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**Effect of board size and independence on earnings management of listed consumer
goods companies in Nigeria**

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Abstract

This study investigates the effect of board size and board independence on earnings management within the unique institutional context of Nigeria's listed consumer goods sector. Grounded in Agency Theory, the research examines how these two key board characteristics influence the level of discretionary accruals, which serve as the primary proxy for earnings management. Utilizing an ex-post facto research design, secondary data were collected from the annual reports of 15 listed consumer goods firms over a ten-year period (2013–2022), resulting in 150 firm-year observations. A census sampling method was employed due to the manageable population size, and the data were analyzed using a Random Effects panel regression model, following diagnostic tests that confirmed homoscedasticity and the appropriateness of the random effects estimator. Board Independence have a significant positive relationship with earnings management, Conversely, Board Size was found to have no statistically significant effect on earnings management. The study concludes that the efficacy of board size and independence is highly context dependent. In Nigeria's emerging market environment, structural governance metrics like board independence may be subject to tokenistic compliance or informational disadvantages that limit their monitoring effectiveness. It recommends that regulators and firms strengthen the effectiveness of board independence through stricter compliance monitoring and improved disclosure practices in order to enhance the board's oversight role in reducing earnings management practices.

Keywords: *Earnings Management, Board Size, Board Independence, Corporate Governance.*

Introduction

Earnings management remains a critical and pervasive facet of today's global business world, representing the strategic use of accounting discretion to shape financial outcomes (Roychowdhury et al., 2019). In contemporary, information-driven capital markets, its empirical necessity is dualistic: it can be a tool for opportunistic behavior that erodes transparency and investor confidence (Chen et al., 2022), yet it can also serve as a mechanism for credible signaling and efficient contracting in the face of market rigidities (Dutta & Gigler, 2021). The post-pandemic business environment, marked by heightened volatility and complex valuation challenges, has further amplified the relevance of understanding earnings quality, making its governance a paramount concern for ensuring market stability and allocative efficiency (Bozzolan et al., 2021).

In parallel, board attributes such as board size and board independence are recognized as important corporate governance mechanisms that influence the effectiveness of managerial oversight and financial reporting quality (Gillan et al., 2021). Within the framework of agency theory, the board of directors is expected to monitor managerial activities and reduce opportunistic behaviors such as earnings management through effective supervision and



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independent judgment (Kolev et al., 2023). Specifically, board size may affect the efficiency of monitoring and decision-making processes, while board independence is expected to strengthen objective oversight and constrain managerial manipulation of accounting information (Krause & Semadeni, 2023). Consequently, the effectiveness of these board attributes remains central to understanding variations in earnings management practices among firms.

The empirical relationship between board attributes and earnings management is theorized through the lens of agency theory. The board acts as the primary internal monitor, theoretically empowered to constrain managerial opportunism in financial reporting (Al Lawati et al., 2021). However, empirical evidence on the efficacy of this monitoring is heterogeneous, suggesting the relationship is moderated by national institutional frameworks, firm-level contingencies, and the evolving nature of board roles beyond mere supervision (Muttakin et al., 2022; Zaman et al., 2023). This indicates that a uniform governance effect cannot be assumed across different contexts.

A granular examination of the specified proxies reveals a complex empirical landscape. Board Size continues to yield conflicting results; while larger boards may offer greater cognitive diversity and resource networks (Jia, 2023), meta-analytic evidence suggests they can also lead to process losses and diminished monitoring intensity, potentially creating avenues for earnings manipulation (Al Lawati *et al.*, 2021). Board Independence, the cornerstone of governance codes, shows persistent inconsistency. Recent studies in emerging markets find a negative relationship with earnings management (Uwuiğbe et al., 2021), while others, accounting for endogeneity, report a non-significant or even positive association, questioning the tokenistic fulfillment of independence criteria (Bansal et al., 2022; Alodat et al., 2023).

Despite extensive research, critical gaps and contradictions pervade the literature. First, regarding empirical gaps, the evidence remains deeply fragmented. For board size, studies report conflicting findings ranging from positive relationships due to coordination failures (Xie et al., 2003) to negative relationships attributed to enhanced monitoring capacity (Ahmed & Duellman, 2007), while others find no significant effect (Lin & Hwang, 2010). For board independence, recent findings in African contexts show a negative and significant impact (Ojeka et al., 2021), while sophisticated panel studies elsewhere find non-significant relationships after controlling for governance simultaneity (Bansal et al., 2022). Some studies even report positive associations, suggesting that independent directors may lack firm-specific knowledge or be co-opted by management (Al-Fayoumi et al., 2010; Adegboye et al., 2022). This lack of consensus is acute in Nigeria, where firm-level governance interacts with weak institutional enforcement, leading to unpredictable outcomes (Adegboye et al., 2022; Onyema et al., 2023).

Second, a notable theoretical gap persists in the application of Agency Theory to emerging market environments such as Nigeria. Agency Theory assumes that corporate governance mechanisms, particularly board size and board independence, are effective in monitoring



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managers and reducing opportunistic behaviors like earnings management (Jensen & Meckling, 1976). However, this assumption may not hold uniformly in environments characterized by weak regulatory enforcement, concentrated ownership structures, and institutional inefficiencies. In the Nigerian corporate environment, the extent to which board size and board independence actually function as effective monitoring mechanisms capable of constraining managerial discretion and reducing earnings management remains insufficiently understood and empirically unresolved.

Third, persistent methodological gaps limit the validity of findings. Many studies, particularly in emerging markets, suffer from insufficient handling of endogeneity, mistaking correlation for causation (Wintoki et al., 2012; Uwuiğbe et al., 2021). Moreover, there is a scarcity of sector-specific studies. The consumer goods sector, with its unique inventory, branding, and demand-cyclical pressures, presents a distinct context for earnings management and governance that is underexplored (Onyema et al., 2023; Cohen et al., 2020).

The highlighted contradictions and deficiencies necessitate fresh, methodologically rigorous, and context-specific empirical inquiry. Focusing on Nigeria's listed consumer goods sector is particularly imperative, as this sector is vital to the national economy yet operates within a governance environment characterized by concentrated ownership, regulatory flux, and emerging ESG pressures (Adegboye et al., 2022). A targeted study can isolate industry effects and provide granular insights relevant for policymakers and practitioners. Therefore, the objective of this study is to empirically examine the effect of board size and board independence on earnings management (measured by absolute discretionary accruals from the Modified Jones Model) among listed consumer goods firms in Nigeria. This objective is justified by the urgent need to reconcile the contradictory empirical evidence within an emerging market context through a sector-specific panel data analysis of listed consumer goods firms in Nigeria. Unlike many prior studies that relied on broad cross-sector evidence or limited methodological diagnostics, this study employs panel regression techniques supported by heteroskedasticity and Hausman specification tests to ensure the selection of the most appropriate estimator. By utilizing longitudinal firm-level data and a robust panel estimation approach, the study seeks to provide more reliable empirical evidence on the effect of board size and board independence on earnings management, thereby contributing to the strengthening of corporate governance practices and financial reporting integrity in Nigeria's capital market.

Literature Review

Earnings Management

Earnings management conceptually refers to the intentional intervention by management in the external financial reporting process, using judgment within Generally Accepted Accounting Principles (GAAP), to alter financial reports for the purpose of either misleading stakeholders about the underlying economic performance of the company or influencing contractual outcomes that depend on reported accounting numbers (Healy & Wahlen, 1999;



Roychowdhury et al., 2019). It operates on a spectrum, ranging from opportunistic behavior that destroys firm value to efficient signaling that conveys private managerial information (Dutta & Gigler, 2021). The primary proxy for measuring the extent of earnings management, as adopted in this study, is the absolute value of discretionary accruals derived from the Modified Jones Model (Dechow et al., 1995). This model isolates the portion of total accruals that is subject to managerial discretion, with a higher absolute value indicating a greater magnitude of earnings management, irrespective of its direction (income-increasing or income-decreasing) (Zang, 2022).

Board Size

Board Size refers to the total number of directors serving on a company's board of directors. It is a fundamental structural attribute that influences group dynamics, decision-making processes, and the overall capacity for oversight (Jia, 2023). The conceptual debate centers on the trade-off between the benefits of larger boards, such as a wider pool of expertise, skills, and networking resources, and the costs, including increased coordination difficulties, potential for free-riding, and diminished ability to challenge management decisively, which may compromise monitoring intensity (Al Lawati et al., 2021).

Board Independence

Board Independence refers to the proportion of directors on the board who are non-executive and free from any material relationship with the company or its management that could interfere with the exercise of objective, unbiased judgment (Klein, 2002). Independent directors are theoretically crucial as they provide an external, dispassionate perspective to safeguard shareholder interests, oversee audit processes, and curb managerial entrenchment and opportunistic behaviors, including aggressive earnings reporting (Bédard et al., 2004).

Empirical Reviews

Board Size and Earnings Management

Adebayo et al. (2022) examined the effect of corporate governance mechanisms on earnings management among listed manufacturing firms in Nigeria. The study adopted an ex-post facto research design and utilized secondary data extracted from the annual reports of sampled firms covering the period from 2012 to 2021. Panel regression analysis was employed to analyze the data. The findings revealed that board size had a negative and significant effect on earnings management, implying that larger boards enhanced monitoring effectiveness and reduced managerial opportunism in financial reporting. The study concluded that boards with more directors benefited from broader expertise and diverse perspectives that improved oversight quality. However, the study was limited to the manufacturing sector, which may not adequately capture the governance complexities associated with environmentally sensitive industries such as oil and gas. Furthermore, the study relied on conventional panel regression techniques that may not have fully addressed potential endogeneity issues between governance variables and earnings management.



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Okoye and Ezejiolor (2022) investigated the relationship between board characteristics and earnings management among listed consumer goods firms in Nigeria. Secondary data were obtained from audited annual financial statements of sampled firms over a ten-year period, while multiple regression analysis was used for estimation. The results showed that board size significantly reduced discretionary accruals, indicating that firms with larger boards exhibited better financial reporting quality and lower earnings manipulation practices. The study argued that large boards improved corporate transparency through stronger supervision of management decisions. Despite its contribution, the study focused solely on consumer goods firms, thereby limiting the generalizability of the findings to sectors with greater environmental and governance risks. Additionally, the use of discretionary accrual models alone may not comprehensively capture all dimensions of earnings management.

Ahmed et al. (2023) examined the impact of board attributes on earnings management practices among oil and gas firms in emerging economies. The study employed panel data covering the period from 2014 to 2022 and adopted dynamic panel regression techniques for analysis. The findings revealed that board size had a positive and significant relationship with earnings management, suggesting that excessively large boards weakened coordination and reduced effective monitoring. The study maintained that larger boards often experienced communication inefficiencies and slower decision-making processes, thereby creating opportunities for managerial manipulation of accounting figures. Although the study provided evidence from the oil and gas sector, its coverage of multiple emerging economies may have overlooked country-specific institutional and governance characteristics unique to Nigeria. The aggregation of firms across different regulatory environments may therefore weaken the applicability of the findings to the Nigerian context.

Olatunji and Adegbe (2024) assessed the effect of board structure on earnings management among listed firms in Nigeria. The study relied on secondary data collected from annual reports and employed the generalized method of moments (GMM) estimation technique to address endogeneity concerns. The results indicated that board size significantly influenced earnings management, with moderate board sizes associated with lower levels of earnings manipulation. The study emphasized that while larger boards could improve expertise and oversight, excessively large boards might reduce operational efficiency and board effectiveness. A major strength of the study was the use of GMM estimation, which enhanced the robustness of the findings by controlling for reverse causality and omitted variable bias. However, the study combined firms from different sectors without isolating industry-specific governance dynamics, thereby limiting its ability to explain sectoral variations in earnings management behavior.

Board Independence and Earnings Management

Ibrahim et al. (2022) examined the effect of board independence on earnings management among listed deposit money banks in Nigeria. The study adopted an ex-post facto research design and utilized secondary data extracted from annual reports of selected banks from 2011



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to 2020. Panel regression analysis was used for data estimation. The findings revealed that board independence had a negative and significant effect on earnings management, indicating that independent directors strengthened monitoring functions and enhanced the credibility of financial reporting. The study concluded that independent board members reduced managerial opportunism by ensuring compliance with accounting standards and governance regulations. However, the study's concentration on the banking sector limits the applicability of its findings to industries with different operational risks and governance structures, such as the oil and gas sector.

Udeh and Nnadi (2022) investigated the relationship between board independence and earnings management among listed industrial firms in Nigeria. The study used secondary data sourced from audited financial statements and analyzed the data using multiple regression analysis. The findings showed that firms with a higher proportion of independent directors experienced lower levels of discretionary accruals and improved financial reporting transparency. The study argued that independent directors were more objective in monitoring management activities and less likely to support opportunistic financial reporting practices. Nevertheless, the study relied heavily on accrual-based measures of earnings management without considering real earnings management activities, which may have affected the comprehensiveness of the results.

Bello et al. (2023) examined corporate governance attributes and earnings management among listed non-financial firms in Nigeria. The study collected panel data from annual reports covering the period from 2013 to 2022 and employed dynamic panel estimation techniques. The results indicated that board independence had an insignificant effect on earnings management due to weak governance enforcement and limited independence in practice. The study argued that although firms complied formally with governance codes, many independent directors lacked the authority and autonomy required to challenge management effectively. While the study provided important insights into governance realities in Nigeria, it failed to examine how institutional factors such as ownership concentration and political influence interacted with board independence to affect earnings management.

Ezeani and Okafor (2024) assessed the impact of board independence on earnings management among listed manufacturing companies in Nigeria. The study adopted secondary data from annual reports and utilized generalized method of moments regression analysis to control for endogeneity problems. The findings revealed that board independence had a significant negative relationship with earnings management, implying that independent directors reduced managerial opportunism and improved financial reporting quality. The study emphasized that independent directors enhanced accountability and ensured stricter monitoring of financial reporting processes. Although the use of GMM strengthened the reliability of the findings, the study focused exclusively on manufacturing firms and did not account for environmental disclosure pressures and governance complexities associated with high-risk sectors such as oil and gas.



Theoretical Framework

This study selects Agency Theory as its core theoretical framework. The choice is justified on several grounds. First, the research question explicitly investigates the effect of board size and board independence (as control mechanisms) on earnings management (a potential agency cost), which aligns perfectly with agency theory's core premise of monitoring to mitigate opportunism (Jensen & Meckling, 1976). Second, the hypothesized relationships for board size and board independence are directly derived from agency logic, which provides the clearest and most testable predictions for the Nigerian context, where agency problems are pronounced due to concentrated ownership and weak external monitoring (Adegboye et al., 2022; Uwuigbe et al., 2021). Agency Theory posits that the board of directors serves as a mechanism to align the interests of managers (agents) with those of shareholders (principals) by monitoring managerial behavior and reducing information asymmetry (Fama & Jensen, 1983). Therefore, Agency Theory provides the most parsimonious, relevant, and powerful explanatory foundation for this specific investigation.

Methodology

This study adopted an ex-post facto research design grounded in the positivist philosophy to examine the effect of board size and board independence on earnings management among consumer goods firms listed on the Nigerian Exchange Group (NGX). The study population comprised 15 listed consumer goods firms, and due to the manageable size of the population, a census sampling technique was employed. Earnings management was measured using discretionary accruals based on the Modified Jones Model, while board size and board independence served as the explanatory variables. Secondary data were obtained from the annual reports and accounts of the sampled firms covering 2013–2022, and the data were analyzed using panel multiple regression techniques.

The model is specified as follows:

$$EM_{it} = \beta_0 + \beta_1 BSIZE_{it} + \beta_2 BIND_{it} + \epsilon_{it}$$

Where i denotes the firm, t denotes the year, β_0 is the constant, β_1 – β_2 are the coefficients of the independent variables, and ϵ is the error term.



Table 1: Variable Measurement

S/N	Variable Name	Measurement	Empirical Evidence
1	Earnings Management (EM)	Absolute value of discretionary accruals estimated using the Modified Jones Model (Dechow et al., 1995). Discretionary accruals = Total accruals - non-discretionary accruals. Total Accruals = Net Income - Cash Flow from Operations. Non-discretionary accruals estimated from: $(TA_{it})/A_{(it-1)} = \alpha_1(1/A_{(it-1)}) + \alpha_2((\Delta REV_{it}-\Delta REC_{it})/A_{(it-1)}) + \alpha_3((PPE_{it})/A_{(it-1)}) + \epsilon_{it}$	Dechow et al. (1995); Kothari et al. (2005); Ormin & Musa (2022); Hossain et al. (2023); Sani et al. (2024)
2	Board Size (BSIZE)	Total number of directors serving on the board at the end of the financial year	Al-Absy et al. (2023); Sani et al. (2024)
3	Board Independence (BIND)	Proportion of non-executive directors to total number of directors on the board, expressed as a ratio or percentage	Klein (2002); Peasnell et al. (2005); Erin et al. (2022); Hossain et al. (2023)

Source: Researchers' Computation, 2025

Results and Discussion

Table 2: Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
EM	150	-0.008	0.097	-0.250	0.221
BSIZE	150	11.153	2.506	7	15
BIND	150	0.543	0.144	0.307	0.796

Source: STATA Output, 2025

The dependent variable, Earnings Management (EM), has a mean value close to zero (-0.008) with a standard deviation of 0.097. This suggests that, on average, the sample firms exhibit minimal net discretionary accruals. However, the range from -0.250 to 0.221 indicates significant variation, with some firms engaging in substantial income-decreasing accruals (negative minimum) and others in income-increasing accruals (positive maximum). This



dispersion confirms that earnings management practices, in both directions, are present within Nigeria's listed consumer goods sector, justifying the focus of this investigation.

For the independent variables, the average Board Size (BSIZE) is approximately 11 members, with a range from 7 to 15 directors. The standard deviation of 2.506 shows moderate variability in board size across firms and time. Board Independence (BIND) has a mean proportion of 0.543 (54.3%), which exceeds the common regulatory threshold, suggesting that, on average, boards in the sample are majority-independent. The values range from 30.7% to 79.6%, indicating that some firms operate below typical governance standards while others exceed them substantially.

Table 3: Matrix of Correlations

Variables	-1	-2	-3
(1) EM	1		
(2) BSIZE	0.012	1	
(3) BIND	0.246	0.091	1

Source: STATA Output, 2025

Notably, the correlation between Board Independence (BIND) and Earnings Management (EM) is positive (0.246). This initial bivariate relationship is contrary to agency theory expectations and suggests that, in isolation, a higher proportion of independent directors in this sample is associated with a higher level of earnings management. This could hint at the ineffectiveness, informational disadvantage, or potential complicity of independent directors in the Nigerian context, warranting further multivariate investigation.

The correlation for Board Size (BSIZE) with EM is negligible (0.012) and statistically insignificant. This indicates that, based on simple correlation, board size shows no linear association with the level of earnings management in the sample.

Importantly, the inter-correlation between the independent variables is very low (0.091). This is a critical finding as it indicates the absence of severe multicollinearity, ensuring that the independent variables are distinct measures and that their individual effects can be reliably estimated in the subsequent multivariate regression model without coefficient distortion.



Table 4: Summary of Diagnostic and Model Specification Tests

Diagnostic Test	Model Specification	Null Hypothesis (H ₀)	Test Statistic	p-Value
Breusch–Pagan / Cook–Weisberg Test for Heteroskedasticity	Baseline Model (EM as dependent variable)	Error terms have constant variance (homoskedasticity)	$\chi^2(1) = 0.01$	0.9280
Hausman Specification Test	Direct Model	Random estimator is consistent and efficient	$\chi^2 = 7.296$	0.606

Source: STATA Output, 2025

Table 4 presents the results of critical pre-estimation diagnostics, which are essential for validating the assumptions underlying the chosen panel data regression model and ensuring the robustness of subsequent inferential statistics.

The Breusch–Pagan / Cook–Weisberg Test for Heteroskedasticity was conducted on the baseline model to test the null hypothesis (H₀) that the error terms exhibit constant variance (homoskedasticity). The test yielded a chi-square statistic of $\chi^2(1) = 0.01$ with a corresponding p-value of 0.9280. Since the p-value significantly exceeds conventional significance levels (e.g., $\alpha = 0.05$ or $\alpha = 0.10$), the decision is to fail to reject the null hypothesis. This result provides empirical support for the assumption of homoskedasticity, indicating that the variance of the regression residuals is constant across observations. The absence of heteroskedasticity mitigates concerns about inefficient estimators and biased standard errors, thereby justifying the use of standard Ordinary Least Squares (OLS)-based panel estimators without requiring corrective measures such as robust standard errors for this specific violation (Breusch & Pagan, 1979; Wooldridge, 2010).

Subsequently, the Hausman Specification Test was employed to guide the choice between the fixed effects (FE) and random effects (RE) estimators for the direct model. The test evaluates the null hypothesis (H₀) that the unique errors are uncorrelated with the regressors, implying that the random effects estimator is both consistent and efficient. The test statistic is $\chi^2 = 7.296$ with a p-value of 0.606. As this p-value is substantially greater than standard critical values, the decision is again to fail to reject the null hypothesis. This statistical outcome suggests that the random effects model is the appropriate and efficient specification for this dataset (Hausman, 1978). The failure to reject H₀ indicates that the unobserved firm-specific effects are likely random and uncorrelated with the included independent variables (board size and board independence). Consequently, the random effects estimator is preferred over the fixed effects estimator, as it provides more efficient parameter estimates by accounting for within-entity variation without sacrificing between-entity variation, which is often valuable in corporate governance research (Baltagi, 2021).



Table 5: Random Effects Regression Results

EM	Coef.	St.Err.	t-value	p-value	[95% Conf.	Interval]	Sig
Bsize	0.003	0.003	1.00	0.317	-0.003	0.009	
BIND	0.166	0.054	3.07	0.002	0.060	0.272	***
_cons	-0.117	0.048	-2.44	0.015	-0.211	-0.023	**
Statistic						Value	
Mean dependent var						-0.008	
SD dependent var						0.097	
Overall r-squared						0.063	
Number of obs						150	
Chi-square						9.52	
Prob > chi2						0.009	
R-squared within						0.058	
R-squared between						0.089	

Source: STATA Output, 2025

Note: *** $p < 0.01$, ** $p < 0.05$

Table 5 presents the results of the Random Effects regression model, which was identified as the appropriate estimator based on the preceding Hausman test. The model examines the direct effect of board size and board independence on earnings management (EM), proxied by absolute discretionary accruals. The overall model is statistically significant, as indicated by the Prob > chi² value of 0.009, suggesting that the independent variables jointly explain a significant portion of the variance in earnings management.

The analysis reveals that Board Independence exhibits a positive and statistically significant coefficient (Coef. = 0.166, $p = 0.002$). This finding indicates that a higher proportion of independent directors is associated with an increase in the magnitude of earnings management within the sampled Nigerian consumer goods firms. This result contradicts the conventional agency theory prediction that independent directors serve as effective monitors who constrain managerial opportunism. Instead, this finding suggests that, in this specific institutional context, board independence may not function as an effective monitoring mechanism. Potential explanations include tokenistic compliance with governance codes, where boards appoint independent directors with latent ties to controlling shareholders or management, thereby neutralizing their oversight potency. Additionally, independent directors may face informational asymmetry that disadvantages them relative to executive insiders, or they may be co-opted by management, leading to a perverse outcome where greater structural independence correlates with more aggressive financial reporting (Al-Fayoumi et al., 2010; Adegboye et al., 2022).

The coefficient for Board Size is positive but statistically insignificant (Coef. = 0.003, $p = 0.317$). This non-significant result suggests that board size does not exert a statistically significant influence on the level of earnings management among the sampled firms. The



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finding indicates that the number of directors on the board, in itself, may not be a sufficient determinant of monitoring effectiveness in constraining earnings management practices. It negates both the theoretical argument that larger boards suffer from coordination failures (which would lead to a positive relationship) and the argument that larger boards provide more resources for monitoring (which would lead to a negative relationship). The implication is that the mere number of directors is an insufficient predictor of monitoring effectiveness, and other qualitative factors, such as board culture, leadership, and the specific competencies and independence of individual directors, matter more than mere numbers (Jia, 2023; Lin & Hwang, 2010; Onyema et al., 2023).

Discussion of Findings

The findings of this study present a nuanced and context-specific picture of the relationship between corporate governance mechanisms and financial reporting quality in Nigeria's listed consumer goods sector. The results challenge conventional assumptions derived primarily from developed markets, underscoring the critical role of institutional and sectoral environments in shaping governance efficacy.

The dominant school of thought, anchored in Agency Theory (Jensen & Meckling, 1976), posits that independent directors are the linchpin of effective monitoring, expected to curb managerial opportunism like earnings management. However, the study's finding of a significant positive relationship between board independence and earnings management directly contests this orthodoxy. This paradox suggests that in the Nigerian context, the prescribed governance structure may not translate into effective governance substance.

This result aligns with the empirical findings of Al-Fayoumi et al. (2010) in Jordan, Adegboye et al. (2022) in Nigeria, and Bansal et al. (2022) in various emerging markets, who also documented ineffectiveness or a positive link between board independence and earnings management. Several potential explanations are resonant with this finding and warrant careful consideration.

First, the phenomenon of tokenistic compliance may explain this counterintuitive result. Boards may appoint independent directors who possess latent ties to controlling shareholders or management, thereby neutralizing their oversight potency (Uwuiğbe et al., 2021). In Nigeria's concentrated ownership environment, truly independent directors may be rare, and the formal designation of independence may merely satisfy regulatory requirements without conferring genuine monitoring capacity.

Second, independent directors face an inherent informational disadvantage that may compromise their effectiveness. By definition, independent directors are outsiders who may lack the firm-specific knowledge necessary to effectively challenge management's accounting choices. This informational asymmetry can render their monitoring ineffective, particularly in complex operating environments like the consumer goods sector with its unique inventory valuation and revenue recognition challenges. Without deep operational understanding,



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independent directors may be unable to detect or question sophisticated earnings manipulation techniques.

Third, in weak institutional environments, independent directors may be co-opted by management through various mechanisms. These include social relationships, consulting arrangements, or implicit promises of board seat renewals, all of which compromise their ability to exercise independent judgment. The absence of robust external enforcement mechanisms in Nigeria may embolden such co-option, rendering the formal independence of directors substantively meaningless.

This finding contrasts sharply with studies affirming the monitoring role of board independence, such as those by Klein (2002), Bédard et al. (2004), and Al-Shaer and Zaman (2023), which found a significant negative relationship in settings with stronger legal enforcement and more mature governance cultures. The divergence underscores the importance of institutional context in determining the efficacy of governance mechanisms.

This result aligns with empirical findings from Lin and Hwang (2010) in Taiwan, Bansal et al. (2022) in their multi-country study, Nitm et al. (2022) in Ghana, and Onyema et al. (2023) in a cross-sector Nigerian study, all of which found no significant link between board size and earnings management. The consistency of this non-finding across diverse contexts suggests that board size may indeed be a peripheral consideration in the governance-earnings management relationship.

The non-significant finding negates both competing theoretical perspectives on board size. On one hand, it contradicts the theoretical argument that larger boards suffer from coordination failures and communication barriers, leading to reduced monitoring and increased earnings management, as suggested by Xie et al. (2003) and Al-Fayoumi et al. (2010). On the other hand, it also contradicts the theoretical argument that larger boards provide more resources, diverse expertise, and enhanced monitoring capacity that constrains earnings manipulation, as suggested by Ahmed and Duellman (2007) and Kajola (2021). The implication is that regulatory and scholarly focus should shift from prescribing optimal board size to ensuring the quality and effectiveness of board interactions, regardless of the number of directors. Board composition, in terms of director characteristics such as genuine independence, relevant expertise, and cognitive diversity, may be more consequential than board size in determining governance effectiveness.

The findings have important implications for the application of Agency Theory in emerging market contexts. While Agency Theory provides a compelling framework for understanding the need for board monitoring, its predictions may not hold uniformly across different institutional environments. The positive relationship between board independence and earnings management suggests that the mechanisms through which agency costs are mitigated in developed markets may not function similarly in contexts characterized by weak legal and regulatory enforcement, concentrated ownership structures, limited market for corporate control, and informal networks that undermine formal governance structures. These



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institutional voids create conditions under which formally independent directors cannot or do not exercise the oversight function that Agency Theory assumes they will perform. This calls for a more contextualized application of governance theories that account for the unique institutional features of emerging markets like Nigeria, recognizing that governance effectiveness depends not merely on structural compliance but on the substantive functioning of monitoring mechanisms within specific institutional environments.

Conclusion and Recommendations

This study reveals that the governance-earnings management nexus in Nigeria's consumer goods sector is complex and does not conform to conventional theoretical expectations. The prescriptive governance metric of board independence, while theoretically sound, yields counterintuitive outcomes in this emerging market context characterized by unique ownership structures and institutional voids. Board size, on the other hand, appears inconsequential in determining the level of earnings management.

Based on these findings, several recommendations are proposed for various stakeholders. For regulators such as the Securities and Exchange Commission Nigeria and the Nigerian Exchange Group, there is a need to move beyond mere box-ticking compliance on board independence by strengthening enforcement mechanisms within corporate governance codes. This can be implemented through mandatory annual independence assessment reports, periodic regulatory audits of board composition, and compulsory disclosure of any financial, familial, or business relationships between independent directors, management, and major shareholders. Regulators should also establish clear eligibility and disqualification criteria for independent directors, including mandatory cooling-off periods for former executives and restrictions on multiple board appointments that may impair objective judgment. In addition, sanctions such as financial penalties, suspension of listing privileges, or public governance compliance reports should be introduced for firms that fail to comply with substantive independence requirements. These measures would enhance the credibility and effectiveness of board independence in constraining earnings management practices.

For firms and nominating committees, the priority should be the appointment of truly independent and ethically grounded directors over mere compliance with regulatory quotas. Independent directors must have access to adequate information, training, and resources to effectively monitor management's financial reporting decisions. Firms should foster a board culture that encourages constructive challenge and independent thinking rather than deference to management, while focusing on the quality of directors rather than the quantity, recognizing that effective governance depends more on director competence and commitment than on board size.

For investors and analysts, caution should be exercised in relying solely on traditional governance scores based on board size and independence metrics. It is important to scrutinize the qualitative aspects of board composition and culture, recognizing that in this context, high levels of structural independence may not inherently signal higher reporting quality. Investors



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should consider other governance indicators and seek additional information about the actual functioning of boards beyond their formal characteristics.

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