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Determinants of Earnings Management Practices and Financial Transparency in Nigeria: A Panel Data Analysis

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Abstract
This study examined the determinants of earnings management practices and their implications for financial transparency among Nigerian firms using panel data analysis. It utilized secondary data from 58 non-financial listed firms in Nigeria over a 10-year period (2015–2024) and adopted a pooled panel data approach for analysis. The findings reveal that board size has a significant negative effect on earnings management, indicating that larger boards enhance oversight and reduce managerial opportunism. However, board independence and audit committee independence do not show significant effects, suggesting that their presence alone is insufficient to curb earnings manipulation. Leverage exhibits a weak but positive relationship with earnings management, implying that highly leveraged firms may manipulate earnings to meet financial obligations. Firm size negatively and significantly affects earnings management, reinforcing the role of regulatory scrutiny in reducing earnings manipulation. The study underscores the need for stronger governance enforcement and regulatory oversight to improve financial transparency. Based on these findings, recommendations made include optimizing board effectiveness, strengthening audit committee functionality, improving debt management practices, and enhancing corporate governance regulations so as to enhance accountability, improve investor confidence, and promote sustainable financial reporting practices in Nigerian firms.

Keywords: ***Earnings Management, Financial Transparency, Board Size, Audit Committee Independence, Leverage.***

1.0 Introduction

Over the last two decades, empirical literatures on the relationship between earnings management practices and financial transparency has been replete with various measures to proxy the concepts in efforts made by national and international standard setters to understand them. Earnings management (ERMGT) remains an important issue in corporate financial reporting, influencing stakeholders' perceptions of firms' financial health and performance. It refers to the deliberate manipulation of financial statements to achieve specific objectives, such as meeting earnings forecasts, securing executive compensation, or maintaining investor confidence (Mohammed, Sutainim, Islam & Mohamed, 2021). While some forms of earnings management fall within legal accounting frameworks, aggressive manipulation can distort financial transparency and mislead investors, regulators, and other market participants (Nwoye, Anichebe & Osegbue, 2021; Salem, Ezeani, Gerged, Usman & Alqatamin, 2021). The prevalence of earnings management in emerging economies, including Nigeria, has raised concerns regarding the reliability of financial reporting and the effectiveness of corporate governance mechanisms in curbing such practices (Sinebe, 2022).

Board characteristics such as board size (BSIZE) and board independence (BIND) influence firms' ability to monitor managerial discretion and curb opportunistic financial reporting behaviour (Aleqab & Ighnaim, 2021; Attia, Ismail & Mehafdi, 2022). Similarly, the independence of the audit committee (ACI) is crucial in enhancing financial oversight, as a strong and independent audit committee reduces the likelihood of earnings manipulation by strengthening internal control mechanisms and improving audit quality (Almarayeh, Abdullatif & Aibar-Guzmán, 2022; Ridho & Djamil, 2023). In addition to governance structures, financial

leverage (LEV) has been identified as a determinant of earnings management, as firms with higher debt levels may have incentives to manipulate earnings to comply with debt covenants or enhance creditworthiness (Abubakar, 2017; Morris, Miko & Abdullahi, 2023).

Given Nigeria's corporate governance landscape and regulatory reforms, understanding these determinants is essential for policymakers, investors, and corporate managers seeking to enhance financial reporting integrity and protect stakeholders' interests. The study adds to existing literatures in three ways. First, it examines the determinants of earnings management practices, proxied by the Model of Jones, in Nigerian-owned firms. Secondly, the role of the firm's ability to monitor financial reporting as an important determinant of earnings management practices in employed (Abubakar & Suleiman-Ahmed, 2024). Thirdly, the relationship between earnings management practices and financial transparency is analysed by categorizing the latter into four separate dimensions.

Objectives of the Study

The specific objectives of the study are to:

i. Examine the effect of board size on earnings management practices in Nigerian firms.
ii. Assess the impact of board independence on earnings management practices.
iii. Investigate the relationship between audit committee independence and earnings management practices.
iv. Analyse the effect of leverage on earnings management practices.
v. Evaluate the moderating role of firm size in the relationship between corporate governance mechanisms and earnings management practices.

2.0 Literature Review

2.1 Earnings Management

Earnings management refers to the strategic manipulation of financial statements by managers to achieve specific financial reporting outcomes. It can be achieved through accrual-based methods (adjusting accounting estimates) or real activities manipulation (altering operational decisions) (Alyaarubi, Alkindi & Ahmed, 2021: Abubakar, et al. 2024). While some earnings management practices fall within legal accounting standards, excessive manipulation undermines financial transparency, investor confidence, and market efficiency. Sinebe, (2023a) argue that earnings management is often motivated by contractual obligations, regulatory requirements, or managerial incentives, including executive compensation and debt covenants. In emerging markets such as Nigeria, weak regulatory enforcement and governance mechanisms contribute to the prevalence of earnings manipulation (Enofe, Mgbame, & Otuya, 2023).

Corporate governance mechanisms play a crucial role in mitigating earnings management. The presence of an effective board of directors, an independent audit committee, and strong oversight mechanisms enhances financial reporting quality and limits managerial opportunism (Nwoye, et al. 2021; Bansal, 2024). Similarly, leverage influences managerial discretion over financial reporting, as highly leveraged firms may manipulate earnings to meet debt obligations (Umoren, Ikpantan & Ededeh, 2018; Shittu, Alagbe, Oke & Fadipe, 2023).

2.2 Board Size and Earnings Management

Board size, a fundamental aspect of corporate governance, refers to the total number of directors serving on a firm's board. The optimal size of a board has been widely debated, with some studies arguing that larger boards enhance oversight, while others suggest that they may lead to inefficiencies (Aleqab, et al. 2021; Chou & Johennesse, 2021). Larger boards provide

diverse expertise and improve monitoring, potentially reducing earnings management practices (Ridho, et al. 2023).

Empirical studies yield mixed results regarding board size and earnings management. Attia, et al. 2022) find that larger boards are associated with lower earnings management, suggesting that increased oversight limits managerial discretion. Conversely, Chou, et al. 2021) find no significant relationship, indicating that board effectiveness may depend on factors beyond size, such as director expertise and independence. In the Nigerian context, board size's impact on financial reporting integrity remains an area of ongoing debate.

H_{01}: *Board size has no significant effect on earnings management practices in Nigerian firms.*

2.3 Board Independence and Earnings Management

Board independence refers to the proportion of non-executive or independent directors on a firm's board. Independent directors are expected to provide unbiased oversight, limiting managerial opportunism and ensuring transparent financial reporting (Liu, Ahlstrom & Zhang, 2024). The agency theory suggests that a higher proportion of independent directors enhances board effectiveness in monitoring executives, thereby reducing earnings manipulation (Sinebe & Okolo, 2022; Özdemir & Kahraman, 2023).

Empirical evidence supports the role of board independence in mitigating earnings management. Aleqab, et al. (2021) show that firms with more independent directors exhibit lower earnings management levels. However, some studies suggest that the mere presence of independent directors may not be sufficient, and their effectiveness depends on their expertise, commitment, and incentives (Muñoz Mendoza, Veloso Ramos, Sepúlveda Yelpo, Delgado Fuentealba & Fuentes-Solís, 2021). Given Nigeria's corporate governance environment, assessing the impact of board independence on earnings management remains critical.

H_{02}: *Board independence has no significant impact on earnings management practices.*

2.4 Audit Committee Independence and Earnings Management

Audit committee independence, defined by the proportion of non-executive or independent members, strengthens oversight by minimizing conflicts of interest and enhancing transparency (Ngo & Le, 20219; Sinebe, 2023b). The resource dependence theory suggests that independent audit committees improve financial oversight by bringing external expertise and reducing information asymmetry (Nwoye, et al. 2021).

Ridho, et al. (2023) observed that firms with independent audit committees exhibit lower levels of earnings manipulation, as independent members are more likely to challenge managerial decisions. However, some research indicates that independence alone is insufficient, and factors such as financial expertise and meeting frequency play crucial roles in ensuring audit committee effectiveness (Tang & Suwarsini, 2021; Okolo & Sinebe, 2025). The Nigerian corporate sector provides a unique setting to examine how audit committee independence influences earnings management.

H_{03}: *Audit committee independence does not significantly influence earnings management practices.*

2.5 Leverage and Earnings Management

Leverage, measured by a firm's debt ratio, influences financial reporting incentives. The agency theory suggests that highly leveraged firms face increased scrutiny from creditors and may manipulate earnings to meet debt covenants or enhance perceived creditworthiness (Al-Zaqeba, Abdul, Ineizeh, Hussein & Albawwat, 2022). Firms with high debt levels often have incentives to smooth earnings or inflate profits to maintain investor confidence and avoid violating loan agreements. Ali, Arslan, Mubeen, Azeem, Zhen-Yu, Yushi & Miao, 2024) argues that firms with debt constraints are more likely to manipulate earnings. However, some studies suggest

that creditor monitoring can act as a deterrent, reducing earnings management behavior (Christensen, Huffman, Lewis-Western & Valentine, 2023; Sinebe, 2024a). The extent to which leverage influences earnings management in Nigeria remains a critical issue for empirical investigation.

H_{04}: *Leverage has no significant effect on earnings management practices.*

2.6 Firm Size and Earnings Management *(Control Variable)*

Firm size is often used as a control variable in earnings management studies, as larger firms tend to have more robust corporate governance structures, greater regulatory scrutiny, and higher transparency in financial reporting (Boachie & Mensah, 2022). Larger firms are generally subject to stricter regulatory oversight and investor scrutiny, which can limit earnings management opportunities (Chou, et al. 2021; Sinebe, 2024b). Some researchers argue that larger firms have stronger internal controls, reducing the likelihood of earnings manipulation (Hussain, Akhtar, Ahmad, Salman & Malik, 2024), while others suggest that large firms may have greater resources and incentives to engage in earnings management, particularly in response to market expectations (Shittu, et al. 2023). Given the mixed evidence, this study controls for firm size to isolate its potential influence on earnings management practices among Nigerian firms.

H_{05}: *Firm size does not significantly moderate the relationship between corporate governance mechanisms and earnings management practices.*

2.2. Theoretical Foundations

Various theoretical frameworks can be utilized to explain the practices of earnings management. First is agency theory, which postulates that a divergence of interest exists between the owners of the firm and its managers. As a result of this divergence, owners have incentives to establish mechanisms to align the interests of the manager with their own. It is also posited that corporate governance is especially important for emerging economies, where a system of laws and regulations can be weak (Özdemir, et al. 2023). Secondly, the signaling theory posits that corporate earnings are particularly disclosed with management. It is expanded to include various contexts such as issues of stock, dividend policies, and dividend changes. As a result of this, managers have incentives to manipulate earnings in order to provide information to interested stakeholders on the firm's performance.

This study analyses the literature on earnings management practices and financial transparency in Nigeria, synthesizing findings from various studies and reviewing methodologies.

Study gap

The literature suggests that corporate governance mechanisms, including board size, board independence, audit committee independence, and leverage, play significant roles in influencing earnings management practices. While empirical findings remain mixed, stronger governance structures are generally associated with lower earnings manipulation. By applying panel data analysis to Nigerian firms, this study seeks to provide further insights into the determinants of earnings management, contributing to the discourse on corporate financial transparency and regulatory reforms in emerging markets.

3.0 Methodology

The study made use of secondary data and employed the purposive sampling technique to select fifty-eight (58) non-financial firms for a period ten (10) years, within the period of 2015-2024, while the pooled panel technique was adopted for the data analysis.

3.1 Model Specifications

The model for this study is stated in econometrics terms below as;

$FT = f(ERMGT, BSIZE + BIND + ACIND + LEV + FSIZE)$ eq. i

$ERMGT_{it} = \alpha_0 + \beta_1 BSIZE_{it} + \beta_2 BIND_{it} + \beta_3 ACIND_{it} + \beta_4 LEV_{it} + \beta_5 FSISZE_{it} + e_{it}$ eq.ii

Where;

f = Stochastic error term capturing other unexplanatory variables

ί = firm identifier (55 firms)

t = time variable (10 Years)

ε = error term

αo is the intercept of the regression.

β_1 β_2, β_3, β_4 and β_5 are the co-efficient of the regression equation.

The Apriori expectation: β_1 β_2, β_3, β_4 and β_5 is less or greater 0.

4.1 Descriptive Statistics Analysis and Discussion

Table 1: Summary of Descriptive for ERMGT, BSIZE, BIND, ACIND, LEV, FIRMSIZE

VARIABLES	OBS	MEAN	STD. DEV	MIN	MAX
ERMGT	580	-.2179655	.8546346	-6.84	6.34
BSIZE	580	9.115517	2.637991	4	19
BIND	580	68.6385	14.73133	7.6923	112.5
ACI	580	48.3427	13.64748	0	100
LEV	580	66.02734	40.68025	12.42	395.45
FSIZE	580	7.249621	.8497188	5.21	9.48

Source: Regression Output, 2025.

Table 1 presents the summary statistics for the variables in this study. The descriptive statistics reveal key governance and financial concerns, including earnings management practices, leverage risks, and audit committee weaknesses. From the table, ERMGT has -0.2179, 0.8546, -6.84 and 6.34 for mean, standard deviation, minimum and maximum respectively. The negative mean value suggests that, on average, firms in the sample engage in downward earnings management, potentially indicating earnings smoothing or conservative reporting practices. BSIZE has 9.12, 2.64, 4 and 19 for mean, standard deviation, minimum and maximum respectively. The average board size of 9 suggests that most firms follow corporate governance guidelines recommending moderate board sizes for effective decision-making. However, the range from 4 to 19 suggests some firms have small boards, which may limit diversity in expertise, while others may have large boards, potentially leading to coordination and decision-making inefficiencies. Also, BIND has 68.64%, 14.73, 7.69% and 112.5% for mean, standard deviation, minimum and maximum. The mean of 68.64% suggests that most firms have a significant proportion of independent directors, which aligns with best governance practices. However, the maximum value exceeding 100% suggests data inconsistencies or misreporting. The minimum value of 7.69% indicates that some firms have extremely low board independence, which may impair governance effectiveness. ACI has 48.34%, 13.65, 0% and 100% representing the mean, standard deviation, minimum and maximum respectively. It indicates that the average independence level of 48.34% suggests that audit committees in Nigerian firms are relatively independent. Furthermore, LEV has 66.03%, 40.68, 12.42%, 395.45% representing mean, standard deviation, minimum and maximum respectively. The mean leverage of 66.03% suggests that firms are significantly reliant on debt financing. However, the high standard deviation and maximum value of 395.45% indicate extreme leverage levels in some firms, which may expose them to financial distress while FSIZE has 7.25, 0.85, 5.21 and 9.48 representing the mean, standard deviation, minimum and maximum. The relatively low variation in firm size suggests a fairly homogeneous sample. Larger firms

may have stronger governance and financial capabilities, while smaller firms may struggle with compliance and financial stability.

4.2 NORMALITY TEST

Table 2: Shapiro-Wilk W test for normal data

VARIABLES	OBS	W	V	Z	PROB>Z
ENMGT	580	0.77580	86.229	10.785	0.00000
BSIZE	580	0.97083	11.220	5.850	0.00000
BIND	580	0.97191	10.803	5.759	0.00000
ACI	580	0.86316	52.630	9.590	0.00000
LEV	580	0.66404	129.213	11.764	0.00000
FSIZE	580	0.98853	4.412	3.592	0.00016

Source: Regression Output, 2025.

Table 2 presents the results of the Shapiro-Wilk W test, which assesses whether the variables follow a normal distribution. The test outputs W-statistic, V-statistic, Z-score, and p-values to determine normality. From the Table 2, all variables have p-values of 0.00000 (except firm size at 0.00016), rejecting the null hypothesis, meaning none of the variables are normally distributed. As a remedial effort, the study would adopt the non-parametric tests.

4.3 Correlation Analysis

Table 3: Summary of Spearman Correlation Matrix

	ENMGT	BSIZE	BIND	ACI	LEV	FSIZE
ENMGT	1.0000					
BSIZE	-0.1500*	1.0000				
	0.0003					
BIND	-0.1243*	0.1688*	1.0000			
	0.0027	0.0000				
ACI	-0.1749*	0.1017*	0.2352*	1.0000		
	0.0000	0.0142	0.0000			
LEV	0.0989*	-0.2509*	-0.1715*	-0.1140*	1.0000	
	0.0172	0.0000	0.0000	0.0060		
FSIZE	-0.1649*	0.4350*	0.0517	0.0815*	-0.0435	1.0000
	0.0001	0.0000	0.2136	0.0497	0.2954	

Source: Regression Output, 2025.

Table 3 presents the Spearman correlation matrix, which assesses the strength and direction of relationships between the study variables. The asterisk (*) indicates statistically significant correlations at the 5% level. The relationship between ENMGT and BSIZE indicates a negative and significant correlation ($\rho = -0.1500$, $p = 0.0003$) which suggests that larger boards are associated with lower earnings management, likely due to stronger oversight and better governance practices. The relationship between ENMGT and BIND indicates a negative and significant correlation ($\rho = -0.1243$, $p = 0.0027$) implying that firms with more independent directors tend to engage less in earnings management.

This aligns with corporate governance principles that independent boards enhance financial reporting quality. The relationship between ENMGT and ACI indicates a negative and

significant correlation (ρ = -0.1749, p = 0.0000) which suggests that greater audit committee independence reduces earnings management, reinforcing the committee's role in ensuring financial integrity. The relationship between ENMGT and LEV Indicates a positive and significant correlation (ρ = 0.0989, p = 0.0172) suggesting that highly leveraged firms engage in more earnings management, possibly to meet debt covenants or maintain investor confidence. The relationship between ENMGT and FSIZE shows a negative and significant correlation (ρ = -0.1649, p = 0.0001) which suggests that larger firms engage in less earnings management, likely due to greater scrutiny from regulators and investors. The correlation analysis suggests that strong corporate governance mechanisms (BIND, ACI, and BSIZE) reduce earnings management, while highly leveraged firms are more prone to earnings management, requiring stricter financial monitoring.

From the results, it is an indication that larger firms tend to have better governance structures, reinforcing the need for improved transparency in smaller firms. Also, regulatory bodies should strengthen governance codes, requiring more independent directors and audit committee members to enhance financial reporting quality.

4.4 Variance Inflation Factor (VIF) Test

Table 4: Result for VIF Test Result

VARIABLE	VIF	1/VIF
BSIZE	1.40	0.715819
FSIZE	1.35	0.740527
BIND	1.09	0.921238
ACI	1.07	0.936777
LEV	1.06	0.947463
Mean VIF	1.19	

Source: Regression Output, 2025.

The Variance Inflation Factor (VIF) test in Table 4 assesses the presence of multicollinearity among the independent variables in a regression model. The VIF values for all variables are below 2, with a mean VIF of 1.19. Since all VIF values are below 5, multicollinearity is not a concern in this model and the 1/VIF (Tolerance) values are also all above 0.10, confirming no serious collinearity issue. From the table, the low VIF values indicate that the independent variables are not highly correlated, ensuring that regression estimates remain reliable and unbiased.

4.5 Breusch-Pagan / Cook-Weisberg test for heteroskedasticity

Table 5: Diagnostic Tests fitted values of ENMGT

Decision rule	If p-value is statistically significant, then reject Ho and accept HA
Result	chi2(1) = 11.97; Prob>chi2= 0.0005

Source: Regression Output, 2025.

Table 5 checks for heteroskedasticity in the regression model. Test Result indicates that Chi-square (χ^2) = 11.97 and the p-value = 0.0005 (statistically significant at 1% level). Since p-value < 0.05, we reject H_0 and conclude that heteroskedasticity is present in the model. The study would also conduct a Ramsey RESET test to check for misspecification. By implementing these corrections, the regression results will be statistically valid and reliable for interpretation.

4.6 Ramsey RESET Test

Table 6: Ramsey RESET test for ENMGT

	Analysis of the Ramsey RESET Test Results
Result	F(3, 571) = 0.46 ; Prob > F = 0.7134

Source: Regression Output, 2025.

The Ramsey RESET in Table 6 (Regression Equation Specification Error Test) is used to check for omitted variable bias in a regression model by testing whether nonlinear combinations of the independent variables explain the dependent variable. Since the p-value (0.7134) is greater than the conventional significance levels (e.g., 0.05 or 0.10), we fail to reject the null hypothesis that the model has no omitted variables. This suggests that the current regression model does not suffer from misspecification due to omitted variable bias.

Panel Unit Root Test

4.7 Hadri-LM-Unit Root Test

Table 7: *Results of the Panel Unit-Root Tests*

Variables	**Hadri-LM-Test**	
	Statistics	p-value
ERNMGT	3.5076	0.0002
BSIZE	10.0612	0.0000
BIND	10.8860	0.0000
ACI	17.3654	0.0000
LEV	14.3643	0.0000
FSIZE	27.7005	0.0000

Source: Regression Output, 2025

The Hadri-LM test in Table 7 is a panel unit root test that checks whether a time series is stationary or contains a unit root (non-stationary). If the data is non-stationary, regression results may be spurious, leading to misleading inferences. Since p-values are statistically significant, we reject H_0 and conclude that all variables are non-stationary (i.e., contain a unit root).

4.8 Hypothesis Testing

Table 8: Summary of ENMGT, BSIZE BIND ACIND LEV and FIRMSIZE regression analysis

ENMGT	**COEF.**	**STD. ERR.**	**z**	**P>|z|**
BSIZE	-.0338711	.0166226	-2.04	0.042
BIND	-.001133	.0023837	-0.48	0.635
ACI	-.004579	.0029576	-1.55	0.122
LEV	.0011586	.0007017	1.65	0.099
FIRMSIZE	-.1143876	.0573449	-1.99	0.046
_CONS	1.142682	.3372588	3.39	0.001
N				580
R-squared				0.0531
Wald chi2(5)				55.39
Prob > F				0.0000

Source: Regression Output, 2025.

Discussion of Findings

From the analysed data in Table 8, BSIZE has a negative and significant effect (p = 0.042) on ENMGT, meaning larger board size reduces earnings management. This aligns with corporate governance literatures that suggests larger boards provide better oversight and reduce managerial opportunism (Aleqab, et al. 2021; Attia, et al. 2022). BIND shows a none significant correlation (p = 0.635), indicating no strong relationship between BIND and ENMGT. This result may suggest that merely having independent directors is not enough to curb earnings manipulation; other board characteristics (e.g., expertise, engagement) might matter more (Chou, et al. 2021; Ridho, et al. 2023). ACI displays a not significant (p = 0.122) result with ENMGT, meaning audit committee independence does not significantly affect earnings management, disagreeing with the works of Almarayeh, et al. (2022); Herghiligiu, et al. (2023) and agreeing with Ridho, et al. (2023). This result could indicate a weak enforcement or ineffective audit committees in Nigerian firms. Leverage shows a significant positive effect (p = 0.099), though weak, with ENMGT, meaning that higher leverage slightly increases earnings management and that firms with high debt levels may manipulate earnings to meet debt covenants or to appear financially stable. FSIZE shows a negative and significant effect (p = 0.046) on ENMGT meaning that larger firms engage in less earnings management, as larger firms face more regulatory scrutiny and stronger governance mechanisms, reducing their ability to manipulate earnings.

Conclusion and Recommendations

Conclusion

This study examined the determinants of earnings management practices and their implications for financial transparency among Nigerian firms using panel data analysis. The findings reveal that board size negatively and significantly influences earnings management, suggesting that larger boards enhance oversight and reduce managerial discretion. However, board independence and audit committee independence do not show significant effects on earnings management, implying that the mere presence of independent directors and an independent audit committee may not be sufficient to curb earnings manipulation without stronger governance enforcement. Leverage exhibits a weak but positive relationship with earnings management, indicating that firms with higher debt levels may manipulate earnings to meet financial obligations. Firm size has a significant negative impact on earnings management, reinforcing the idea that larger firms, due to increased scrutiny and better governance, engage in fewer earnings management practices. Overall, the study underscores the importance of corporate governance mechanisms in mitigating earnings management and enhancing financial transparency. However, the effectiveness of these mechanisms in Nigeria appears to be constrained by weak enforcement and governance inefficiencies.

Recommendations

i. Enhancing Board Effectiveness: Since larger boards contribute to reducing earnings management, companies should consider optimizing board size while ensuring diversity in skills and experience to improve oversight.
ii. Strengthening Board Independence: Although board independence did not show a significant effect on earnings management, firms should focus on appointing directors with relevant expertise, particularly in finance and accounting, to enhance their monitoring role.
iii. Improving Audit Committee Functionality: The lack of a significant impact of audit committee independence suggests that regulatory bodies should ensure that audit committees are not only independent but also active and competent in overseeing financial reporting processes.

iv. Managing Leverage Prudently: Given the positive relationship between leverage and earnings management, firms should adopt prudent debt management strategies and ensure financial transparency in debt-related reporting to reduce earnings manipulation incentives.
v. Encouraging Regulatory Oversight for Larger Firms: Since larger firms are less likely to engage in earnings management due to regulatory scrutiny, policymakers should enhance disclosure requirements and governance standards across all firm sizes to promote transparency in financial reporting.

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Appendix I

VARIABLE	MEANING	MEASUREMENT
ERMGT	EARNINGS MANAGEMENT (MODIFIED JONES SCORE)	Categorized earnings management based on absolute value of modified jones scores into 1= Very low earnings manipulation for firms with less than 0.50, 2= Low earnings manipulation for firms in between 0.51-1.00 range, 3= Moderate earnings manipulation for firms between 1.01 to 1.50 range and 4= High earnings manipulation for firms with 1.51 and above. See modified jones score data measurement below
BSIZE	BOARD SIZE	Measured as the total numbers of all directors of a company including the Chairman +Vice Chairman +CEO/Managing director + Executive Directors +Non-Executive Directors or Independent Directors but excluding the company Secretary
BIND	BOARD INDEPENDENCE	measured as the non-executive board of directors divided by total board size (%)
ACIND	AUDIT COMMITTEE INDEPENDENCE	measured as the number of non-directors and non-executive directors in the audit committee divided by audit committee members size (%)
LEV	LEVERAGE	measured as total liabilities divided by total asset
FSIZE	FIRM SIZE	Measured as natural log of total asset