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Company Age, Company Size and Earnings Management in Listed Industrial Goods Manufacturing Companies in Nigeria: A Moderating Role of Political Connection of Board Members

Adesuyi, Temitayo Yomi[1] & Owoseni, Gbenga David[2]
[1]Department of Accounting, Afe Babalola University, Ado Ekiti, Ekiti State, Nigeria
[2]Department of Business Administration, Adekunle Ajasin University Akungba Akoko, Nigeria
Emails: [1]temitayoay@pg.abuad.edu.ng, [2]gbengaowoseni@gmail.com

ABSTRACT

The study analysed the effect of company age, company size and political connections of Board members on earning management of quoted industrial goods manufacturing companies in Nigeria. The specific objectives of the study include assessing the effect of company age, company size and evaluating the moderating effect of political connections of board members on earnings management of quoted industrial goods manufacturing companies in Nigeria. The study used 130 firm-year data involving thirteen (13) quoted industrial goods manufacturing companies purposely selected over the period of 2012-2021. The data were sourced from the annual audited reports and accounts of the companies obtained from the Nigerian Exchange Group. The study used E-Views 8.0 statistical package and used panel regression techniques to analyse the data after carrying out diagnostic tests such as normality test, Panel Unit Root Test, Multicollinearity Test, Redundant Fixed Effects Tests, Hausman test, Heteroskedasticity Test, Serial Correlation Test to select the most appropriate model and fixed effect model was used for the model. The findings revealed that company age and company size do not influence earnings management. Also, the study revealed that political connection of board members insignificantly moderated the effect of company age and company size on earnings management. The study recommended that increased attention be given to internal control mechanisms to help curtail aggressive corporate earnings manipulation, reduce the effect of political connection, and enhance the financial reporting quality, particularly in Nigeria.

Keywords: Firm Characteristics, Political Connections, Accruals, Real Earnings Management.

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1. INTRODUCTION

Earnings management (EM) is a global phenomenon that has become one of the most critical ethical challenges confronting financial data dependability. The grey areas in accounting standards, as well as the large amount of subjective judgment, allow for opportunistic accounting, in which managers strengthen their positions and earnings reports do not always reflect the company's underlying financial performance (Ogundajo *et al.,* 2021).

Since the 1960s, researchers have discussed Earnings Management initiatives. The first research was done in the USA. Globalization has caused European nations to become more conscious of Earnings Management methods and models developed outside the continent. It is reasonable to predict that EM principles will be applied in businesses in an effort to attain a balanced profit, particularly in light of recent economic changes (the financial crisis in 2009; COVID-19 in 2020). The challenge of managing earnings has started to be linked to the question of measuring it. As a decision-maker, the manager is in charge of all aspects of the organization, and his role in maintaining integrity is crucial (Siekelova, 2021).

Corporate accounting crises that rocked the international financial community at the turn of the twenty-first century have prompted questions about the quality of corporate reporting (Kelvin, 2020). Enron, WorldCom, Tyco International, Adelphia, Arthur Anderson, Lehman Brothers, Freddy Mac, Fanny Mae, Goldman Sachs, Marconi, Northern Rock, Parmalat, and Yukos are only a few of the companies engaged in these scandals. Others include Satyam, Halliburton Oceanic Bank, Societe Generale Bank, City Express Bank, Fin Bank, Afribank, Hallmark Bank, Apex Bank, Intercontinental Bank, and Xerox. It was discovered that some of these incidents were caused by the gross misuse of earnings management (Bassiouny, 2016). This has sparked a heated debate among regulators, accountants, financial analysts, and scholars over how to manage company failures (Uwuigbe, 2015). Some of these controversies were caused by excessive mismanagement of earnings.

Earnings Management is usually considered as an amalgamation of a variety of accounting procedures used by managers to achieve a specific goal. The management's efforts are targeted towards reporting improved profitability through the use of various accounting procedures. This earnings management-driven quality has an impact on other stakeholders' economic and investment decisions (Sevin & Schroeder, 2005). Real activities and accruals activities are two strategies utilized in earnings management. Accruals that are determined by the company's typical economic conditions are known as non-discretionary accruals. Discretionary accruals are those that are determined at the manager's discretion and are not defined in the contract. As a result, it is considered that discretionary accruals are the product of the manager's activities (Darmawan *et al.*, 2019). Earnings management is a technique used by management to attain certain goals in the normal course of business that are supported by shareholders (Ogundajo *et al*., 2021). When management purposefully manipulates real operational activities, this is known as real activity manipulation (Umar, 2021).

The time span between a company's inception and the year of study is referred to as the firm's age (in years). Firm age is a metric for determining the impact of a company's longevity on its performance. The age of a company indicates whether it will survive, compete, and take advantage of economic opportunities in the economy (Savitri, 2014). The firm age demonstrates a company's ability to compete for a long time. Furthermore, compared to freshly founded companies, the older the firm is, the more experience it has in managing and expanding earnings. Firm size refers to how a company can be characterised as large or small based on factors including total assets, log size, sales, and market capitalization (Agustia & Suryani, 2018). Natural logarithm forms of total assets, total revenue, and market value of equity can be used to determine firm size.

Reporting real earnings management may have an impact on company activities and shareholder value. If real earnings management is found later, it may result in prosecution or fraud. Earnings management is a well-known tool for allowing regulatory bodies in the country to ensure that the figures stated in the financial statements accurately reflect the company's genuine financial situation (Roy & Debnath, 2015). Investors may face some difficulties analyzing financial report sections as a result of aggressive accruals earnings management, but it is undeniable that there is a deliberate plan to increase and maintain investors' confidence in the company's financial activities through transparent financial reporting (Fodio *et al.*, 2013). In addition to company age and company size, political connection was argued to have significant influence on earnings management (Berkman *et al.,* 2010).

According to Berkman *et al.* (2010), a firm's political influences can be traced back to the nature of its ownership structure and the background of its executives; the former refers to government ownership, while the latter refers to political connections arising from executives' prior or current employment it is important to look into how political connections affect earnings management because stakeholders rely on company transparency to improve the quality of their decision-making. The current study investigates the causal relationship of board members' political connections and company characteristics, as well as how they affect earnings management in Nigerian industrial goods manufacturing companies. The study's main goal is to investigate the effect company age and company size on earnings management of listed industrial goods manufacturing companies in Nigeria. This study is limited to thirteen (13) listed industrial goods manufacturing companies in Nigeria. The study covered a period 2012-2021 (Ten years). The choice of these Quoted industrial goods manufacturing companies is based on the consistency of these industrial goods manufacturing companies on the Nigerian Exchange Group and being among companies that reported highest sales volume for the period covered.

The subsequent sections of this paper are Literature Review on the conceptual and empirical studies as well as establishment of a relationship between company age, company and earnings management in order to formulate the study hypotheses. The rest of the paper deals with Data and Methods, Data Analysis and Discussion of Findings, and Conclusion and Recommendations.

2. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

2.1 Earnings Management and Related Parameters

Age and Earnings Management

A company's age relates to how long it has been in business. Companies that have been in existence for a long time are regarded to be more successful than those that have recently opened their doors, because long-established businesses will seek to grow earnings while also benefiting from the management's knowledge. As a result, these long-established organizations will engage in earnings management to reduce the risk of profit swings while pursuing a high-growth mission (Indracahya & Faisol, 2017). In order to improve its image in society, a company that has been in business for a long period frequently releases information about its environmental and social activities (Badulescu *et al*., 2018; Nidheesh, 2020). The measures of a company's age are used to determine if it is still in business. The age of a corporation reflects whether or not it will continue to exist.

Company Size and Earnings Management

A statistic that classifies a business's size as large or small based on characteristics such as total assets, sales, and capitalization is known as company size (Augustia & Suryani, 2018). According to the study conducted by Azlina (2010), the size of a corporation has an impact on earnings management. The earnings management method easily meets the expectations of larger corporations' shareholders (Astuti *et al*., 2017). Small businesses participate in earnings management operations to reflect a strong performance, whereas large businesses are more cautious about presenting accurate financial reports (Octavia, 2017). According to Charfeddine *et al*. (2013), the size of the firm is positively connected to discretionary accruals, and large firms are more likely to use discretionary accruals than small enterprises. In the instance of Egypt, however, Bassiouny (2016) found that a firm's size was an unimportant driver of its level of earnings management. In the example of Albania, Llukani (2013) found that earnings management was an insignificant indicator of a firm's level of earnings management (Cudia & Cruz, 2018).

Political Connections of Board Members and Earnings and Earnings Management

According to the Financial Action Task Force on Money Laundering (FATF, 2012), politically connected persons are the various individuals who have been entrusted with prominent public functions, for example Heads of State, senior politicians, members of parliament, senior government, judicial or military officials, senior executives of public owned corporations, important political party officials. It also goes further by comprising persons who have been entrusted with a prominent function by a state owned enterprise such as directors, deputy directors and members of the board or equivalent functions. Based on the requirements of this work, family members or close associates, any individual publicly known, or known by financial institution to be close personal or professional associates are captured as politically exposed persons.

Politically exposed persons have been linked to aggressive earnings management, implying that management can switch from accrual to actual earnings management (Ghonji *et al*, 2020). In order to adjust earnings, the company's management is motivated to engage in specific actions. It is critical to investigate whether particular types of political connections are more useful than others, and to determine whether some political connections are more important than others; the majority of the effect lies in the ability to develop a political connection in the first place (Eitan *et al*, 2013). Politically experienced directors are more common in larger companies, where politics is more significant, or in companies that are impacted by political mechanisms such as government acquisitions, trade policy, environmental regulation, and lobbying (Anna et al, 2010).

Earnings Management

One of the most complex, sensitive, and divisive topics in finance and financial management is earnings management. Earnings management is the practice of utilizing accounting techniques to make financial reports that portray a company's business activity and financial status in an unduly optimistic light (Okoye & James, 2020). Many accounting rules and principles need judgments on the part of a company's management. Earnings management is all about how accounting rules are applied in order to generate financial statements that smooth earnings. Depending on the opinions of top management, organizational and social standards addressing the ethics of profits management may differ (Kliestik *et al.,* 2021).

Earnings management can be done in two ways: accrual-based or real-time earnings management. Accrual-based earnings management is making certain accounting choices for specific events and transactions in order to influence reported results (Eldiri, 2017). As a result, accrual manipulations have no impact on economic transactions or corporate cash flows. Real earnings management entails the management of real activities that are distinct from standard business processes. Because they are entirely business decisions with short-term rewards, regulators are less likely to dispute them. When it comes to reaching short-term goals, the impact of real earnings management has a cost impact on future cash flows (Omar *et al*., 2014).

2.2 Theoretical Review

This study is underpinned on the stakeholders theory. Due to the various interested parties in the affairs of the company that need to be satisfied, this has made the stakeholders theory to be the appropriate underpinning theory for this study.

Stakeholders Theory (Freeman, 1984)

The stakeholders' theory which was propounded by Freeman in 1984 has its concept built on network of relationships that includes employees, shareholders, suppliers, business partners as well as contractors. The theory contradicts shareholders theory which advocates that managers and owners have a contractual relationship; whereby managers have the sole objective of maximizing shareholders wealth. Stakeholder's theory considers this viewpoint to be too narrow, as evidenced by manager's actions that can also impact other interested parties than shareholders alone.

The word "stakeholder", was first conceived in 1963 in an internal memorandum at the Stanford Research Institute, which is now SRI International, Inc. In the traditional view of the firm, the shareholders or stockholders are the owners of the firm, and the responsibility of the firm is that they have a binding fiduciary duty to cater for their needs first, so as to increase the value for their stock returns (Friedman & Mills, 2002). The term was meant to challenge the popular notion that the management of firms is obliged to respond to stockholders' groups only (Parmar *et al*., 2010).

Stakeholders Theory proposes that managers consider stakeholders' goals in the decision making process (Abeysekera & Lu, 2017), and they might try to avoid any ethically undesirable behavior. This theory is an extension of shareholders theory, which assumes that the board of directors will look out for the interests of the shareholders. Freeman *et al*., (2004) go into great detail about how shareholders are extended to account the interests of a variety of types of stockholders, such as ethical issues, environmental considerations, and socially interested groups. In comparison to the shareholders theory, the stakeholder theory has more practical applications, historical foundations, and intellectual appeal (Elhaj & Mansor, 2019). It has a far less impact on policymaking and corporate governance ideas. According to Hoque (2006), the mutual criticisms of the stakeholder theory include how to reconcile the stakeholders' opposing interests since the issues arise from how to handle diverse stakeholders with different demands and, if this occurs, can it serve all stakeholders equally? Furthermore, it is not required for all stakeholders to be effectively embodied in corporate governance endorsements, as this could jeopardize the company's success (Zamir & Etzioni, 1998). Elhaj & Mansor (2019) on the other hand, clarified the link between earnings management and stakeholder theory, arguing that management may operate earnings to recoup their private interests through expenditure of shareholders and remaining stakeholders.

The stakeholder theory is a theory of organisational management and business ethics that accounts for multiple constituencies impacted by business entities like employees, suppliers, local communities, creditors, governmental bodies, political groups, trade associations, and trade unions. Competitors in the status and capacity to impact the organization's operations are sometimes seen as a type of stakeholder. The nature and meaning of what stakeholders are, can be highly contestable (Miles, 2012), because of the existence of hundreds of definitions in the academic literature (Miles, 2011). The stakeholder theory was originally employed in 1984, by Edward R. Freeman in the theory of organizational management and business ethics that addresses organizational management by moral values. Stakeholder theory addresses business ethics, morals and values when managing stakeholders involved with a project or organisation (Parmar *et al*., 2010). The theory aimed at optimizing the relationships among stakeholders, in order to improve operational efficiencies all through the organization (Friedman & Mills, 2002).

2.3 Empirical Review

In line with the objectives of this research work, the previous studies carried out by various authors are discussed accordingly as they relate to the effect of company age, company size and political connections of board members on earnings management.

Company Age and Earnings Management

In a study conducted by Gozali et al (2021), the researchers investigated a specific approach to Earnings Management, which involves smoothing income in companies listed on the Singapore Stock Exchange (SGX) during the years 2017 and 2018. The research was prompted by limitations identified in prior studies and discrepancies in results related to factors influencing Earnings Management practices. The study aimed to explore the connection between firm characteristics such as age, size, leverage, and profitability, and the practice of earnings management (EM). Data were gathered from listed Singaporean corporations on the SGX during the specified period. Purposive sampling was employed for selection, and panel data regression was used for analysis. The findings, based on a substantial sample of 852 firm-year observations, revealed that both firm age and size significantly impacted earnings management, while leverage and profitability demonstrated insignificant effects on EM. Furthermore, these results offer valuable insights to investors and potential investors for making informed decisions in future investment endeavors.

Dachomo and Bala, (2020) investigated the corporate age diversity influence on the relationship existing between corporate attributes and quality of earnings of firms listed on the Nigeria stock exchange, from 2012 to 2018, using 616 firms' observations, secondary data were extracted from the listed firms' annual financial reports, and from the DataStream of Thompson Reuters. The quality of earnings was proxy by accruals model developed by Collins *et al*. (2017). The primary model of the study was estimated using a robust model. The study revealed that the negative relationship that exists between corporate growth and quality of earnings of listed firms in Nigeria is moderated by company age. The study submitted that because older companies are more matured than younger companies, they tend to engage less in earnings management in order to protect their reputation, thereby enhancing the quality of earnings of the firm. The study is recent, but information about the sampled firm was not clearly stated, unlike the current study that is based on the industrial goods sector.

Company Size and Earnings Management

The study carried out by Ologhodo (2021) examined the effect of firm characteristics on reported earnings quality of listed industrial goods companies on the Nigeria stock exchange. The failure of many companies and their inability to perform leading to delisting from the stock market has been a source of great concern. Secondary data were taken from the annual financial statement of a population of 13 companies, with a sample of 13 companies as well. The multiple linear regression models and OLS were employed and all the relevant diagnostic tests were conducted, using Eviews10 software. The result of the study revealed that the age of the firms and their financial leverages have no significant effect on the reported earnings quality of the companies, but that a positive relationship exists between firm age and reported earnings quality while financial leverage revealed a negative relationship with earnings quality, but firm size and firm strategy showed a significant positive effect on the reported earnings quality of listed industrial goods companies in Nigeria.

A study carried out by Gozali *et al* (2021) analysed a specific strategy of Earnings Management, smoothing income in firms listed on Singapore stock exchange (SGX) in the period of 2017 and 2018. Several limitations in the previous studies made researchers motivated to do the research. Moreover, the differences from the results of previous studies regarding the factors that influence EM practices also provide motivation for researchers to review the factors that can affect EM. The study aims to examine the association of firms characteristics comprise of firm age, firm size, leverage, and profitability to earnings management (EM). The data is collected from listed Singaporean corporation in Singapore stock exchange (SGX) in the period of 2017 and 2018. Purposive sampling and panel data regression were employed as the sampling and analysis method, respectively. The results were based on a large sample of 852 firm-year observations. The results showed that firm age and firm size significantly affected earnings management; meanwhile, leverage and profitability indicate insignificant effects to EM. In addition, these results provide information to investors and potential investors regarding future investment decisions.

Soyemi and Olawale (2019) investigated the impact of firms' characteristics on the quality of financial reporting of listed Nigeria manufacturing firms. The sample size of the study comprises 25 listed nonfinancial firms on the Nigeria stock exchange for the period from 2009 to 2016, using panel data from the annual financial reports of the sampled companies, the study adopted multiple linear regression models using two-stage regression to analyze the data. The result showed that firm size has a positive significant effect on financial reporting quality. Tangibility and firm growth have a negatively significant effect on audited financial reporting quality. The profitability of the firm positively influences the quality of financial reporting; whereas firm growth negatively affects the quality of financial reporting. The study discovered that large and highly profitable firms have the tendency to produce high-quality financial reports, because of their ability to engage competent audit firms. The study did not specify the method of sample size selection; it was done in the preferred sector with the current study.

Tijani (2018) conducted research examining the correlation between corporate attributes and earnings management within listed oil and gas companies in Nigeria spanning from 2006 to 2015. The data were sourced from a sample of seven out of nine firms within the population, obtained through their annual reports and accounts. Independent variables representing corporate characteristics included firm size, leverage, dividend, and profitability.

Earnings management, as the dependent variable, was represented by the residuals from the modified Jones Model by Dechow et al. (1996). The study utilized ordinary least square multiple regression analysis to scrutinize the data. The findings indicated a significant positive impact of firm size on earnings management, while leverage exhibited an insignificant negative influence on earnings management in the listed oil and gas firms in Nigeria.

Before mergers and acquisitions, Zhu and Lu (2018) investigated how earnings could be managed by manipulating real activities. The study looked into whether or not managers use real-world activities to inflate the market value of their companies prior to mergers and acquisitions. The researchers discovered that some managers do really undertake operations aimed at increasing their companies' market values before mergers and acquisitions, and that relatively overpriced bidders engage in real activities profit manipulation prior to mergers and acquisitions. The findings revealed that executives use lowered prices, which can lower the cost of items supplied, to increase valuations of the companies prior to mergers and acquisitions. Further investigation demonstrates that company size has an impact on earning through real-world activity manipulations.

Political Connections of Board Members and Earnings Managenent

The study carried out by Ahmad *et al*. (2021), 'political connection and real earnings management in Nigeria', the influence of political connection on real earnings management was investigated. The analysis involved a sample of 72 non-financial firms with 360 firm-year observations for a five-year period (2014-2019). Data was obtained from the annual reports of the companies under review as well as from Thompson Reuters and Bloomberg databases. It was revealed here that board with political connection is possible to manipulate earnings, hence deteriorating the quality of earnings.

Muhammad *et al*. (2019) investigated how political connections and earnings management interact to affect organizational performance. The research looked into whether politically influenced companies in Pakistan employ accrual-based earnings management actions to hide poor organizational performance. The research examined a sample of non-financial listed companies in pakistian from 2009 to 2013. The heteroscedasticity problem was solved using the panel corrected standard error (PCSE) technique. The findings suggested that politically connected companies manipulate earnings through accruals in order to reflect poor organizational performance but lower taxable income due to the presence of politicians and bureaucracy. According to the findings, there is a negative association between politically influenced companies and organizational performance, and regulators must consider political connections during regulatory decisions.

2.4 Gap in Literature

Earnings management has been a complex managerial tool of financial and corporate reporting. An important strength of this study, therefore, is its qualitative application in reporting on financial transactions of the companies and how the specific characteristics can affect the workability of earnings management of industrial goods manufacturing companies in Nigeria. Almost all studies reviewed have pointed to the fact that managers are drawn into the use of earnings management and are conversant with it one way or the other. The qualitative approach used in analysing characteristics that affect the listed industrial goods manufacturing companies enable the current study to find not only what has been suspected before, but to reveal the impact of these variables on earnings management and how political connections of Board Members affect earnings management.

The hypotheses are stated thus:

Ho1: Company age has no significant impact on earning management.
Ho2: Company age has no significant impact on earning management.
Ho3: Political connection of board members has no significant moderating impact on earnings managements.

3. METHODOLOGY

The study adopted ex-post facto research design. The data were collected from secondary sources such as the audited financial reports of the selected manufacturing companies for the period of 2012-2021, and which were used for the testing for the effect of Company, company size and political connection of board members on earnings management. The population of 13 industrial goods manufacturing companies was considered. The industrial goods manufacturing companies selected for the study included Berger Paints Nig.Ltd, Better Glass Company, Chemical and Allied Products (CAP), Cutix Nig. Ltd, Lafarge Cement Wapco Nig. Ltd, Meyer Plc, Premier Paints, Notore Chemical Ind. Plc, Tripple Gee Company Plc, BUA Cement, Austin Laz & Company Plc, Greif Nigeria Plc and Dangote Cement. The data collected for the study were analyzed with descriptive statistics such as mean, standard deviation and coefficient of variation. Correlational and regression data analysis techniques were also used to show the relationship between company age, company size, political connection of board members and earnings management was used.

Model Specification

The model used for this study was in line with Jones Model in 1991 on econometric model. The model was written as follows;

$$NDA = \alpha + \beta2\left(\frac{1}{At\text{-}1}\right) + \beta2\left(\frac{\lambda Rev_t - \lambda Rec_t}{At\text{-}1}\right) + \beta3\left(\frac{\lambda PPE_t}{At\text{-}1}\right) +$$

Where:
NDA = Non-Discretionary Accruals
ΔREVt = Changes in company revenue in current year.
ΔRECt = Changes in company receivables in current year.
ΔPPEt = Company non-current assets (property, plant and equipment) in year t (current year).
At-1 = Total assets at the end of year t-1 (previous year end).
β1, β 2, β 3 are coefficient of variables.
μ = error term.
AEM = Accrual Earnings Management
α = constant

From the above, Discretionary Accruals could be derived as follows:
DA=TA-NDA, Where:
DA= discretionary component of accruals.
TA= total accruals.
NDA= nondiscretionary accruals.

The above model was modified and adapted as follows:

$EM_{it} = \alpha + \beta1Age_{it} + \beta2Size_{it} + \beta3PolCon_{it} + \mu$

Where, α = Constant
β1 = Company Age Coefficient
β2 = Company Size Coefficient
β3 = Pol. Conn. Coefficient
EM = Earnings Management
Size = Firm Size
Age = Firm Age
μ = Error Term, it = Time index for the companies

Table 1: Measurement of Variables

S/N	Variables	Description	Measurement	Source
1	Earnings Management	The Company's total accruals for the year	Net Income less cash flows from operations.	Mendels et al, 2012.
2	Company Age	How long the company has been in operation since incorporation?	Research Year less Year of incorporation of the company	Indracahya & Faisol, 2017
3	Company Size	The total assets at the beginning of the year	Ln (Total Asset)	Padi et al, 2019
4	Political connections of Board members	A firm was considered politically influenced with the presence of a politician or close relative of a politician as a member of Board of Directors (BOD).	Political influences as a dummy variable, which is equal to 1 if a firm is politically connected and 0 if non-politically connected.	Muhammad *et al*, 2021

Source: Researcher's computation 2022

4. DATA ANALYSIS AND DISCUSSION OF FINDINGS

This section encompasses the presentation of analysed result and interpretation for the purpose of achieving the objectives of the study. The chapter is based on five sections namely; the pre-estimation test, impact analysis test, coefficient of determination and F-value, the report on the broad objective and other objectives.

4.1 Descriptive Statistics of the Variables

It is important to know the distribution of the variables used in the estimation of the model. This will aid the study to detect the likelihood of outlier and also ensure good understanding of the variable characteristics. The study obtained descriptive statistics such as mean, median, minimum, maximum, standard deviation, skewness, Kurtosis and Jaque-Bera (JB), statistics as reported in Table 2. The variable of EM reports the mean of 5.301011 and median of 5.324962. EM variable reports standard deviation of 2.22937, which is less than the mean of 5.3010 that implies that EM exhibits low degree of dispersion.

The JB of EM shows that it is not normally distributed at 5% level of significance. Also, the Kurtosis value of 5.2172 reported that it belongs to the class of leptokurtic distribution. The AGE reported a mean of 40.50 and median value of 38.50 years. The skewness value of-0.000553 report that it exhibits positive skewness. The least age of the firm is 4 years, while the maximum age of the sampled firm is 81 years. Age of the firm report Jarque-Bera statistics of 1.7262 and indicates that the age is normally distributed. SIZE has an average of 9.7566 and median of 8.6786. It exhibits positive skewness with value of 0.86993.

Table 2: Descriptive Statistics

	EM	AGE	SIZE	POL
Mean	5.301011	40.50000	9.756698	0.484615
Median	5.324962	38.50000	8.678619	0.000000
Maximum	11.53647	81.00000	17.37670	1.000000
Minimum	-1.408973	4.000000	4.904806	0.000000
Std. Dev.	2.229370	18.89844	3.354121	0.501697
Skewness	0.665877	-0.000553	0.869930	0.061568
Kurtosis	5.217229	2.435475	2.524493	1.003791
Jarque-Bera	36.23572	1.726237	17.62161	21.66674
Probability	0.000000	0.421844	0.000149	0.000020
Observations	130	130	130	130

Source: Researcher's computation 2022

4.2 Test of Variables

4.2.1 Correlation Matrix

The purpose of reporting correlation among the variables is to identify the degree of multicollinerity among them. The problem of multicollinearity is of the undoing of the least square because it leads to understated or overstated standard error, which can affect the coefficient of inference. This is the correlation among the independent variables. When the correlation is high, the standard error of the estimate will either be overstated or understated. In view of this, the study obtained the correlation among the variables as reported in table 3. The results of the correlation in Table 3 report that all the explanatory variables failed to report statistical significant correlation with each other, which indicates a less likelihood of multicollinearity.

Table 3: Correlation Analysis: Ordinary

VARIABLES	EM	AGE	POL	SIZE
EM	1.000000			

AGE	-0.273101	1.000000		
	-3.211887	-----		
POL	0.001532	0.087075	1.000000	
	0.017330	0.988895	-----	
SIZE	-0.042660	0.210938	-0.010207	1.000000
	-0.483088	2.441421	-0.115488	-----

Source: Researcher's computation 2022

4.2.2 Panel Unit Root

The presence of unit root in panel least square model will lead to spurious result, therefore it is imperative to examine the degree of unit root in a variable prior to coefficient estimation. The degree of the variables integration will aid the study in selecting the appropriate technique. Panel least square model is efficient when the variables stationary at level. The test was conducted using the Levin, Lin & Chu t* by assuming common unit root. The result of the test as presented in table 4 shows that all the variables were stationary at level. Therefore, the study can estimate the model coefficient using the panel least square method.

Table 4 Panel Unit Root Test

	Levin, Lin & Chu t*		Remarks
	Statistics	p-value	
EM	-4.1296	0.0000	Stationary at level
POL	-6.7001	0.0000	Stationary at level
SIZE	-7.3253	0.0000	Stationary at level
AGE	-6.5704	0.0000	Stationary at level

Source: Researcher's computation 2022

4.3 The impact of company age, company size and political connections of board members on earnings management in Nigerian industrial goods manufacturing companies

The effect of company age and company size on earnings management and how political connections of board members moderate the relationship are analysed in this section.

4.3.1 Multicollinearity Test

From the correlation analysis, it was discovered that the independent variables exhibited statistically insignificant correlation. However, the result can be regarded as a necessary condition. While sufficient condition is the result of the variance inflation factor. When the value of the VIF is less than 10, it is expected that there is near zero degree of multicollinearity among the independent variables. The result of the test as reported in the Table 5 shows that the VIF of all the variables were less than 10, which implies that the all the variables exhibit low degree of multicollinearity.

Table 5 Variance Inflation Factors

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
AGE	0.000129	3.485966	1.330083
POL	0.145724	2.059995	1.061690
SIZE	0.003549	1.901026	1.155677

Source: Researcher's computation 2022

4.3.2 Redundant Fixed Effects Tests

The redundant fixed effect was estimated to determine the difference between the fixed effect and pooled OLS. The test in Table 6 indicate whether significant fixed effect exist in the model. If the test is statistically significant, fixed effect model is better than pooled OLS, while if the test is statistically not significant, pooled OLS is better than fixed. The result of this test shows that (26.930484, $p<0.05$) significant effect exist in the model and therefore fixed effect is better than OLS. Therefore, there is need to determine the best appropriate model between fixed effect and random effect using the Hausman test

Table 6 Redundant Fixed Effects Tests

Effects Test	Statistic	df.	Prob.
Cross-section F	26.930484	(12,109)	0.0000

Source: Researcher's computation 2022

Hausman test is a test carried out to know whether a model follow fixed effect or random effect. The random effect is suspected when the p-value of the test statistics is greater than 0.05, while fixed effect is accepted when the p-value is less than 0.05. The result of the test Hausman =25.4654, $p<0.05$ report that fixed effect is evidenced in Table 7 and therefore, the model estimated with the assumption of fixed effect will be accepted and interpreted in the study

Table 7: Correlated Random Effects - Hausman Test

Test Summary	Chi-Sq. Statistic	Chi-Sq. df.	Prob.
Cross-section random	25.465457	8	0.0000

Source: Researcher's computation 2022

4.3.3 Heteroskedasticity Test

The result of the heteroskedasticity test of the model as presented in the Table 8 shows that the model residual exhibit homoscedasticity. Residual of the model is constant over the sample period, because the p-value of the test statistics is greater than 0.05. Therefore, the study can go ahead and report the fixed effect model as confirmed by the result of redundant and Hausman test

Table 8 Table Panel Period Heteroskedasticity LR Test

	Value	Df	Probability
Likelihood ratio	21.32341	13	0.0968
LR test summary:			

Source: Researcher's computation 2022

4.3.4 Serial Correlation Test

The study conducted the serial correlation test in order to know whether the model residual violate the assumption of the OLS and assess the robustness of the model. The study adopted the test of Arellano-Bond Serial Correlation method to test for serial correlation in panel models to ascertain the order of autocorrelation. The result of test as presented in the Table 9, report that the model is free from the problem of serial correlation. Therefore, the result shows that the model is free from the problem of serial correlation

Table 9: Arellano-Bond Serial Correlation Test

Test order	m-Statistic	rho	SE(rho)	Prob.
AR(1)	0.307103	73.352070	238.851324	0.7588

Source: Researcher’s computation 2022

4.3.5 Coefficient of Determination and F-value

The study coefficient of determination reports the explanatory power of the model, while the f-value reports the joint significance of the variable. The result of the r-square and adjusted r-square shows that about 82.04% of the model variation was accounted for by the explanatory variables, while the adjusted r-squared shows that 78.7% of the sources of variation was accounted for by the independent variables. The f-value of 24.89907 shows that the model is statistically significant and jointly different from zero.

Table 10: Coefficient of Determination and F-value

R-squared	0.820423
Adj.r-squared	0.787473
f-value	24.89907
P(f-value)	0.000000

Source: Researcher’s computation 2022

The effect of company age and political connections of Board members on earnings management

Company age and political connections of Board members were interacted and the result shows that old firms with board members who are politically connected tend to have less earnings management compare to new firms with politically connected board members. The interaction between age of the firm and political connections of board members had negative earnings management with the coefficient of -0.0016 and t-value of -2.1206 as presented in Table 11.

It depicts the fact that politically connected board members will be after his or her image and reputation and therefore, being on the board of old firms, will not lead to earnings manipulation, however, age without political connections variable, exhibited positive relationship with the earnings management with coefficient of 0.0821 and t-value of 3.6567. This implies that old firms may more likely engage in earnings management, when there is no politically connected board member. The presence of politically exposed board members in old firms, often leads to confidence of the firm financial report.

The effect of company size and political connections of Board members on earnings management

Size of the firms exhibited negative relationship with the earnings management of the firms (-0.1649) and t-value of -6.2063, which indicates that big firms are less likely to have manipulated earnings without political exposed board members as revealed in Table 11. However, the coefficient of the interaction between political connection and size of the firms showed that the presence of political connected person in the governance board of the firm, may lead to earnings management with the coefficient of 0.1649 and t-value of 3.0676. The result of the t-value indicated that the interaction is statistically significant at 5% level of significance. Management of firm can easily capitalize on the presence of politically connected person on the board, because investors really believe in the reputation of top management. Hence, the management of big firms may likely cook the book and hope that the investors will not question the performance of the board, due to the fact they have politically exposed person.

Table 11: Regression Estimate of the impact of firm's characteristics and political connections of board members on earnings management in Nigerian industrial goods manufacturing companies

	Fixed Effect Model			Random Effect Model			Pooled OLS		
	Coeff.	t-Statistic	Prob.	Coeff.	t-Statistic	Prob.	Coeff.	t-Statistic	Prob.
AGE	0.0821	3.6567	0.0004	0.0056	0.1340	0.8936	-0.0220	-1.5932	0.1137
AGE*POL	-0.0016	-2.1206	0.0359	-0.0095	-0.8360	0.4048	0.0177	0.7215	0.4720
SIZE	-0.1649	-6.2063	0.0000	-0.2336	-4.0985	0.0001	0.0104	0.1482	0.8824
SIZE*POL	0.1370	3.0676	0.0027	0.1054	1.4880	0.1393	-0.0416	-0.4706	0.6387
C	3.0800	3.0625	0.0028	7.0563	3.3665	0.0010	5.5686	7.6399	0.0000
R-squared	0.8204			0.4835			0.2330		
Adj.r-squared	0.7874			0.3229			0.1823		
f-value	24.8990			11.7952			4.5966		
P(f-value)	0.0000			0.0000			0.0000		

Source: Researcher's computation 2022

5. DISCUSSION OF FINDINGS

Based on the findings obtained under the test of hypotheses above, the following discussions were made on objective basis.

Company Age, Political Connections of Board Members and Earnings Management

The first objective of this study seeks to establish the effect of company age and political connections of board members on earnings management. Based on the findings, company age exhibited a positive insignificant relationship with earnings management using Fixed Effect Model (FEM) while the relationship is significant under Random Effect Model (REM) and pooled Ordinary Least Square (OLS).

Company age and political connections of board members had negative effect on earnings management of the industrial goods manufacturing companies in Nigeria. However, the result is not statistically significant. There is every tendency of managing reported earnings if one of board members is politically connected in a new company.

This result further established the findings of Indracahyah & Faisol (2017) who finds that there is negative relationship between firm age, political connection of board members and earnings management, but contradicts the findings of Nidheesh, (2020) who found a positive effect on earnings management.

Company Size, Political Connections of Board Members and Earnings Management

The results obtained from the effect of company size and political connections of board members on earnings management reveals that company Size of the firms exhibited negative relationship with the earnings management of the firms. The findings also indicated that big firms are less likely to manipulate earnings without politically exposed board members. The result here is opposed to the findings of Ibrahim (2018) that showed a significant positive impact on earnings management. This result lends credence to the findings of Soyemi and Olawale (2019) who stated company size has negative effect on earnings management of quoted manufacturing companies in Nigeria.

6. CONCLUSION AND RECOMMENDATIONS.

This study examined the effect of company age, company size and political connections of board members on earnings management of quoted industrial goods manufacturing companies in Nigeria. Specifically, this study assessed the effect of company age and company size, and how political connections of board members moderate the effects on earnings management of industrial goods manufacturing companies quoted on Nigerian Exchange Group.

Based on the findings of this study, company age when moderated by political connections of board members does not have a significant effect on earnings management of industrial goods manufacturing companies in Nigeria. However, company age itself has insignificant positive effect on the earnings management of industrial goods manufacturing companies in Nigeria. The results show that company age and company size has insignificant effect on Earnings Management. Company age and political connections of Board members were interacted and the result shows that old firms with board members who are politically connected tend to have less earnings management compare to new firms with politically connected board members. This implies that old firms may more likely engage in earnings management, when there is no politically connected board member. It also indicates that if the firm has been established for a long time, it is assumed that it can generate higher profits than that of a newly established firm.

Similarly, company size has an insignificant negative effect on earnings management. It means that the larger firm size, the less likely it is to use earnings management to achieve certain results than smaller firms. Furthermore, political connections of board members do not moderate the effect of company age and company size on earnings management significantly. It is therefore noteworthy that political connections of board members do not moderate the effect of company age and company size on earnings management significantly. The study recommends that the various regulatory bodies could introduce a system that can regulate the amount of discretion that can be exercised by managers or companies in order to reduce the amount of earnings management through manager’s discretion.

The study also recommends that increased attention should be given to internal control mechanisms to help curtail aggressive corporate earnings manipulations, reduce the effect of political connection, and enhance the financial reporting quality, particularly in Nigeria. There is need to employ statutory auditor in reducing the effect of earnings management techniques on the reliability of financial reporting. Again active corporate governance principles can be used to control the practices of earnings management by using independent non-executive directors without political inclination.

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