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FIRM CHARACTERISTICS AND EARNINGS MANAGEMENT OF LISTED CONGLOMERATE FIRMS IN NIGERIA

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ABSTRACT:

The study investigates the effect of firm characteristics on the earnings management of listed conglomerate firms in Nigeria. The explanatory variable of firm characteristics is measured in terms of firm size (FSZ) and firm age (AGE) The dependent variable of earnings management is measured in terms of discretionary accrual (DA). The ex-post facto research design was applied. The population and sample size of the study comprised five (5) conglomerate firms listed on the Nigerian Exchange Group (NGX). The secondary data were obtained from the audited financial statements of the selected firms from 2012 to 2021. The results of the Ordinary Least Square regression analysis revealed that firm size has a statistically insignificant effect on earnings management as measured in terms of discretionary accrual of the pooled conglomerate firms in Nigeria, at neither a 5% nor a 1% significant level. The results obtained from the OLS regression model revealed that firm age has a statistically significant effect on earnings management as measured in terms of discretionary accrual of the pooled conglomerate firms in Nigeria at a 5% significant level. The study recommends that investors in listed conglomerate firms in Nigeria should always be on the lookout for the potential for more real activity earnings management before arriving at their investment decisions.

1. INTRODUCTION

Earnings are the most significant accounting item in a financial report and a guideline for investment and decision-making. A firm is a form of business enterprise where the operations and all the factors that support operational activities are gathered. A firms' goal to make profit must be supported with significant funds to run its operations (Egolum, Amahalu & Obi, 2019). Earnings have a variety of definitions, depending on their context and the objective of the authors. For instance, the International

Financial Reporting Standard (IFRS) uses the term profit to describe earnings, whereas, for the corporation, profit is the amount after taxes are charged to earnings. Nevertheless, corporate management has a strong incentive of engaging in earnings management to influence positively firm characteristics. Also, accounting practices or reporting choices adopted by corporate management are not only directed to meet certain objectives but could be strongly influenced by the characteristics of their firms. Firms' characteristics including age, size, auditor's type, and audit committee among others, are shown in the accounting literature to influence the financial reporting practices of firms.

Earnings management practice and choice of policies resulting from many judgments at the same time are capable of manipulation which produce less reliable accounting earnings that do not reflect a firm's financial performance because it is likely to reduce the quality of reported earnings and their usefulness for investors' decisions, thus reducing investors' confidence in the financial reports (Egolum, & Onodi, 2021). Accordingly, it is argued that managers and controlling owners have incentives to manage reported earnings to mask the true firm's performance and to conceal their private control benefits from outsiders. There are many reports of price manipulation, profit overstatement, and accounts falsification by some dubious stewards which rendered the financial reporting ineffective. This problem is more pronounced in firms whose corporate structure is shaky, concerning dwindling profitability, risky leverage, and low corporate insolvency. Challenges such as these force managers to engage in earnings management or what they colorfully call window-dressing (Egolum & Onodi, 2021). More so, this situation is often seen among firms with high profitability and then wishing to pay lower tax returns. In any case, whether the corporate characteristics of the firms are attractive or not, earnings manipulation does not tell well of the quality of a firm's financial reporting.

Worst of all, earnings management practically violates the two primary qualities of the usefulness of a financial report for decision-making, namely, the relevance and reliability of the accounting information disclosed. However, a number of studies to establish the effect of firm characteristics on environmental performance have been carried out but no distinct research has been carried out to establish its effect on earnings management in conglomerate firms. Again, studies that examined firm characteristic determinants of earnings management abroad (Abbadi, 2021; Al-Zaqeba & Jordan, 2022; Ashiq, Guoxing, Tabassam & Waheed, 2022) do not suitably represent the peculiarities of the Nigerian business environment. Though their findings are not entirely invalid, but they cannot be fittingly applied to listed conglomerate firms in Nigeria. On the other hand, local researches in Nigeria that have tilted towards the direction of the present study which include; (Abolo, 2022; Enakirerhi,

Ewiwile, & Wobo, 2022; Ernest, & Frank, 2022; Rahman, & Akande, 2022; Shittu, & Amao, 2022); and others. Studies on the effect of firm characteristics on earnings management from the above studies have generated mixed results ranging from those supporting a positive relationship to those opposing it and those who found no relationship, hence, the study firm characteristics and earning management on the Nigerian conglomerate listed firms.

1.1 Objectives of the Study

The main objective of this study is to ascertain firm characteristics and earnings management of conglomerate listed firms in Nigeria. However, the specific objectives are to:

1. Evaluate the relationship between firm size and earnings management of listed conglomerate firms in Nigeria.
2. Determine the relationship between firm age and earnings management of listed conglomerate firms in Nigeria.

1.2 Hypotheses

In order to achieve the aforementioned objective, this study speculates that:

Ho_1: There is no significant relationship between firm size and earnings management practice of listed conglomerate firms in Nigeria

Ho2: There is no significant relationship between firm Age and earnings management practice of listed conglomerate firms in Nigeria

2. LITERATURE REVIEW

2.1 Conceptual review

2.1.1 Overview of Earnings Management

Earnings management and income smoothing are carried out often as a means of providing opportunities for management to take action that presents the financial position and performance of a firm in good light even when they are not healthy (Edison & Nugroho, 2020). Abbadi (2021), defined earnings management as a term involves the intentional manipulation of financial information to either delude investors on the underlying economic status of an organization or to gain some contractual benefits that depend largely on accounting numbers. According to Egolum and Onodi (2021), earnings management is perceived as efforts by the administration to impact or control detailed income by use of particular accounting strategies or quickening cost or income transactions, or use of different techniques intended to affect short-term income. Shittu and Amao (2022), earnings management is a financial reporting phenomenon which occurs when managers use their judgment in

financial reporting and in assembling transactions to alter financial reports either to misinform some investors about the underlying economic performance of the company or to influence contractual outcomes that depend on reported accounting outcomes. Investors often only pay attention to earnings information, regardless of how earnings are generated.

It generally entrails managers' alteration of firms' economic performance against the original financial records and use judgment in the reporting of financial information to misinform the stakeholders about the general performance of the company or generally change the accounting details.

Ernest and Frank (2022) argue that earnings management may be carried out through accrual management (ACM), real activities manipulations (REM), and classification shifting of expenses/revenues. The manipulation of earnings through the discretionary portion of accrual is accrual management. Real activities manipulations occur when an underlying operation of a firm is altered in an attempt to report either a boosted or dwindled profit for a period. Earnings management is achieved through classification shifting of expenses/revenue when expenses or revenue items are swapped between the usual and unusual with the aim to deceive the users of accounting information about the core earnings of a firm (Ernest & Frank, 2022). The upswing of earnings management comes from the application of the accrual which makes it easy for the management to manipulate the financial information as accruals are less noticeable. Total accruals encompass non-discretionary accruals and discretionary accruals where the former reflects the economic and business condition while the latter reflects management choices in reporting. By way of using such discretionary accruals, managers can control the timing of revenue and expense recognition and thus can manipulate the firm's earnings for a given period.

2.1.2 Determinants of Earnings Management

Research into the academic literature revealed some of the determinants of earnings management; board size, firm size, auditor's size, management independence, year of listing (firm age), corporate governance attributes, ownership structure, firm performance, financial leverage, firm capitalization, firm capital turnover, firm liquidity, firm value, etc. (Boll, Müller & Sidki, 2022; Shittu & Amao, 2022; Okonkwo, 2021; Ali, Noor, Khurshid & Mahmood, 2015; Faisal, 2021). However, the present study will cover only firm age, firm size, as proxies of firm characteristics. The proxies chosen for the present study are reviewed below accordingly.

2.1.3 Firm Size

Firm size is one of the most influential characteristics in organizational studies. It reflects how large or small a company is in terms of infrastructure (assets), employment terms., and branch network (Shadrach & Yakura, 2021). Firm size is one of the characteristics of firms that differ in many ways and it is important in considering how the size generates quality information. They revealed that bigger companies engage greatly in income smoothing or creative accounting than smaller companies. This is done because of the greater political cost associated with bigger companies.

2.1.4 Firm Age

Firm age refers to the number of years since when the firm was established and started to operate in the business market. It is also conceptualized as the number of years since the firm was listed in the registration authority database (Shadrach & Yakura, 2021). a company that has been listed for a longer period is less likely to manage earnings as compared to a newly listed company. This is because the older companies are well-known firms with greater values in the market and as such, they would want to avoid a bad reputation. Also, older companies are very much abreast with the rules and codes that govern their practices.

2.1.5 Firm Size and Earnings Management

The size of a firm is likely to affect the degree of earnings management. Al-Zaqeba and Jordan (2022), examined the impact of growth opportunities on earnings management practices at Jordanian industrial companies listed in the Amman Stock Exchange for 2015-2019. The study found that firm size is significantly and negatively related to earnings management.

Mardianto and Selvina (2022), examined the factors that affect the earnings management of the listed companies in Indonesia. The study showed that firm size does not significantly affect earnings management. The reason for the negative effect between firm size and earnings management is the reputation cost. In large firms the reputation cost is higher than that in small firms as large firms have a better appreciation of the market environment, better control over their operations and better understanding of their businesses relative to small-sized firms, therefore this might prevent large firms from engaging in earnings management practices. Okonkwo (2021), examined the effect of firm attributes on the earnings management of quoted healthcare firms in Nigeria. The finding reveals that there is a positive and statistically significant effect of firm size on earnings management of quoted healthcare firms in Nigeria. Some of these mixed results cannot be fitted in Nigeria environment. Hence, the hypothesis: Firm size does not significantly affect earnings management of listed conglomerate firms in Nigeria.

2.1.6 Firm Age and Earnings Management

Firm age plays a vital role in preventing earnings manipulation as older firms are more mature and thus, more likely to protect their reputational capital than younger firms. Many theories and empirical studies have outlined that firms operating for longer periods tend to show a better state of affairs than new firms operating in the same field. Shadrach & Yakura (2021), opined that firms that have been in existence for long period tend to have a low level of earnings management than beginners (new business). This is because they are well-known companies that have great value in the market and have to protect their reputation and also are aware of all the rules and regulations that govern their practices. More so, older firms are subject to strict vigilance by the commanding authority to follow the stricture rules from time to time. Abbadi (2021), determined the impact of firm age on the accrual earnings management among Jordanian firms. The linear regression revealed that firm age has no significant effect on earnings management. Al-Zaqeba and Jordan (2022), examined the impact of growth opportunities on earnings management practices at Jordanian industrial companies listed in the Amman Stock Exchange for 2015-2019. The study found that firm age was significantly and negatively related to earnings management. Kalbuana, Suryati and Pertiwi (2022), examined the impact of company age, on earnings management on Indonesian Stock Exchange-listed The linear regression result showed that company age had a significant positive impact on earnings management. Hence, the mixed findings by the various researchers give room for the underlying hypothesis: firm age does not significantly affect earnings management of listed conglomerate firms in Nigeria.

2.2 Theoretical Review

2.2.1 Signaling Theory

Signaling theory was originally introduced by Michael Spence in 1973. The current view of signaling theory was developed by Spencer in 1983. This theory encompasses the response of investors to the positive and negative signals that greatly affect market conditions. Signal theory in this study is used to draw the relationship between the influence of firm attributes on the earnings management of firms. Managers of firms would always want their financial records to look attractive even when it is not, in reality. Signaling theory is of the view that changes in corporate financial indicators primarily affect investors who often react in different ways in response to such signals as buying stocks or observing the development of the stock in the market. Under this theory, financial reporting is said to stem from management's desire to disclose its superior performance where good performance – indicated by the corporate financial ratios of the firm – will enhance the management's reputation and position in the market for management services, and good reporting is considered as one aspect of good performance.

This signal can be any information related to management's efforts to realize what was required of investors or other information that can show their company is better than other companies (Fajaria & Isnalita, 2018). This signal is given to reduce information asymmetry where the internal party better understand the condition of the company (Yimenu & Surur, 2019).

These may therefore doctor the financial reporting by way of earnings manipulation to send signals to investors that the firm is doing well when in fact it may not. In support of this position, if signalling theory can explain earnings management, then it would be expected that certain company attributes would be associated with such disclosure. Thus size, leverage, age and growth ratios may be disclosed by those companies wishing to highlight certain aspects of their operational performance using good lights. Further, the theory depicts that managers manoeuvre earnings to convey their inside information about firms' prospects and thus it serves as a signaling mechanism (Yimenu & Surur, 2019). Managers engaging in earnings management create a smooth and growing earnings string over time that will enable them to affect the stock price.

2.3 Empirical Review

Al-Zaqeba and Jordan (2022), examined the impact of growth opportunities on earnings management practices at Jordanian industrial companies listed in the Amman Stock Exchange for 2015-2019. Using sales growth rate as a proxy for growth opportunities and using the fixed effect model this study found that growth opportunities have a significant negative impact on earnings management measured by the Modified Jones Model. Furthermore, the study also found that firm size and firm age are significantly and negatively related to earnings management. While leverage has an insignificant relationship with earnings management.

Mardianto and Selvina (2022), examined the factors that affect the earnings management of the listed companies in Indonesia. Proxies of firm characteristics used were leverage, firm size, and financial performance. The data of 44 companies for a period of five years from 2016 to 2020 using purposive sampling were analyzed using panel regression techniques supported by SPSS and E-Views. The finding of this study showed that financial performance has a significant and positive impact on earnings management but leverage and firm size do not significantly affect earnings management.

Boll, Müller and Sidki (2022), analyzed the indicators of earnings management in the financial statements of municipally-owned enterprises in Germany between 1998 and 2014. The study relied on secondary data which were sourced from the annual financial statement data from 11,721 German

municipal enterprises from 1998–2014 to investigate various structural determinants of earnings management. The regression tests conducted in the study showed that firm size and leverage positively affect the earnings management of municipally-owned enterprises in Germany.

Rahman and Akande (2022), examined the factors influencing earnings management practices (EMP) among listed companies in Nigeria. A sample of 76 non-financial listed firms with 836 firm-year observations was purposively selected for the period 2010-2020. Secondary panel data was collected from the financial reports of these companies. Data were analyzed using descriptive statistics and the Generalized Method of Moments (GMM) estimator. The study revealed that firm leverage and firm size have a negative influence on earnings management practices in Nigeria while firm growth has a positive and significant effect on earnings management.

Shittu and Amao (2022), examined the effect of firm attributes on Real Earnings Management (REM) in Nigeria. Firm attributes include Asset Structure (AS), Free Cash Flow (FCF), Firm Profitability (FP), Dividend Payout Ratio (DPR), Capital Structure (CS), Working Capital (WC), Growth Opportunity (GO), Firm Size (FS) and Firm Age (FA). A purposive sampling technique was employed to select 76 non-financial listed firms in Nigeria. Data for the study were gathered from annual reports of selected firms for the period of 11 years (2010-2020) and analyzed using the Generalized Method of Moments (GMM) estimator. The findings revealed that FCF, DPR, WC, FS and GO have a negative and significant influence on aggressive REM while AS, CS and FP have a positive and significant influence on aggressive REM. Based on these findings, the study concluded that firm attributes have a significant effect on REM.

Ernest and Frank (2022), investigated the determinants of earnings management in Nigerian Listed firms. Eighty-eight (88) non-financial firms listed on the Nigerian Exchange Group were randomly selected and the annual reports of these firms for a period of 13 years were studied (2007-2019). Data on the dependent variable (earnings management) and independent variables (tax aggressiveness, directors' shareholding, share price, the likelihood of IFRS adoptions, and the likelihood of political connections in non-financial firms) were derived from the annual reports of these firms and the online search machine of Cash Craft Investment Management. Two regression models were specified and panel regression was the method of data analysis. The outcome of the analysis revealed that significant relationships exist between discretionary accrual management and each of the following: tax aggressiveness, share price, the likelihood of adopting IFRS, the likelihood of political connections in

non-financial firms, and a non-significant relationship exists between discretionary accrual earnings management and directors' shareholding.

Ashiq, Guoxing, Tabassam and Waheed (2022), determined the effect of firm characteristics (firm size and leverage) on the earning management of firms listed on the Pakistan stock exchange. The study carried out a test using a sample of 139 firms from 2008-2019. This study's tests were carried out using the fixed effect panel least squares regression model. The results indicate that firm size, leverage and institutional ownership show an insignificant relationship that does not significantly affect earning management.

Enakirerhi, Ewiwile and Wobo (2022), examined the association between leverage and earnings manipulative practice of firms in Nigeria pre and post-IFRS periods and attempt to test the assertion of agency theory that higher leverage will be beneficial to improved earnings quality due to pressure on managers by bondholders. The study incorporated data for 87 listed firms on the floor of the Nigeria Stock Exchange for 10 years, 5 years preIFRS (2007 to 2011) and 5 years post-IFRS (2012 to 2016) making 870 firm-year observations. It disaggregated the periods into pre and post-IFRS to enable the researcher to test for the effect of adoption. The panel regressions estimate (Random effect model) was used to test the effect of the association between the independent and dependent variables. The results showed that increased leverage resulted in increased earnings manipulation after IFRS adoption.

Kalbuana, Suryati and Pertiwi (2022), examined the impact of company age, audit quality, leverage and profitability on earnings management on Indonesian Stock Exchange-listed Retail and Wholesale Trading Companies for the years 2016-2020. The study used data obtained from financial statements. The trade sector, which is listed on the Indonesia Stock Exchange, was the focus population for this study. The sample selection technique used was purposive sampling with several criteria that have been determined, the sample data was obtained by 18 companies in the period 2016-2020. SPSS version 25 was utilized for data analysis, and the traditional assumption test of heteroskedasticity multicollinearity, normality test, correlation and determination coefficient test, simultaneous test, and partial test were used. The linear regression result showed that company age had a significant positive impact on earnings management, audit quality had a significant negative impact on earnings management, leverage had no significant impact on earnings management and profitability had a positive impact on earnings management.

Abolo (2022) examined earnings management and the quality of financial reporting of listed construction companies in Nigeria. The population of the study was the nine (9) listed construction companies in the Nigerian Stock Exchange during the period 2015-2021 (7) years. While the Sample size is 6. The study employed secondary data. The formulated research questions were analyzed with descriptive statistics. The hypotheses were tested using the multiple regression analysis with the aid of E-view (10). The findings of the study were that; there is a positive and significant relationship between accrual earnings and faithful representation of construction companies in Nigeria. Meanwhile, there is a positive but insignificant relationship between earnings persistence and faithful representation of listed construction companies in Nigeria.

Abbadi (2021), determined the impact of firm size and firm age on the accrual earnings management among Jordanian firms. Data were collected from 42 manufacturing companies listed in the Amman stock market for the period 2013-2018. Analysis of data was then performed using linear regression which revealed that firm size negatively and significantly affects earnings management but firm age has no significant effect on earnings management.

Okonkwo (2021), examined the effect of firm attributes on the earnings management of quoted healthcare firms in Nigeria. The study used an ex post facto research design. The population of the study was the ten (10) quoted healthcare firms on the Nigerian Stock Exchange as of 31st December 2017, of which seven (7) firms are taken as the sample size using a purposive sampling technique. The technique for data analysis was multiple regression, as the study used panel data. The variable for earnings management is proxied by the discretionary accruals, discretionary accruals were generated using modified Jones model. The variables for firm attributes are firm size, financial leverage and firm age. The finding reveals first, that there is a positive and statistically significant effect of firm size and financial leverage on earnings management of quoted healthcare firms in Nigeria. However, firm age has a negative and statistically significant effect on the earnings management of quoted healthcare firms in Nigeria.

Shadrach and Yakura (2021), examined the effect of firm characteristics on earnings management in the deposit money bank in Nigeria. The population of the study consist of the twenty-one deposit money banks in Nigeria at the time of data collection (2006-2017). A filtering sampling technique was used to select ten banks from the population as sample size and analyzed using a panel data regression approach. The result of the analysis shows that firm size, firm age and firm leverage have a significant positive effect on earnings management in deposit money banks in Nigeria.

Faisal (2021), investigated the effect of firm attributes on the earnings management of firms in Pakistan. The data was collected for 64 companies other than financial firms which are listed on the Pakistan Stock Exchange (PSE) for a period of one decade from 2009 to 2018. The Modified Jones Model 1995 was applied as a proxy of earning management. The result of the fixed effect model regression applied in the study showed that leverage and firm size have positive but non-significant effects but sales growth has a negative and non-significant effect on the earnings management of firms.

Ibrahim (2019), investigated the effects of firms' characteristics on the financial reporting quality of listed consumer goods companies in Nigeria for the period of ten years, from 2008-2017. An ex-post facto research design was adopted for the study. The population of the study consists of 22 consumer goods companies listed on the floor of the Nigerian Stock Exchange. The study utilized a census sampling technique to take all the population for this study. The data used in this study were secondary data derived from annual reports of consumer goods companies that are listed on the NSE. The results of the panel regression indicated that leverage has a significant negative effect on the earnings management of listed consumer goods companies in Nigeria, but firm size, board size, institutional shareholding, profitability and liquidity have no significant effect on the earnings management of listed consumer goods companies in Nigeria.

Debnath (2017), assessed the impact of a firm's growth on earnings management through discretionary accruals estimation in India. The study used a cross-sectional modified Jones model to estimate discretionary accruals, a proxy for earnings management. A sample of 756 firm-year observations from the non-financial corporate sector (banking and other financial sector was not considered for distinct governance and reporting practices) for nine years from 2007 to 2015, was considered based on some accounting and market measurement criteria from Capitalineplus Corporate Database. The study analyzed the panel data using a fixed effect model to estimate the influence of a firm's growth and performance over discretionary accruals. Regression analysis of the study suggests that the growth of the firm is positively associated with discretionary accruals; also, the firm's size negatively and significantly affects earnings management while age positively and significantly influences earnings management.

Linasmi (2017), determined the effect of firm size on the earnings management of firms on the Indonesian Stock Exchange. The population in this study was the Indonesian Stock Exchange listed company from 2010-2014. The final sample was obtained from 418 companies or 1,887 firm-year

observations. The sample was selected using a purposive sampling technique with some criteria. Research hypotheses were tested by multiple linear regression analysis. Based on test results, it was found that while firm leverage has a significant positive effect on earnings management, firm growth and firm size do not have a significant effect on earnings management

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Ngunjiri (2017) examined the effect of earnings management on the financial performance of companies listed in the Nairobi Securities Exchange. The study adopted a descriptive research design. The population of the study consisted of 66 companies quoted in the Nairobi Securities Exchange. The study used a census approach. Data were analyzed using a regression model which found that earnings management, firm size, and market-to-book value ratio positively and significantly influenced the financial performance of the firms listed at the Nairobi Securities Exchange.

3. MATERIAL AND METHOD

The study adopted the *ex-post facto* research design in conducting the research. This design is therefore suitable for the present study since the researcher analyses data in relation to events that already took place in the past between 2012 to 2021. The population of the study is constituted of all the five (5) conglomerate firms listed on the Nigerian Exchange Group as of the date this study is being varied. The 5 listed conglomerate firms on the Nigerian stock exchange Daily listing as of 31/10/2022 are; (Chellarams Plc, John Holt Plc, S C O A Nig Plc, Transnational Corporation of Nigeria Plc, U A C N Plc). The census sampling technique was thus deployed in selecting the sample size of the study since the population of the study is manageable and small. The data that were used to analyze the research variables are secondary data which were obtained from the audited financial statements of the respective firms and reports filled at the Nigerian Exchange Group. The data collected covered ten years from 2012 to 2021. The data were analyzed using descriptive statistics, a pair-wise correlation matrix of explanatory variables and the hypotheses formulated based on the research questions formed in the review section were tested by the use of Ordinary Least Square regression analysis to quantify the influence of explanatory (independent) variables over the response (dependent) variable at 5% level of significance.

The operational measures for the independent variables are shown in Table 1 below.

Table 1: Operational measurement of independent variables

Variable	Acronym	Formula	Source
Firm Size	FSZ	Natural log of total assets	Uwuigbe, Ranti and Bernard (2015)
Firm Age	AGE	Number of years the firm has existed from the date of incorporation	Al-Zaqeba and Jordan (2022)

Source: Researcher's Compilation, 2023

3.1 Model Specification

The model used for the study was adopted from the study conducted by Roy and Debnath (2017). The adopted model is:

$DA_{it} = \beta_0 + \beta_1 SIZE_{it} + \beta_2 AGE_{it} + \mu_{it}$ ….Eq. 1

Where:

DA_{it} stands for discretionary accruals;

$SIZE_{it}$ stands for log value of Fixed Assets;

AGE_{it} stands for log value of actual age from the date of incorporation;

μ_{it} represents the error term 'i' and 't' represent the firm & time coefficient.

4. RESULT AND DISCUSSIONS

The explanatory variable of firm characteristics is measured in terms of firm size (FSZ) and firm age (AGE). The dependent variable of earnings management is measured in terms of discretionary accrual (DA). the study examines the descriptive statistics for both the explanatory and dependent variables of interest. Each variable is examined based on the mean, standard deviation, maximum and minimum.

Table 2: Operational measurement of independent variables

	DA	AGE	FSZ
Mean	-0.421600	35.90000	7.529800
Median	-0.345000	41.00000	7.170000
Maximum	0.130000	48.00000	8.620000
Minimum	-1.660000	7.000000	6.820000
Std. Dev.	0.331960	12.73313	0.587720
Skewness	-1.133164	-1.343513	0.490463
Kurtosis	5.173757	3.168095	1.555769
Jarque-Bera	20.54471	15.10075	6.350042
Probability	0.000035	0.000526	0.041793
Sum	-21.08000	1795.000	376.4900
Sum Sq. Dev.	5.399672	7944.500	16.92530
Observations	50	50	50

Source: E-Views 9

In the case of the dependent variable, the table shows that the mean of earnings management measured in terms of discretionary accrual (DA) is -0.42 and has a standard deviation of 0.33. Discretionary accrual has a minimum and maximum of -1.66 and 0.13 respectively. In the case of the independent variable, the table shows that the mean firm size (FSZ) is 7.53 with a standard deviation of 0.59. This implies that on average, the natural log of the total asset of the firms under study was about 7.53 during the period under study. Furthermore, the table shows that firm age (AGE) had a mean of 36 years approximately, with a standard deviation of 12.7. This implies that on average, the firms under study were 36 years. However, the table shows that the youngest firm in our sample was 7 years old while the oldest was 48 years old.

Table 3: Correlation analysis

	DA	AGE	FSZ
DA	1	0.426241	-0.21859
AGE	0.426241	1	-0.63307
FSZ	-0.21859	-0.63307	1

Source: E-Views 9

In the case of the correlation between the firm characteristics employed in this study and earnings management as measured in terms of discretionary accrual, the results obtained from the correlation above show that there exists a positive association between firm age (0.426) and the dependent variable of earnings management as measured in terms of discretionary accrual. The result shows that the independent variable of firm size (-0.219) has a negative association with the dependent variable of earnings management as measured in terms of discretionary accrual.

Table 4: OLS analysis

Dependent Variable: DA

Method: Panel Least Squares

Date: 02/08/23 Time: 14:23

Sample: 2012 2021

Periods included: 10

Cross-sections included: 5

Total panel (balanced) observations: 50

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-1.234934	0.834026	-1.480690	0.1454
AGE	0.012524	0.004432	2.825763	0.0069
FSZ	0.048305	0.096021	0.503068	0.6173

R-squared	0.186064	Mean dependent var	-0.421600
Adjusted R-squared	0.151429	S.D. dependent var	0.331960
S.E. of regression	0.305795	Akaike info criterion	0.526319
Sum squared resid	4.394987	Schwarz criterion	0.641040
Log-likelihood	-10.15796	Hannan-Quinn criter.	0.570005
F-statistic	5.372053	Durbin-Watson stat	1.069286
Prob(F-statistic)	0.007923		

Source: E-Views 9

The study carried out a pool OLS regression analysis to validate the estimates of the OLS results. From the table, it is observed from the pool OLS regression that the R-squared value of 0.186 shows that about 18.6% of the systematic variations in earnings management as measured in terms of

discretionary accrual of the pooled conglomerate firms in Nigeria was jointly explained by the independent and control variables in the model. The unexplained part of earnings management as measured in terms of discretionary accrual can be attributed to the exclusion of other independent variables that can affect earnings management but were captured in the error term. Furthermore, the F-statistic value of 5.37 and the associated p-value of 0.007 shows that the specified model for the conglomerate firm's sample overall is statistically significant at a 1% level. This means that the regression model is valid and can be used for statistical inference.

4.1 Test of Hypotheses

4.1.1 Hypothesis One

Ho_1: There is no significant relationship between firm size and earnings management practice of listed conglomerate firms in Nigeria

The results obtained from Table 4- OLS regression model revealed that firm size [coef. = 0.0483(0.6173)] has a statistically insignificant effect on earnings management as measured in terms of discretionary accrual of the pooled conglomerate firms in Nigeria at neither a 5% nor a 1% significant level. The result implies that firm size has a positive statistically insignificant effect on earnings management as measured in terms of discretionary accrual of the pooled conglomerate firms in Nigeria during the period under study. Hence, the null hypothesis that firm size does not significantly determine the earnings management practice of listed conglomerate firms in Nigeria is accepted.

The finding in relation to firm size are against the study of Boll, Müller and Sidki (2022); Al-Zaqeba and Jordan (2022) who documented a negative effect of firm size on earnings management. Furthermore, the study contradicts the position of Enakirerhi, Ewiwile and Wobo (2022) who found that larger firms in terms of asset base tend to prove evidence of earnings management. However, we find consistency with the study of Ashiq, Guoxing, Tabassam and Waheed (2022); Nengzih (2019) who noted that firm size has no significant effect on earnings management.

4.1.1 Hypothesis One

Ho_2: There is no significant relationship between firm Age and earnings management practice of listed conglomerate firms in Nigeria

The results obtained from Table 4 above- OLS regression model revealed that firm age [coeff. = 0.0125 (0.0069)] has a statistically significant effect on earnings management as measured in terms

of discretionary accrual of the pooled conglomerate firms in Nigeria at a 5% significant level. The result implies that firm age has a positive statistically significant effect on earnings management as measured in terms of discretionary accrual of the pooled conglomerate firms in Nigeria during the period under study. Hence, the null hypothesis that firm age does not significantly determine the earnings management practice of listed conglomerate firms in Nigeria is rejected.

Our finding is in line with the studies of Shadrach and Yakura (2021); Debnath (2017) who noted that earnings management practices are more prevalent in older firms than younger firms. However, we negate the studies of Boll, Müller and Sidki (2022); Al-Zaqeba and Jordan (2022) who showed that since younger firms are not scrutinized by regulations compared to older firms, it may give room for earnings.

CONCLUSION AND RECOMMENDATIONS

The study investigates the effect of firm characteristics on earnings management in Nigeria by employing samples from listed conglomerate firms on the floor of the Nigerian Exchange Group from 2012 to 2021. In this study, the explanatory variable of firm characteristics is measured in terms of firm size (FSZ) and firm age (AGE). The dependent variable of earnings management is measured in terms of discretionary accrual (DA). Firm size has a statistically insignificant effect on earnings management as measured in terms of discretionary accrual of conglomerate firms in Nigeria at neither a 5% nor a 1% significant level. Firm age has a statistically significant effect on earnings management as measured in terms of discretionary accrual of the pooled conglomerate firms in Nigeria at a 5% significant level. It is thus concluded that corporate management has a strong incentive of engaging in earnings management through some firm characteristics. Based on the analysis carried out, the study recommends that investors in listed conglomerate firms in Nigeria should always be on the lookout for the potential for more real activity earnings management before arriving at their investment decisions.

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