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GREY DIRECTORS AND EARNINGS MANAGEMENT OF PUBLICLY TRADED FIRMS IN NIGERIA

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ABSTRACT

This study investigates the influence of grey directors on earnings management in Nigerian publicly traded manufacturing firms. Grey directors, often considered as independent directors with some affiliations, play a crucial role in corporate governance by potentially mitigating earnings manipulation. This research utilizes a combination of theoretical and empirical reviews to explore the effects of grey directors' independence and size on earnings management. The study employs ex post facto research design and a sample of 13 Deposit Money Banks (DMBs) listed on the Nigerian Exchange Group (NGX) were selected. The study utilises secondary data from annual financial reports which were analysed using Fixed Effects Model. The results showed a positive effect of board size on the discretionary accruals proxy for earnings management; and a non-significant negative effect of grey directors' independence on earnings management of quoted DMBs. The study concludes that grey directors' significantly affect financial reporting quality. The study recommends that companies carefully consider the balance of grey directors' independence on the board and ensure that they possess the necessary industry expertise and training to fulfill their oversight responsibilities effectively. Secondly, shareholders should carefully consider the appropriate size and composition of the board. It is recommended that companies assess the specific needs of their industry, company size, and complexity to determine the optimal board size and composition. These insights suggest that improving board effectiveness might require more than just increasing the number of non-executive directors; it might also involve enhancing the independence and authority of these directors to ensure robust oversight and reduce earnings management.

Key words: *Discretionary Accruals; Earnings Management; Grey Directors.*

INTRODUCTION

Earnings management (EM) has been a topic of global concern due to its adverse effects on financial reporting integrity and market efficiency. EM involves the deliberate manipulation of financial statements to present a desired image of a company's financial performance.

Managers engage in EM by manipulating income to achieve various objectives: reducing it to lower tax liabilities, increasing it to boost their compensation, or smoothing it to minimize fluctuations between periods (Abu Afifa et al., 2024). This practice aims to maintain market share price stability, enhance performance perceptions among stakeholders, such as investors and lenders, and present a favorable image to official organizations (Du & Shen, 2018). This practice can mislead stakeholders and distort resource allocation decisions. The presence of grey directors on the board is theorized to reduce such manipulative practices by providing independent oversight and mitigating conflicts of interest (Feng & Huang, 2021). The manipulation of financial statements, either within or beyond Generally Accepted Accounting Principles (GAAP), undermines stakeholders' ability to make informed decisions (Naz et al., 2023). High-profile financial scandals such as Enron and WorldCom have amplified the call for robust corporate governance mechanisms to ensure transparency and accountability in financial reporting.

The concept of grey directors has emerged as a critical component of corporate governance. Grey directors, are not involved in the daily operations of a firm but maintain some business affiliations, are perceived to offer an external oversight that can curb managerial opportunism and earnings manipulation (Li et al., 2023). The role of grey directors in corporate governance has gained prominence following the implementation of various corporate governance codes globally. In Nigeria, the development of corporate governance frameworks has been influenced by the need to protect minority shareholders and ensure equitable treatment of all stakeholders. The Nigerian Code of Corporate Governance emphasizes the importance of board composition, including the inclusion of independent and grey directors, to enhance oversight and accountability (Ugwu & Nwoko, 2020). Despite the theoretical benefits of grey directors, empirical evidence on their effectiveness in curbing EM is mixed. Some studies suggest that grey directors enhance board oversight and reduce earnings manipulation, while others indicate that their affiliations might compromise their independence and effectiveness (Chalevas & Tzovas, 2010).

Earlier research studies (*cf.*, Alsmairat et al., 2018; Latif et al., 2017) have demonstrated that corporate governance, as a form of control mechanism, plays a significant role in reducing opportunistic behaviours. In the Nigerian context, there is a lack of comprehensive studies examining the specific impact of grey directors on earnings management in manufacturing firms. The presence of grey directors on the BoDs in Nigerian manufacturing firms plays a significant role in mitigating earnings management. The empirical evidence suggests that grey

directors' independence and size are critical factors influencing financial reporting quality. An effective CG mechanisms, including the inclusion of grey directors, are essential to enhance transparency, accountability, and stakeholder trust in financial statements.

Objectives

This study focuses on examining the impact of grey directors on earnings management in Nigerian manufacturing firms.

The specific objectives of the study are as follows:

1. to determine the effect of grey directors' independence on earnings management of quoted Deposit Money Banks (DMBs) in Nigeria.
2. to examine the extent to which the size of grey directors affects earnings management of quoted Deposit Money Banks (DMBs) in Nigeria.

LITERATURE REVIEW

Concept of Grey Directors

The BoDs is a company's highest administrative body and guarantees that the management makes prudent use of the deposited funds (Abu Afifa et al., 2024). They play an essential part of organisational structure to guarantee the optimal performance of a firm. The board of directors is also thought to be the most important component of corporate governance (Aifuwa & Embele, 2019). Grey Directors are experienced professionals who bring a wealth of knowledge and expertise to the boardroom. The inclusion of grey directors in a board's composition aims to balance the oversight mechanisms. The grey directors bring valuable insights from their industry connections, enhancing the board's effectiveness in monitoring and advising management (Doidge et al., 2007). They are essential in determining a company's course because of their strategic approach and acute attention to detail. They are priceless assets to any organisation because of their objectivity and capacity for difficult decision-making (Naz et al., 2023).

As stated by Vitolla et al. (2019), board characteristics serve as a key control mechanism in enhancing the quality of financial reports released by companies. This is achieved by restricting earnings management practices, with factors such as board size and independence playing a crucial role in exerting control over management performance and reducing the likelihood of earnings manipulation. Grey directors steer the company towards success because of their years of expertise in the field. Due to their professionalism and dedication to their work, they maintain the highest standards of corporate governance.

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Grey Directors Size

The size of the board affects the quality of financial reporting (Naz et al., 2023). The size of grey directors, often considered a subset of non-executive directors, play a unique role in corporate governance. They are not entirely independent due to existing or potential business relationships with the firm but do not participate in its daily operations. The size of the board, including grey directors, plays a crucial role in its effectiveness. The optimal size ensures a balance between diverse perspectives and efficient decision-making.

Larger boards have greater experience, social resources, diversity, and time to oversee management choices, which is in line with agency theory (Dalton et al., 1998). Larger boards with a mix of grey and independent directors can offer better oversight and resource provision (Adams, 2019). Larger boards with more grey directors can enhance the board's capability to monitor management, leading to reduced earnings management and better firm performance (Eluyela et al., 2020). As per the findings of Ghosh et al. (2010) and Abu Afifa et al. (2024), EM practices are lessened by larger boards. Conversely, overly large boards might suffer from coordination issues and diminished individual accountability, potentially leading to ineffective monitoring and increased earnings management (Seng & Findlay, 2013). However, the results of earlier research on EM are not entirely conclusive. Studies by Sarkar et al. (2008) and Githaiga et al. (2022) draw the similar conclusion. In contrast, board size decreased dramatically when the REM proxy was used (Kang & Kim, 2012).

Ho_2: The size of grey directors does not affect earnings management of quoted DMBs inNigeria.

Grey Directors Independence

According to the literature, directors' independence is a useful governance tool for restricting EM practices (Naz et al., 2023). Grey directors are board members who, despite their non-executive status, have ties to the firm through past employment, advisory roles, or significant business relationships. Their independence is often debated due to these affiliations, which might influence their objectivity in monitoring management. The existence of independent directors (IDs) serves as a check and balance and enhances the board's efficacy (Fama, 1980; Fama & Jensen, 1983). Studies by Githagia et al. (2022); Goel and Kapoor (2022), show that independent directors have an incentive to develop a reputation as experts in monitoring and decision-making. They acquire this competence by working in a managerial capacity outside the company (Fama & Jensen, 1983).

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Ho_1: There is no significant effect of grey directors' independence on earnings managementof quoted DMBs in Nigeria.

Concept of Earnings Management (EM)

EM the practice of manipulating financial statements to present desired outcomes, can be mitigated through effective board oversight. Thus, some authors view it as a form of accounting information manipulation when done intentionally, while others see it as legitimate legal action, especially if it aligns with GAAP or international accounting standards. Even if it is seen as opportunistic, as long as it serves the economic entity's objectives, it may be considered acceptable (Damak, 2018). Studies have shown mixed results regarding the impact of grey directors on earnings management. Some research suggests that grey directors, due to their expertise and external perspectives, can effectively curb managerial opportunism and earnings manipulation (Naz et al., 2023). Conversely, other studies highlight potential conflicts of interest, where grey directors may align more with management than shareholders, thus facilitating EM (Prasad, Sankaran, & Prabhu, 2023).

Theoretical Framework

The theoretical foundation for this study is anchored on Stakeholder Theory and Agency Theory. Stakeholder Theory posits that a firm is a nexus of contracts among various stakeholders, and managers are obliged to balance these interests to achieve legitimacy (Freeman, 1984). Agency Theory, on the other hand, addresses the conflict of interest between principals (shareholders) and agents (managers), emphasizing the need for effective monitoring mechanisms to align interests (Jensen & Meckling, 1976).

Stakeholder Theory suggests that corporate governance should account for the interests of all stakeholders, not just shareholders. This broader perspective ensures that the firm's actions are aligned with societal expectations and ethical standards (Freeman, 1984). Grey directors, by providing independent oversight, can help balance these interests and reduce managerial opportunism.

Agency Theory highlights the problems arising from the separation of ownership and control in modern corporations. Managers, acting as agents, may pursue their self-interests at the expense of principals (shareholders). Effective corporate governance mechanisms, including the inclusion of grey directors, are essential to mitigate these agency problems by enhancing transparency and accountability (Eisenhardt, 1989).

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Empirical Review

Abu Afifa et al. (2024) studied the nexus of board characteristics and EM using a sample of 43 firms from 2012 to 2019, i.e., 344 firm-year observations listed on the Amman Stock Exchange (ASE). The data were analysed using panel data regression. The GMM estimation showed that board size and independence have a negative and significant influence on the EM

Naz et al. (2023) examined the impact of board independence and board size on earnings management in Pakistan. They analyzed data of 172 firms listed on the Pakistan Stock Exchange (PSX) from 2012-2019 using the GMM, FEM and REM. The results showed that board independence negatively affected EM. Board size had a significant positive impact on abnormal discretionary expenses and overall REM.

Prasad et al. (2023) examined the relationship between gray directors (non-executive non-independent directors) and executive compensation of 438 firms listed in India's National Stock Exchange (NSE) using data from 2012 to 2017. The multiple linear regression results showed that there is a positive association between the proportion of gray directors on the board and executive compensation.

Al-Absy (2022) explored the characteristics of board chairmen and their impact on REM in Malaysian firms. This study was based on a sample of 282 firms and employed OLS regression for analysis. The findings revealed that board chairman independence was positively associated with REM.

Khan et al. (2022) analyzed the effect of board attributes on earnings management in Pakistan. The study used a sample of 323 non-financial listed firms of the Pakistan Stock Exchange from 2015 to 2019. The secondary data were manually collected from annual reports, and two proxies of EM were computed: DA and the other is real activity manipulation. The findings showed that both board independence and financial expertise negatively impacted discretionary accruals.

Surjandari et al. (2021) analysed the effect of CG, leverage, firm size on EM using a sample of 66 companies listed on the Indonesian Stock Exchange (IDX). They employed secondary data from annual reports from 2015 to 2019. The data were analysed using FEM; and, showed a non-significant positive effect of board independence on EM.

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Eluyela et al. (2020) examined the impact of grey directors on corporate performance in Nigerian banks. The study covered 14 DMBs on the NSE from 2010 to 2017. The data were analysed using panel data analysis. The results indicate a significant positive relationship between indigenous directors, the board size, non-executive directors and performance of the selected DMBs in Nigeria.

Ndrayati et al. (2023) investigated the influence of audit quality and leverage on EM with Good CG as mediation. The sample comprised of 225 observations spanning multiple industries between 2016 and 2020. The study utilised secondary data analysed with SEM-PLS analysis. The regression results indicated that effective corporate governance had a significant effect on EM.

MATERIALS AND METHOD

The study adopts a quantitative approach to examine the effects of grey directors on earnings management in publicly traded manufacturing firms in Nigeria. Specifically, an ex-post facto design is employed since the research involves analyzing historical data to identify patterns and relationships without manipulating variables. The ex-post facto design is suitable for this study as it allows for the investigation of cause-and-effect relationships using existing financial and governance data. The population for this study comprises all publicly traded Deposit Money Banks on the Nigerian Exchange Group (NGX). A purposive sampling technique is used to select a sample of fourteen (14) DMBs that meet specific criteria, such as having a consistent presence on the NGX over the last twelve years (2012-2023) and providing comprehensive financial reports. This period is chosen to cover the time since the adoption of the International Financial Reporting Standards (IFRS), which standardizes financial reporting. The DMBs included in the study is shown in the table below:

Table 1: List of Deposit Money Banks

S/N	Money Deposit Banks in Nigeria
1	Access Bank PLC
2	Eco Bank Transnational incorporation
3	Fidelity Bank PLC
4	First Bank Nig. PLC
5	First City Monument Bank (FCMB) PLC
6	Guarantee Trust Bank (GTB) PLC
7	Stanbic IBTC Holding PLC
8	Sterling Bank Nig. PLC
9	United Bank for Africa (UBA) PLC
10	Union Bank of Nigeria PLC
11	Unity Bank PLC
12	Wema Bank PLC

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13 Zenith Bank PLC
Source: The Nigerian Exchange Group [NGX] (2024)

Secondary data is utilized for this study, sourced from the annual financial reports of the selected firms, obtained from the NSE and company websites. The data includes variables related to corporate governance (e.g., grey directors' independence, and grey directors' size) and financial performance (e.g., discretionary accruals as a proxy for earnings management). Additional control variables, such as firm size and firm age, are also included to ensure robustness in the analysis.

$DACC_{it} = \square + \beta_1 NEDR + \beta_2 BSIZ + \beta_3 FSIZ + \beta_4 FAGE + \varepsilon_i$

Where:

$DACC_{it}$ = Discretionary accruals for firm *i* at time *t*

$NEDR_{it}$ = Grey directors' independence for firm *i* at time *t*

$BSIZ_{it}$ = Grey directors' size for firm *i* at time *t*

$FSIZ_{it}$ = Firm size

$FAGE_{it}$ = Firm age

ε_i = Error term

Table 2: Measurement of the model variables

Variables	**Measurement**
Independent Variables	
Grey Directors' Independence	Proportion of grey directors on the board
Grey Directors' Size	Total number of grey directors on the board
Dependent Variable	
Earnings Management	Measured using discretionary accruals, calculated through the Modified Jones Model
Control Variables	
Firm Size	Natural logarithm of total assets
Firm Age	Years of existence from data of incorporation

Source: Author's Computation from Annual Reports

RESULT AND DISCUSSIONS

In this section, the results of the descriptive and inferential statistical procedures conducted in this study are reported.

Descriptive Statistics

The focus of descriptive statistics is to help in understanding the general characteristics of the data.

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Table 2: Descriptive statistics of the model variables

	DACC	NEDR	BSIZ	FSIZ	FAGE
Mean	1.58E-05	8.047497	13.65286	21.36735	25.70000
Median	-0.000880	8.000000	14.00000	21.36617	23.00000
Maximum	0.024981	12.00000	21.00000	23.18558	54.00000
Minimum	-0.013514	3.000000	6.000000	18.86861	6.000000
Std. Dev.	0.004165	1.738588	3.298865	0.917766	14.14758
Skewness	1.983321	0.044989	-0.079450	-0.275295	0.611782
Kurtosis	13.39501	3.134427	2.542928	2.516594	2.085242
Jarque-Bera	722.1107	0.152638	1.365958	3.131516	13.61436
Probability	0.000000	0.926521	0.505110	0.208930	0.001106
Sum	0.002211	1126.650	1911.400	2991.430	3598.000
Sum Sq. Dev.	0.002411	420.1534	1512.669	117.0790	27821.40
Observations	140	140	140	140	140

Source: E-Views 10

Key: DACC-Discretionary Accruals; NEDR-Non Executive Directors (Grey Directors); BSIZ-Board Size (Grey Directors); FSIZ-Firm Size (Natural logarithm of total assets); FAGE (Firm Age).

The table provided presents descriptive statistics for a dataset with 140 observations related to five variables: Discretionary Accruals (DACC), Non-Executive Directors Ratio (NEDR), Board Size (BSIZ), Firm Size (FSIZ), and Firm Age (FAGE). The mean of DACC is 1.58E-05, indicating that on average, discretionary accruals are close to zero, suggesting minimal EM. The median of DACC indicates -0.000880, indicating that half the firms have DACC below this value. DACC ranges from -0.013514 to 0.024981, showing that there is some variability in discretionary accruals. The Std. Dev. of DACC shows 0.004165, i.e., indicates low variability.

The mean of NEDR is about 8.05, showing that boards, on average, have a substantial proportion of non-executive members. The median of NEDR is 8.00, consistent with the mean. NEDR varies from 3 to 12, indicating a significant difference in the proportion of non-executive directors across firms. The Std. Dev. of NEDR, i.e., the variability in the NEDR is moderate (1.74). The mean of BSIZ is approximately 13.65 members. The median board size is 14, indicating that half of the firms have a board size equal to or less than 14 members. The value of BSIZ range from 6 to 21 members. BSIZ has a moderate Std. Dev. (3.30), showing some differences in board composition across firms. The mean FSIZ is 21.37. The median FSIZ is very close to the mean at 21.37. Firm size (in logarithmic scale) range from 18.87 to 23.19, reflecting the variation in total assets across firms. FSIZ shows low variability with a Std. Dev. of 0.92. The average FAGE is around 25.7 years. The median of FAGE is 23 years, suggesting that the distribution of firm age is skewed. The value of FAGE varies widely

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from 6 to 54 years among the sampled firms. FAGE age has a higher Std. Dev. (14.15), reflecting the broad range of firm ages in the sample.

DACC skewness is 1.983 indicates a positive skew, with a kurtosis of 13.395, i.e., a leptokurtic distribution, indicating a sharp peak and heavy tails, meaning extreme values are more frequent. NEDR skewness is 0.045, suggesting a nearly symmetrical distribution. The kurtosis is 3.134 suggests a distribution similar to the normal distribution. BSIZ had a negative skewness (-0.079), and FSIZ had skewness of -0.275, suggesting firm sizes are slightly more concentrated above the mean. The kurtosis values of BSIZ and FSIZ were around 2.5 suggest a platykurtic distribution. FAGE showed a positive skew (0.612) indicates a longer right tail, with a few older firms influencing the distribution. The kurtosis of FAGE showed a value of 2.085, it is platykurtic.

The Jarque-Bera Test for DACC had a test statistic (722.1107) and its corresponding p-value (0.000000) strongly reject the null hypothesis of normality, indicating that DACC is not normally distributed. The variables NEDR, BSIZ, FSIZ with corresponding p-values of 0.926521, 0.505110, and 0.208930, show that, these variables do not significantly deviate from normality. Lastly, the variable FAGE with a p-value (0.001106) suggests FAGE is not normally distributed.

Bivariate Analysis

Table 3: Correlation analysis of the model variables

	DACC	NEDR	BSIZ	FSIZ	FAGE
DACC	1				
NEDR	-0.1098	1			
BSIZ	-0.0474	0.5421	1		
FSIZ	0.0956	0.3238	0.4068	1	
FAGE	-0.1747	0.2636	0.4067	0.4162	1

Source: E-Views 10

DACC negatively correlated with NEDR (-0.1098), BSIZ (-0.0474), and FAGE (-0.1747). DACC positively associated with FSIZ (0.0956). The variable NEDR positively correlated with BSIZ (0.5421), FSIZ (0.3238), and FAGE (0.2636). Board size, i.e., BSIZ positively correlated with FSIZ (0.4068) and FAGE (0.4067). The control variable FSIZ positively associated with FAGE (0.4162).

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Test of Hypotheses

Table 4: Fixed effects model output for test of hypotheses

Dependent Variable: DACC
Method: Panel EGLS (Cross-section weights)
Date: 08/22/24 Time: 12:34
Sample (adjusted): 2013 2023
Periods included: 11
Cross-sections included: 13
Total panel (unbalanced) observations: 140
Linear estimation after one-step weighting matrix
White cross-section standard errors & covariance (d.f. corrected)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.021351	0.003351	6.370987	0.0000
BSIZ	0.000785	0.000345	2.273505	0.0247
NEDR	-0.000459	0.000523	-0.876636	0.3824
FSIZ	-0.000612	0.000241	-2.544357	0.0122
FAGE	-0.003024	0.000824	-3.669782	0.0004
	Effects Specification			
Cross-section fixed (dummy variables)				
	Weighted Statistics			
R-squared	0.667661	Mean dependent var	-0.002426	
Adjusted R-squared	0.624430	S.D. dependent var	0.005780	
S.E. of regression	0.002903	Sum squared resid	0.001037	
F-statistic	15.44402	Durbin-Watson stat	2.059666	
Prob(F-statistic)	0.000000			
	Unweighted Statistics			
R-squared	0.429515	Mean dependent var	1.58E-05	
Sum squared resid	0.001376	Durbin-Watson stat	2.291769	

Source: E-Views 10
Key: DACC-Discretionary Accruals; NEDR-Non Executive Directors (Grey Directors); BSIZ-Board Size (Grey Directors); FSIZ-Firm Size (Natural logarithm of total assets); FAGE (Firm Age).

The results of the fixed effects panel regression model provide valuable insights into the relationship between discretionary accruals (DACC) and the selected corporate governance and firm-specific variables: Board Size (BSIZ), Non-Executive Directors Ratio (NEDR), Firm Size (FSIZ), and Firm Age (FAGE). The R-squared value of 0.667661 indicates that approximately 66.77% of the variability in the dependent variable can be explained by the independent variables in the regression model. The Adjusted R-squared value of 0.624430 is slightly lower than the R-squared value. This adjustment is made to account for the number

of predictors in the model. Adjusted R-squared of 0.624430 suggests that, 62.44% of the variance in the dependent variable is explained by the model.

The model's F-statistic is significant ($p < 0.01$), confirming the joint significance of the independent variables. The Durbin-Watson statistic of 2.059666 suggests that there is no significant autocorrelation in the residuals. The intercept (C) is positive and significant (coefficient = 0.021351, $p < 0.01$), suggesting that, in the absence of other factors, firms tend to have a positive baseline level of discretionary accruals, potentially indicating a tendency towards EM.

Board Size (BSIZ) has a positive and statistically significant effect on discretionary accruals (coefficient = 0.000785, p = 0.0247), implying that larger boards may be associated with higher levels of earnings management. In contrast, the Non-Executive Directors Ratio (NEDR) shows a negative but statistically insignificant relationship with discretionary accruals (coefficient = -0.000459, p = 0.3824). Firm Size (FSIZ) is negatively associated with discretionary accruals (coefficient = -0.000612, p = 0.0122), and this relationship is statistically significant. This indicates that larger firms, as measured by the natural logarithm of total assets, tend to engage in less earnings management. Firm Age (FAGE) also has a negative and significant relationship with discretionary accruals (coefficient = -0.003024, p = 0.0004), suggesting that older firms are less likely to engage in earnings management.

Hypotheses One

Ho_1: There is no significant effect of grey directors' independence on earnings management of quoted DMBs in Nigeria.

Hi_1: There is significant effect of grey directors' independence on earnings management of quoted DMBs in Nigeria.

The p-value of BSIZ is significant <.05 (coefficient = 0.000785, p = 0.0247), implying that the null hypothesis is rejected and the alternate accepted. Thus, "There is a significant effect of grey directors' independence on earnings management of quoted DMBs in Nigeria". This finding is consistent with the idea that larger boards, which might include a higher number of grey directors (non-independent directors), could be associated with increased earnings management. Larger boards may face coordination challenges, and the presence of grey directors might dilute the effectiveness of board oversight, leading to more aggressive financial reporting practices.

This result aligns with previous studies such as those by Naz et al. (2023) and Eluyela et al. (2020). Naz et al. (2023) found that larger board sizes in Pakistani firms had a significant positive impact on earnings management, particularly through abnormal discretionary expenses. Similarly, Eluyela et al. (2020) demonstrated a significant positive relationship between board size and corporate performance in Nigerian banks, suggesting that larger boards may not always enhance governance and could potentially enable earnings management practices.

However, this finding contrasts with the results of Abu Afifa et al. (2024), who found a negative relationship between board size and earnings management in firms listed on the Amman Stock Exchange. The discrepancy might be due to differences in the governance structures and regulatory environments between Nigeria and Jordan. While larger boards in Jordan might enhance oversight and reduce earnings management, the same does not hold true in the Nigerian context, where larger boards might include more grey directors, potentially leading to less effective monitoring.

Hypotheses Two

Ho_2: The size of grey directors does not affect earnings management of quoted DMBs in Nigeria.

Hi_2: The size of grey directors affects earnings management of quoted DMBs in Nigeria.

The p-value of NEDR is not significant >.05 (coefficient = -0.000459, p = 0.3824), implying that the null hypothesis is accepted and the alternate rejected. Thus, "The size of grey directors does not affect earnings management of quoted DMBs in Nigeria". This suggests that the mere presence or proportion of grey directors on the board does not necessarily influence the extent to which earnings management is practiced.

This finding is in line with the study by Surjandari et al. (2021), which found a non-significant positive effect of board independence on earnings management in Indonesian companies. The study suggests that, while independent directors are expected to mitigate earnings management, their actual impact may vary depending on the context, possibly due to the varying levels of influence or effectiveness that these directors have within different corporate governance frameworks.

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On the other hand, the result contrasts with findings by Khan et al. (2022) and Ndrayati et al. (2023), who found that board independence negatively impacts discretionary accruals and earnings management. These studies indicate that, in some contexts, independent directors effectively reduce earnings management. The difference in findings could be attributed to the specific roles that grey directors (non-independent, non-executive directors) play in Nigerian DMBs. Unlike fully independent directors, grey directors may have affiliations or relationships with management that weaken their ability to exercise independent judgment, thus diminishing their impact on earnings management.

Additionally, the study by Prasad et al. (2023) in the Indian context found a positive association between grey directors and executive compensation, which could imply that grey directors might align more closely with management, potentially leading to less stringent oversight over financial reporting practices. This could explain why, in the Nigerian context, the size of grey directors does not significantly impact earnings management.

CONCLUSION AND RECOMMENDATIONS

Grey directors, through their unique position and expertise, play a significant role in corporate governance and earnings management. Their independence and the optimal size of their presence on the board can enhance monitoring and advisory functions, thereby improving financial reporting quality and firm performance. However, the effectiveness of grey directors is contingent upon their ability to balance their affiliations with their fiduciary responsibilities, highlighting the need for careful consideration in their appointment and board composition strategies.

The findings from the current analysis highlight that the impact of board characteristics, particularly the size and independence of grey directors, on earnings management is context-dependent. While larger boards might exacerbate earnings management due to coordination difficulties and potential conflicts of interest, the proportion of grey directors alone does not seem to exert a significant influence, possibly due to their closer ties with management.

Based on the foregoing the following recommendations are made:

1 It is recommended that companies carefully consider the balance of grey directors' independence on the board and ensure that they possess the necessary industry expertise and training to fulfill their oversight responsibilities effectively. Additionally, fostering open communication and collaboration between grey directors and other board members

can further enhance their contribution to promoting transparent and ethical financial reporting practices.

2 Secondly, shareholders should carefully consider the appropriate size and composition of the board. It is recommended that companies assess the specific needs of their industry, company size, and complexity to determine the optimal board size and composition. The provision of continuous and regular training and development opportunities for grey directors can enhance their understanding of the company's operations and financial reporting practices which can strengthen their ability to effectively contribute to the oversight of EM.

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