. *Journal of Applied Accounting Research, 22(3), 436-464.*

Bai, G., Yang, Q., & Elyasiani, E. (2022). Managerial risk-taking incentives and bank earnings management: evidence from fas 123r. *Sustainability*, *14*(21), 13721.

Balagobei, S., & Keerthana, G. (2022). Audit Committee Characteristics and Earnings Management: Evidence from Listed Capital Goods and Consumer Services Companies in Sri Lanka.

Bashir, B., Rashid, M., & Bashir, Z. (2024). Impact of ownership structure and corporate governance on earning management: empirical findings from listed firms on the Pakistan stock exchange. SEISENSE Journal of Management, 7(1), 1-20. https://doi.org/10.33215/c1qkdq06

Bassey, D. E. (2020). *Harnessing the regulatory framework for compliance with environmental regulations in the hydrocarbon sector in Nigeria* (Doctoral dissertation).

Bebchuk, L. A., & Fried, J. M. (2004). Pay without performance: The unfulfilled promise of executive compensation. Harvard University Press.

Boachie, C., & Mensah, E. (2022). The effect of earnings management on firm performance: The moderating role of corporate governance quality. *International Review of Financial Analysis, 83, 102270.*

Celestin, M., & Sujatha, S. (2024). Integrating ESG Factors Into Core Operations: Long Term Benefits for Business Growth and Reputation. *International Journal of Advanced Trends in Engineering and Technology*, 9(2), 33-43.

Dalimunthe, A. A., Putri, N. V., & Muda, I. (2024). Earning management including corporate accounting policies or intentional manipulation. *Brazilian Journal of Development, 10(2), 67396-67396.*

Dewi, N. S., & Lekok, W. (2022). The Effect of Industrial-Specialized Auditors, Financial Performance, and Corporate Diversification on Earnings Management. *In Tenth International Conference on Entrepreneurship and Business Management 2021 (ICEBM 2021) (pp. 87-94). Atlantis Press. DOI10.2991/aebmr.k.220501.015*

Efunniyi, C. P., Abhulimen, A. O., Obiki-Osafiele, A. N., Osundare, O. S., Agu, E. E., & Adeniran, I. A. (2024). Strengthening corporate governance and financial compliance: Enhancing accountability and transparency. *Finance & Accounting Research Journal*, 6(8), 1597-1616.

Fayad, A. A., Khatib, S. F., Abbas, A. F., Ghaleb, B. A. A., & Mousa, A. K. (2025). The determinants and consequences of board multiple directorships. *Corporate Governance: The International Journal of Business in Society, 25(2), 252-271.*

Fowler, D. S. (2023). Ethical Implications of Deceptive Earnings Management Practices. *Business Ethics and Leadership*, 7(3), 84-96.

Gajdosikova, D., Nagy, M., & Valaskova, K. (2022). Earnings Management Detection: Practical Application Of Benford's Law In Business Practice. *Journal of Management and Business: Research and Practice, 14(1).*

Hassan, I. M., Amin, H. M., Mostafa, D., & Elamer, A. A. (2023). Roles of board of directors and earnings management across SMEs life cycle: evidence from the UK. *International Journal of Accounting & Information Management, 31(4), 676-703.*

Hussain, R. T., Akhtar, K., Ahmad, F., Salman, A., & Malik, S. (2024). Examining the intervening effect of earning management in governance mechanism and financial misstatement with lens of SDG and ESG: a study on non-financial firms of Pakistan. *Environmental Science and Pollution Research, 31(34), 46325-46341.*

Hyatt, J., & Gruenglas, J. (2023). Ethical Considerations in Organizational Conflict.

Jerab, D. (2023). The Effect of Organizational Structure on Corporate Governance. *Available at SSRN 4549766.*

Karim, S., Manab, N. A., & Ismail, R. B. (2023). Assessing the governance mechanisms, corporate social responsibility and performance: the moderating effect of board independence. *Global Business Review, 24(3), 550-562.*

Kliestik, T., Belas, J., Valaskova, K., Nica, E., & Durana, P. (2021). Earnings management in V4 countries: the evidence of earnings smoothing and inflating. *Economic Research-Ekonomska Istraživanja, 34(1), 1452-1470.*

Kristanti, F. T., Riyadh, H. A., Ahmed, M. G., Alfaiza, S. A., Steelyana W, E., Lutfi, A., & Beshr, B. A. H. (2024). Ownership shares and directors' proportion as majority shareholders on earnings management moderated by board activity. *Cogent Business & Management, 11(1), 2331099.* https://doi.org/10.1080/23311975.2024.2331099

Menicucci, E., & Menicucci, E. (2020). Earnings quality and earnings management. *Earnings Quality: Definitions, Measures, and Financial Reporting*, 53-8245.

Menicucci, E., & Menicucci, E. (2020). Earnings quality and earnings management. *Earnings Quality: Definitions, Measures, and Financial Reporting*, 53-82.

Mnif, Y., & Cherif, I. (2021). Female board directorship and earnings management. *Pacific Accounting Review, 33(1), 114-141.*

Moyinoluwa, G. (2020). Corporate Governance and Earnings Management on Performance of Listed Companies in Nigeria. *ADEDIPE, Oluwaseyi Ayodele OLADEJI, Ige Olubunmi*, 161.

Mrabure, K. O., & Abhulimhen-Iyoha, A. (2020). Corporate governance and protection of stakeholders rights and interests. *Beijing l. Rev.*, *11*, 292.

Musma, M., Achmad, H., & Saffanah, N. (2024). The Effect of Ownership Structure On Earnings Management In Banking Companies. *Jurnal Manajemen Sains Dan Organisasi, 5(2), 146-155.* https://e-journal.upr.ac.id/index.php/jmsoP

Mwangi, J. G., & Nasieku, T. (2022). Effect of ownership structure on earnings management in listed manufacturing firms at Nairobi Securities Exchange, Kenya. *Asian Themes in Social Sciences Research, 6(1), 12-24. DOI: 10.33094/atssr.v6i1.66*

Natarajan, G., Ng, E. H., & Katina, P. F. (2021). Decision engineering: time as a parameter in the entropy decision risk model utility (EDRM-U). In *ASEM 42 nd International Annual Conference Proceedings*.

Odusina, A., & Okunuga, K. S. (2024). Earnings management and firm performance of quoted Insurance Companies in Nigeria. *Available at SSRN 5077984*.

Onguka, D., Iraya, C. M., & Nyamute, W. L. (2021). Corporate governance, capital structure, ownership structure, and corporate value of companies listed at the Nairobi securities exchange. *European Scientific Journal, 17(15), 300-334.*

Onmonya, L. O., & Ebire, K. (2023). Audit committee characteristics and corporate performance: Evidence from listed conglomerates in Nigeria. *Asian Journal of Economics, Business and Accounting, 23(17), 113-121.*

Owoeye T.O, Akinradewo T & Ajayi A. A (2024) Effect of firm attribute on corporate social responsibility practices of listed manufacturing firms in Nigeria. *Fuoye Journal of Accounting and Management 7*(1)55-69

Owolabi, T. O., & Adewumi, O. A. (2020). The impact of corporate governance on the financial performance of quoted firms in Nigeria: Evidence from the manufacturing sector. *Journal of Economics and Sustainable Development*, *11*(1), 187-200.

Pandey, K. D., & Sahu, T. N. (2021). Ownership concentration and agency crises in Indian manufacturing firms. *Business Perspectives and Research, 9(1), 128-143.*

Raweh, N. A. M., Abdullah, A. A. H., Kamardin, H., & Malek, M. (2021). Industry expertise on audit committee and audit report timeliness. *Cogent Business & Management, 8(1), 1920113.*

Roffia, P., Simón-Moya, V., & Sendra García, J. (2022). Board of director attributes: effects on financial performance in SMEs. *International Entrepreneurship and Management Journal, 18(3), 1141-1172.*

Roszkowska, P. (2021). Fintech in financial reporting and audit for fraud prevention and safeguarding equity investments. *Journal of Accounting & Organizational Change*, *17*(2), 164-196.

Semet, R. (2020). The Social Issue of ESG Analysis. *Available at SSRN 3838372*.

olomon, J. (2020). *Corporate governance and accountability*. John Wiley & Sons.

Wen,K.,Agyemang, \A., Alessa, N., Sulemana, I., & Osei, A. (2023). The moderating role of ownership concentration on financing decisions and firm's sustainability: evidence from China. *Sustainability, 15(18), 13385.*

Yahaya, O. A. (2022). Do CEOs influence earnings management. *South African Journal of Accounting Research, 36(2), 1-13.*

Yusuf, A. A., Shuaibu, H., & Garba, M. (2022). Effect of ownership structure on earnings quality of listed insurance companies in Nigeria. *LAPAI INTERNATIONAL JOURNAL ADMINISTRATION*, *5*(1), 290-303.

Zainal Abidin, N. H., Mat Yasin, F., & Zainal Abidin, A. (2021). Independence from the perspective of the Shari'ah committee. *Asian Journal of Accounting Research, 6(2), 196-209.*

Zalukhu, A. A. J., & Reskino, R. (2024). Analysis of Fraud Hexagon Theory on Fraudulent Financial Reporting Based on The Role of Intellectual Capital As A Mediator That is Influenced by Earnings Management Practices. *Co-Value Jurnal Ekonomi Koperasi dan kewirausahaan, 15(1).*