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# Directors' Compensation and Earnings Management Practices: Evidence from the Nigerian Banking Sector

Muinat Wuraola, Salawu[1*], Semiu Babatunde, Adeyemi[1] and Imoleayo Foyeke, Obigbemi[1]

[1] Department of Accounting, Faculty of Management Sciences, University of Lagos, Nigeria

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**ABSTRACT**

*Compensation contracts is one of the tools recommended by theorists and scholars towards ensuring that directors perform their function of effective monitoring of an organisation. However, this may induce earnings management (EM) practices as a result of being tied to accounting earnings or stock prices. The study thus evaluated the effect of directors' compensation on EM practices within the Nigerian banking sector anchored on the Agency Theory. Adjusted population of eleven listed commercial banks was used as the census sampling method was employed. Directors' compensation was measured using a mix of executive directors and non-executive directors (NEDs) compensation while EM practices was proxy by discretionary provision for loan loss (DPLLs) measured using the Beaver and Engel (1996) model. Using the ordinary least square (OLS) regression, all forms of directors' compensation except executive compensation were found to have positive effect on EM practices. However, only NEDs fees and allowances was found to have a significant effect on EM practices necessitating the regulation of directors' compensation. The study concluded that directors' compensation does affect EM practices of listed banks in Nigeria though to varying extent depending on the kind of compensation. The study recommended a shift of focus from just Chairman compensation to include the totality of NEDs compensation and an institution of guidelines for mandatory disclosure of directors' compensation. The study thus provides practical contribution for regulatory authorities towards ensuring that the accounting process is rid of EM practices as well as investors by consolidating confidence in the Nigerian banking sector.*

**Keywords:** Banking Sector, Directors' Compensation, Earnings Management, Executive Directors, Non-executive Directors

## 1. INTRODUCTION

Financial scandals which rocked the corporate world in the early 2000s questioned the role which accounting plays in conveying the economic reality of the organisation (Hassen, 2014). These scandals also questioned the truthfulness and fairness of published financial statements as such scandals could be indicative of earnings management (EM) practices. EM refers to situations in which managers employ their subjective judgment in financial reporting and transaction structure, resulting in changes in financial reports that mislead users about the organisation's financial performance (Healy & Wahlen, 1999). Capital market expectations, executive compensation tied to accounting figures, regulatory requirements and concentrated ownership with insider control are some of the most frequently highlighted reasons for corporations engaging in EM practices (Bushman & Smith, 2001; Healy & Wahlen, 1999; Leuz et al., 2003). Furthermore, Teoh et al. (1998) demonstrate opportunistic EM during stock offerings, whereas Healy (1985) provides a compensation-based rationale for EM practices. EM is a practice that is greatly frowned out all over the world especially when it leads to the death or collapse of the organisation involved.

*Corresponding Author: makeem-omosanya@unilag.edu.ng

Accountants and legal practitioners have been brought to the book in various countries for involvement or aiding of the practice. However, it is a practice that has come to stay as the accounting profession also recognises the ethical and unethical aspect of it. The agency problem is one of the reasons why EM practices continue to persist (Xie et al., 2003) as the agents (directors) may decide to inflate earnings towards achieving their selfish motives (Wu et al., 2016). The optimal compensation contract is one of the tools recommended by theorists and scholars towards ensuring that executive directors and non-executive directors (NEDs) alike continue to perform their function of effective monitoring of an organisation affair (Fama & Jensen, 1983; Jensen & Meckling, 1976). Thus, directors are been compensated for their involvement in the organisations job through different means (financial and otherwise). Directors' compensation refers to remuneration to organisations directors for work done towards reducing conflict of interest between owners and directors as Holmstrom (1979, 1982) suggests effectively constructed compensation contracts as a means to mitigate agency costs. In recent years, this compensation has included a substantial volume of stock options, which have been found to positively affect company value due to a favourable reaction of the stock market to the implementation of pay for performance schemes (Morgan & Poulsen, 2001). This could however have a detrimental impact as several financial scandals have been linked to this type of compensation (Denis et al., 2006). Zhou et al. (2016) discovered a relationship between real EM practices and executive compensation.

This study thus investigates whether the EM behaviour of organisations is affected by its directors' compensation since compensation contracts are able to induce EM practices as a result of being tied to accounting earnings or stock prices. The study particularly focused on the influence that compensation of directors could have on the EM behaviour of the organisation as there are limited literature on this area in Nigeria despite the pervasiveness of similar studies in the developed countries such as US, UK, China and developing countries such as Malaysia and Kenya. Similar studies in other countries have helped the regulatory authorities to promulgate regulations towards making the outcome of the accounting process a credible and reliable one. It is thus expected that this study would assist regulatory agencies in Nigeria such as the Financial Reporting Council of Nigeria (FRCN) and the Central Bank of Nigeria (CBN) in making rules and regulations that would ensure the accounting process and its outcome in Nigeria is seen in a good light.

The Agency Theory postulates that in a situation of conflict of interest, managers might be induced to manage earnings so as to protect their interest especially in the area of renumeration. Thus, the study used the Agency Theory as a basis for explaining how the compensation of managers could influence the organisation earnings management behaviour. There is sparse literature on the subject on Nigeria despite the prevalence of similar studies in other countries as very limited studies such as Moses et al. (2020); Zubair and Abubakar (2021) have focused on determining how compensation contracts affect EM practices in Nigeria. Also, such studies in Nigeria have been restricted to other sectors of the economy such as the manufacturing or consumer goods sector, thus focus is shifted to the financial sector of the Nigerian economy in this study as they are most affected in terms of huge directors' compensation packages in Nigeria (Abdulkadir, 2021). The focus on the financial sector also means a consolidation of confidence in the Nigerian financial sector with particular emphasis on the banking sector.

The study therefore evaluated the impact of directors' compensation (executive directors' compensation, director's post-employment benefits, NEDs fees and allowance and Chairman renumeration) on EM practices in the Nigerian financial sector. Limitation to a very restricted number of firms in the Nigerian business environment may however affect the generalisability of its results. Also, regulations peculiar to the focus sector may not affect other sectors thus creating a limitation for the study. The study thus evaluated the impact of directors' compensation on EM practices in published financial statements within the country with particular reference to the financial sector.

### 1.2. Research Objectives

- To examine the effect of executive directors' compensation on EM practices.
- To determine the effect of directors' post-employment benefits on EM practices.
- To determine the effect of NEDs fees and allowances on EM practices.
- To examine the relationship between Chairman compensation and EM practices.

## 2. LITERATURE REVIEW

Extant literature contains various research which has been carried out towards understanding the relationship between directors' compensation and EM practices. Majority of these studies have however been carried out in the developed countries while sparse evidence documenting the relationship between these variables exists in the Nigerian context. The results of these studies however differ from one to the other. Also, different kinds of compensation have also been found to elicit diverse EM behaviour by an organisation. The literature review is thus carried out to highlight the findings of previous related studies with a view to establishing a cause for the present study. Zouari et al. (2015) discovered a substantial positive association between CEO attributes and EM practices by analysing secondary data from 153 French listed businesses using OLS regression models. CEO turnover was found to exhibit an insignificant relationship with the EM practices of firms while other CEO characteristics such as duality of roles and nationality were found to exhibit a positively significant relationship with the quality of financial reporting by Bouaziz et al. (2019). Between 2007 and 2015, Harakeh et al. (2019) discovered a positive association between EM and CEO incentive compensation among FTSE350 UK public companies, though this was mitigated by having a number of female directors on the board, as an adverse relationship was discovered between female directors and EM practices, as well as the existence of female directors and CEO incentive compensation. Chu and Song (2012) discovered a positive endogenous relationship between CEO compensation and over investment using secondary data from the annual reports of 196 Malaysian public listed organisations as one percent of over investment can explain twelve percent (12%) of EM practices.

Douglas (2020) finds a significant effect of the make-up of executive compensation (track salary, bonuses, and stock ownership) on the usage of real EM practices within an organisation in line with Chou and Chan (2018) who found that high CEO compensation increases the real EM activities within an organisation. Also, Marilyn (2014) who examined the relationship between EM practices and CEO compensation (option and incentive component) during the periods 2004 to 2013 found a positive relationship between the real EM and the CEO compensation of the sampled firms. However, Hassen (2014) discovered a negative association between executive compensation and EM practices. Moses et al. (2020) discovered that equity incentives and executive compensation have a positive but insignificant effect on real activity management, causing only 6.9% variation in real activity management in the Nigerian industrial goods sector. Harakeh et al. (2019) also found a positive relationship between EM practices and Chief Executive Officer (CEO) incentive compensation although a negative association was recorded between female directors and EM practices. However, Zubair and Abubakar (2021) finds that a significant relationship exists between executive compensation (share-based payments, fixed salary and allowances and bonuses) and EM (accrual based) among listed Nigerian industrial goods firms. While Harakeh et al. (2019) establishes that the presence of female directors plays a moderating role on the association between EM practices and the CEO incentive compensation.

In the UK, Zheng (2020) also discovered that directors engage more in accrual-based EM to manipulate earnings downward to achieve abnormally high compensation for themselves. They however report a decline in performance using sales-based manipulation while production costs-based manipulation is used to boost earnings. This reflects that various EM practices can be used to manage earnings positively or negatively towards meeting diverse targets. Using data from 135

non-financial Spanish listed corporations from 2008 to 2016, Saona et al. (2019) establish that excessive remuneration leads to more EM and that a more engaged board does not hinder managers from engaging in EM practices which corroborates the findings of Li and Thibodeau (2019) who found that executives are more likely to manipulate earnings to achieve their personal compensation goals. Cohen et al. (2008) observed that an increase in accrual-based EM corresponds to an increase in the proportion of equity-based executive remuneration while bonus remuneration was found to have a negative significant effect on EM practices but a favourable effect on financial performance according to (Prihastomo & Khafid, 2018). Mohamed (2020) determined that there is a negative but not statistically significant association between executive salary and EM practices among Kenyan banks utilising primary and secondary data. According to the primary data, stock compensation and bonus payments had a positive effect on EM practices whereas cash compensation had no impact on EM practices.

EM was discovered to be negatively related to management ownership among listed Kuala Lumpur Stock Exchange (KLSE) firms in Norman et al. (2005). According to Hossain and Monroe (2015), there is a substantial and positive relationship between CFOs' short-term and long-term compensation and the absolute value of discretionary current accruals, demonstrating that the kind of compensation has no effect on the organisation's EM behaviour. Prihastomo and Khafid (2018) found that bonus compensation has a negative significant effect on EM practices and that financial performance can mediate the relationship between compensation bonuses and EM practices in a positively significant manner. This lends credence to the fact that other factors beyond compensation may affect the EM practices of different organisations. Global financial crisis was used in moderating the relationship between EM practices and CEOs compensation by Assenso-Okofo et al. (2019) who discovered a change in the relationship between CEO compensation and EM changes due to the crisis and recommends that CEO compensation packages are appropriately designed during economic crisis to ensure alignment of shareholders and managements interests towards decreasing the agency problem. Using the three models of Dechow et al. (1995) (modified Jones model); Kothari et al. (2005) and Raman and Shahrur (2008) to estimate discretionary accruals, Charfeddine et al. (2013) found that the results of factors that determine EM in emerging countries using a case study of 19 Tunisian firms seem to depend on the model for estimating the discretionary accruals. Though, this research has gone a long way in providing a background against which the relationship that exists between EM and directors' compensation can be gauged, the Nigerian environment has not been studied extensively which gives rise to the need to break the grounds in understanding how these variables are related in the Nigerian business environment context.

### 2.1 Agency Theory

The Agency Theory highlights the conflict of interest that arises due to the separation of ownership from control of the modern businesses which requires that an agent (directors) is recruited to oversee the organisation's day-to-day operations. The theory suggests compensation for mutual benefits that would enhance positive performance of the organisation (Khan et al., 2019); thus, compensation contracts are utilised by the shareholders (principal) to reduce agency costs and motivate managers (agents) interests in maximising firm value. Directors' compensation which could be in various forms- cash, stock options, loans or their combination is therefore used as a settlement for the directors towards ensuring they act in the firms' best interest. This may however lead directors to misrepresent the true picture of the firm towards achieving their selfish interest on performance-based contracts as compensation contracts have been found to provide an insight for opportunistic driven EM. Thus, Agency Theory helps to explain how the quest for settling the directors for the firms benefit through compensation can lead to the practice of EM. The theory is very relevant as it has been used in many previous similar studies to explain how directors' compensation is related to EM practices. The study therefore postulates that the different kinds of compensation available to directors (executive and non-executive) in the Nigerian banking sector can have varying effects on the EM practices of the banks. These compensations are usually

reported as executive compensation, post-employment benefits and non-executive directors' fees and allowances, Nigerian banks also report the compensation for the Chairman separately from other directors. Thus, the study developed its hypotheses by evaluating the effect of each kind of compensation reported on EM practices as follows:

$H0_1$**:** Executive directors' compensation does not significantly affect EM practices in the Nigerian financial sector.
$H0_2$: Directors post-employment benefits does not significantly affect EM practices in the Nigerian financial sector.
$H0_3$: Directors fees and allowances do not significantly affect EM practices in the Nigerian financial sector.
$H0_4$: Chairman compensation does not significantly affect EM practices in the Nigerian financial sector.

## 2.2 Conceptual Model

Figure 1 depicts the expected relationship that exists between the independent variables of directors' compensation (broken down into executive directors' compensation, post-employment benefits, NEDs fees and allowances and Chairman compensation) and dependent variable of EM (proxy by discretionary provision for loan loss). The different components of directors' compensation studied are expected to influence the EM practices of the focus organisations. Firm size and financial performance are adopted as control variables.

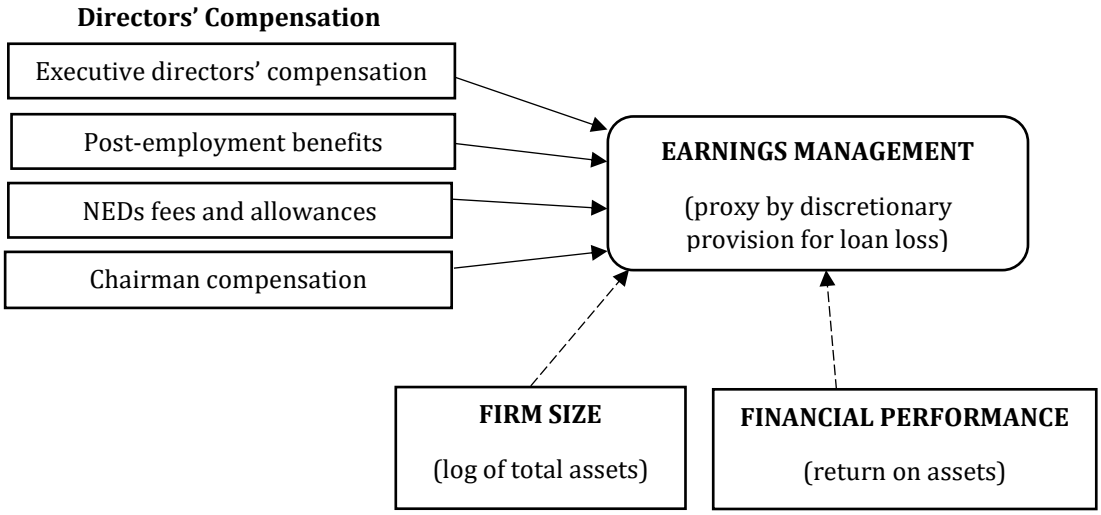


**Figure 1.** Conceptual Model of the Study

Based on Figure 1, the a-priori expectation is a positive relationship between directors' compensation and EM practices in the Nigerian banking sector as it is expected that higher compensation would be a drive for managers to carry out EM practices towards ensuring stability and consistency in their compensation overtime.

## 3. RESEARCH METHODS

The study employed the ex-post facto research design making use of data published in the financial statements of the focus organisations which is publicly available. The study focused on listed commercial banks operating in the financial sector of the Nigerian economy as a result of various corporate scandals that have been linked to the sector and also due to the fact that the executives of these organisations receive excess compensation packages even in the midst of the economic downturn (Abdulkadir, 2021).

There are currently twenty-two (22) commercial banks under the purview of CBN although only thirteen (13) of these banks are listed on the NGX as at 31st December, 2022 which forms the study population. However, ECO bank -which is an international corporation - reporting currency is in the US dollars which is not in tandem with what is generally obtainable in the sector, thus it was eliminated from the population. Also, Guaranty Trust Holding Company (GTCo) does not have adequate financial statements for the period under review (2015-2021) as it was listed in the year 2020.

Therefore, the study made use of only eleven (11) of the listed commercial banks in Nigeria that satisfied the required criteria and forms the adjusted population of the study. The eleven (11) banks also forms the study sample as the census sampling method is adopted. The published audited financial statements of the eleven listed commercial banks found suitable for the study was used for extraction of secondary data relevant to them for the financial years 2015-2021 in order to carry out analysis and draw conclusions for the study findings.

### 3.1 Model and Data

Due to the peculiarity of financial institutions especially banks, the factors that contribute to their EM activities frequently differs from other non-financial companies. In the banking industry, EM is carried out through specific balance sheet items i.e. provision for loan losses (PLL) and reserve for loan losses (RLL) which are items initially intended to protect banks from the credit risk they have to bear in high degrees due to their structure but which they use for their selfish benefits (Uygur, 2013).

The discretionary provision for loan loss has thus been adopted in literature for determining EM practices in the banking industry (Mohamed, 2020). This can be calculated by using the Beaver and Engel (1996) model which determines the EM practices in banks financial statements by deducting non-discretionary provision for loan losses from the total provision for loan losses as shown below:

$$\text{Total PLLs}_{it} = \beta_0 + \beta_1 \text{NPL}_{it-1} + \beta_2 \text{CHGNPL}_{it} + \beta_3 \text{CHGLOANS}_{it} + \varepsilon \quad (1)$$

All of the variables are deflated by the $\text{NPL}_{it-1}$
The fitted values of (1) are used in determining the non-discretionary provision for loan loss as follows:

$$\text{NPLLs}_{it} = \beta_0 + \beta_1 \text{NPL}_{it-1} + \beta_2 \text{CHGNPL}_{it} + \beta_3 \text{CHGLOANS}_{it} \quad (2)$$

The difference between the total provision for loan loss and non-discretionary provision for loan loss is used in determining the discretionary provision for loan loss (proxy for EM) as follows:

$$\text{DPLLs} = \text{Total PLLs} - \text{NPLLs} \quad (3)$$

where:

$\text{Total PLLs}_{it}$ = total provision for loan losses of bank "i" at time "t"
$\text{NPL}_{it-1}$ = non-performing loans for bank "i" at the beginning of the period (time "t-1")
$\text{CHGNPL}_{it}$ = change in the value of non-performing loans of bank "i" at time "t"
$\text{CHGLOANS}_{it}$ = change in the value of loans of bank "i" at time "t"
$\text{NLLPs}_{it}$ = non-discretionary provision for loan loss of bank "i" at time "t"
DPLLs = discretionary provision for loan loss of bank "i" at time "t"

Thus, in line with previous similar studies such as Mohamed (2020); Morris et al. (2016); Uygur (2013) the study adopted the use of the Beaver and Engel (1996) discretionary loan loss provision model in determining the EM practices within the studied banks financial statements.

Various factors such as firm size, financial performance, leverage have been found to influence EM practices apart from directors' compensation (Bartov et al., 2000; Warfield et al., 1995). Directors' compensation has been found to be higher in firms with larger sizes and better financial performance. The accrual behaviour of directors of firms with differing sizes have also been found to be different with larger firms particularly reporting more stable discretionary accruals (Dechow & Dichev, 2002). Thus, size is included as a variable affecting the EM behaviour of a firm. Prihastomo and Khafid (2018) found that financial performance can positively and significantly mediate the relationship between directors' compensation (in particular bonuses) and EM, while Dechow et al. (1995) discovered that poorly performing organisations are more prone to reporting overestimated accruals. Thus, financial performance is included as a variable affecting the EM behaviour of a firm.

In line with previous similar studies (Mohamed, 2020; Uygur, 2013; Bergstresser & Philippon, 2006), the study includes bank size and financial performance as variables related to compensation and, therefore, controls for them. Thus, these variables are included in the regression model as control variables to ensure accurate results in determining the relationship between directors' compensation and EM practices in Nigeria.

The following OLS regression model was thus adopted for determining the relationship between directors' compensation and EM practices of banks.

$$EM = \beta_0 + \beta_1 DC + \beta_2 FS + \beta_3 FP + \varepsilon \quad (4)$$

A decomposition of all components of compensation studied generates the following regression model:

$$EM = \beta_0 + \beta_1 EXEC + \beta_2 POST + \beta_3 FEES + \beta_4 CC + \beta_5 FS + \beta_6 FP + \varepsilon \quad (5)$$

Where

EM = earnings management (proxy by DPLLs)
DC = directors' compensation
EXEC = executive directors' compensation
POST = directors post-employment benefits
FEES = NEDs fees and allowances
CC = Chairman compensation
FS = firm size
FP = financial performance
ε = error term

Descriptive statistics such as mean, median, maximum, minimum, standard deviation, Skewness, Kurtosis and Jarque-bera were employed in describing the dependent and independent variables of the study. Also, inferential statistics was carried out with the use of the OLS regression for analysing the relationship between the dependent and independent variables of the study towards answering the research questions and testing the study's hypotheses.

The regression model was considered appropriate as it helps with explaining the degree of cause and effect of variables and their level of association (Kothari et al., 2005). It has also been employed in similar studies in testing the relationship between the studied variables. All analyses were

carried out using Eviews version 10 software after collecting the required data from the financial statements of the studied banks.

## 4. RESULTS AND DISCUSSIONS

### 4.1 Descriptive Statistics of Variables

Table 1 shows descriptive statistics on the variables related to directors' compensation and EM practices in the Nigerian banking sector. The descriptive statistics reveal significant variability in these variables across the banks in the sample, which may have implications for EM practices in the sector. The mean executive directors' compensation is ₦725,513,800 with a standard deviation of ₦410,116,300, maximum of ₦1,428,000,000 and a minimum of ₦16,828,000. This indicates that there is significant variation in executive directors' compensation in the Nigerian banking sector.

**Table 1** Descriptive Statistics of Independent and Control Variables

| | Executive Directors' compensation (₦'000) | Post-employment Benefits (₦'000) | NEDs Fees and Allowances (₦'000) | Chairman Compensation (₦'000) | Firm Size | Financial Performance (%) |
|---|---|---|---|---|---|---|
| **Mean** | 410116.3 | 109840.1 | 264088.5 | 28887.25 | 9.262515 | 0.016911 |
| **Median** | 349500 | 19000 | 244500 | 30000 | 9.235499 | 0.012428 |
| **Maximum** | 1428000 | 931000 | 744000 | 66206 | 9.950967 | 0.094579 |
| **Minimum** | 16828 | 0 | 33000 | 2000 | 8.130196 | -0.10553 |
| **Std. Dev.** | 297257.3 | 224929.4 | 169330.2 | 19575.16 | 0.408231 | 0.020622 |
| **Skewness** | 0.853 | 2.715529 | 0.736737 | 0.323259 | -0.375253 | -1.75718 |
| **Kurtosis** | 3.53941 | 9.390477 | 3.006615 | 1.992347 | 2.692657 | 19.74264 |
| **Jarque-Bera** | 9.87099 | 187.5589 | 6.332582 | 4.001441 | 2.110178 | 938.9726 |
| **Probability** | 0.007187 | 0 | 0.04216 | 0.135238 | 0.348161 | 0 |
| **Sum** | 30348606 | 7029765 | 18486194 | 1935446 | 713.2137 | 1.302111 |
| **Sum Sq. Dev.** | 6.45E+12 | 3.19E+12 | 1.98E+12 | 2.53E+10 | 12.66561 | 0.032319 |
| **Observations** | 74 | 64 | 70 | 67 | 77 | 77 |

The mean post-employment benefits is ₦109,840,100 with a standard deviation of ₦224,929,400. Maximum benefit is ₦931,000,000 while the minimum benefit is zero. The high standard deviation suggests that there is significant variability in post-employment benefits across the banking sector although some banks did not disclose this variable in their financial statements. The mean NEDs fees and allowances was ₦264,088,500 with a standard deviation of ₦169,330,200. Maximum fees and allowances is ₦744,000,000 while the minimum was ₦33,000,000. The standard deviation suggests that there is considerable variability in NEDs fees and allowances across the sector which could be attributable to variation in the number of NEDs in each bank as regulations does not stipulate an absolute number of NEDs but prescribes guidelines on the ratio of executive directors to NEDs.

The mean of chairman compensation was ₦28,887,250 with a standard deviation of ₦19,575,160 which shows a great discrepancy in value of compensation to chairman of the studied banks in the period under consideration as attested to by the difference between the highest and lowest chairman compensation which are ₦66,206,000 and ₦2,000,000 respectively. This is in tandem with current regulations which does not specify chairman compensation in Nigeria thus different banks adopt different policies with regards to this compensation. The mean firm size and financial performance is 9.26 and 0.017% respectively with standard deviation values of 0.41 and 0.02% respectively. The negative skewness and kurtosis of financial performance indicate that the distribution is skewed to the left and has a relatively flat peak, meaning that most banks exhibited the same performance over the years relatively.

Table 2 shows the descriptive statistics of EM practices (proxied by DPLLs) for the period under review (2015 to 2021). The mean DPLLs for all years was positive, indicating that on average, Nigerian banks were using EM to overstate their profits. In 2015, the mean DPLLs was to the tune of ₦18,635,774,000 with a median of ₦9,008,547,000 indicating that half of the banks had DPLLs lower than the mean amount. The maximum DPLLs for 2015 was ₦104,000,000,000 which suggests that at least one bank engaged in significant EM during that year. The minimum DPLLs for 2015 was negative, indicating that some banks may have actually reduced their reported profits.

**Table 2** Descriptive Statistics of Dependent Variable (Earnings Management)

| Year | Mean | Median | Maximum | Minimum | Std. Dev. | Skewness | Kurtosis |
|---|---|---|---|---|---|---|---|
| 2015 | 18635774 | 9008547 | 104000000 | -1725331 | 28920313 | 2.609564 | 8.302002 |
| 2016 | 24036580 | 5416942 | 199000000 | -5769101 | 58653146 | 2.722204 | 8.674375 |
| 2017 | 6507912 | 4729297 | 164000000 | -207000000 | 90290306 | -0.697016 | 4.600449 |
| 2018 | 27578942 | 5904545 | 250000000 | -131000000 | 93882624 | 0.989501 | 4.507851 |
| 2019 | 8741465 | 7378183 | 59850626 | -36052251 | 23825112 | 0.339731 | 3.767978 |
| 2020 | 19684502 | 23840708 | 42635712 | -12972066 | 17371443 | -0.483776 | 2.148816 |
| 2021 | 22375965 | 8823178 | 67211039 | -3376897 | 24365428 | 0.639178 | 1.979756 |

Furthermore, in 2021, the mean DPLLs has increased to ₦22,375,965,000 with a median of ₦8,823,178,000. The maximum DPLLs for 2021 was ₦67,211,039,000 indicating that some banks continued to engage in aggressive EM practices. The year 2018 had the highest income increasing EM (₦250,000,000,000) while the year 2017 has the highest income decreasing EM (₦207,000,000,000). Least income decreasing EM was recorded in 2021 (₦3.376,897,000) while the least income increasing EM was occurred in the year 2020 (₦42,635,712,000). The descriptive statistics suggest that EM was prevalent in the Nigerian banking sector during the period covered by the study, with some banks engaging in very income increasing EM practices and others engaging in income decreasing EM practices. **$H0_1$:** Executive directors' compensation does not have a significant effect on EM practices in the Nigerian financial sector.

The regression analysis in Table 3 examines the association between executive directors' compensation and EM practices as measured by the DPLLs. The variable "executive directors' compensation" has a correlation of -9.368693, showing a negative relationship between the level of executive directors' compensation and EM practices in general. The coefficient, however, is not statistically significant, as evidenced by the high p-value of 0.6638. This implies that higher levels of CEO compensation may be linked to lower levels of EM practices. As a result, high executive compensation tends to limit EM practices.

**Table 3** Executive Directors' Compensation and EM Practices

| Variables | Coefficient | Std. Error | t-Statistic | Prob. |
|---|---|---|---|---|
| **Executive_compensation** | -9.368693 | 21.46221 | -0.43652 | 0.6638 |
| **Financial_performance** | -80890767 | 3.22E+08 | -0.25133 | 0.8023 |
| **Firm_size__log_of_total_asset** | 53092063 | 16939740 | 3.134172 | 0.0025 |
| **C** | -4.69E+08 | 1.55E+08 | -3.020395 | 0.0035 |
| **R-squared** | 0.130627 | **Mean dependent var** | | 19010736 |
| **Adjusted R-squared** | 0.093368 | **S.D. dependent var** | | 56122309 |
| **S.E. of regression** | 53438107 | **Akaike info criterion** | | 38.47848 |
| **Sum squared resid** | 2.00E+17 | **Schwarz criterion** | | 38.60303 |
| **Log likelihood** | -1419.704 | **Hannan-Quinn criter.** | | 38.52817 |
| **F-statistic** | 3.505927 | **Durbin-Watson stat** | | 0.946977 |
| **Prob(F-statistic)** | 0.019726 | | | |

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Firm size (log of total assets), on the other hand, has a statistically insignificant positive effect on EM practices (r=53092063, p-value > 0.05). However, financial performance has a statistically insignificant negative impact on EM (r=-80890767, p-value >0.05). As a result, the null hypothesis is not rejected because it has been discovered that executive directors' compensation has no substantial effect on EM practices. In accordance with objective one, the study discovered an insignificant negative relationship between executive director compensation and EM practices in the Nigerian banking sector. This is however in contrast to Sun (2012) who found a positive significant relationship between executive compensation and EM practices but in line with the findings of Moses et al. (2020); Zhou et al. (2016) and Mohamed (2020) who found that an insignificant negative relationship between accrual-based EM and executive compensation. **$H0_2$:** Directors post-employment benefits do not significantly affect EM practices in the Nigerian financial sector.

The regression results table in Table 4 reveals the relationship between post-employment benefits and EM practices as measured by DPLLs. Post-employment benefits are positively related to DPLLs, meaning that corporations that offer post-employment rewards to their directors are more likely to engage in EM activities. However, at the 5% level of significance, this coefficient is not statistically significant (p-value = 0.16). With an R-squared value of 0.66, the model explains 66% of the variation in DPLLs.

**Table 4** Post-Employment Benefit and EM Practices

| Variables | Coefficient | Std. Error | t-Statistic | Prob. |
|---|---|---|---|---|
| **Post_employment_benefits** | 45.16 | 31.88 | 1.42 | 0.16 |
| **Firm_size__log_of_total_asset** | 51714701.00 | 18418906.00 | 2.81 | 0.01 |
| **Financial_performance** | -95041228.00 | 340000000.00 | -0.28 | 0.78 |
| **C** | -465000000.00 | 169000000.00 | -2.74 | 0.01 |
| **R-squared** | 0.66 | **Mean dependent var** | | 20138505.00 |
| **Adjusted R-squared** | 0.59 | **S.D. dependent var** | | 60274566.00 |
| **S.E. of regression** | 56759215.00 | **Akaike info criterion** | | 38.61 |
| **Sum squared resid** | 19300000.00 | **Schwarz criterion** | | 38.74 |
| **Log likelihood** | -1231.42 | **Hannan-Quinn criter.** | | 38.66 |
| **F-statistic** | 3.68 | **Durbin-Watson stat** | | 1.02 |
| **Prob(F-statistic)** | 0.02 | | | |

Firm size, on the other hand, has a statistically significant positive association with EM practices (p-value = 0.01), implying that larger firms are more likely to engage in EM practices. Financial performance has a statistically insignificant negative relationship with DPLLs (p-value = 0.78), implying that organisations that perform well financially are less likely to engage in EM activities. Overall, the findings indicate that post-employment benefits may not be a significant predictor of EM practices. As a result, the study fails to reject hypothesis two since post-employment benefits were found to have no significant effect on EM practices. For objective two, it is thus established that directors' post-employment rewards have a positive but insignificant effect on EM practices. This is line with the findings of Hossain and Monroe (2015) who found a positive and significant association between EM practices and CFOs long term compensation. **$H0_3$:** NEDs fees and allowances do not significantly affect EM practices in the Nigerian financial sector.

The regression analysis presented in Table 5 evaluated the effect of NEDs fees and allowances on EM practices (as measured by DPLLs) while controlling for firm size and financial performance. Fees and allowances are found to be significantly associated to DPLLs, with a coefficient of 37.47093 and a p-value of 0.03537. This suggests that when NEDs fees and allowances increase, banks are more likely to engage in EM practices.

**Table 5** Fees and Allowance and EM Practices

| Variables | Coefficient | Std. Error | t-Statistic | Prob. |
|---|---|---|---|---|
| **Fees_and_allowances** | 37.47093 | 40.1187 | 0.934002 | 0.03537 |
| **Firm_size__log_of_total_asset** | 50174738 | 18326889 | 2.737766 | 0.0079 |
| **Financial_performance** | -95389934 | 326000000 | -0.292941 | 0.7705 |
| **C** | -456000000 | 167000000 | -2.733223 | 0.008 |
| **R-squared** | 0.539809 | **Mean dependent var** | | 19644832 |
| **Adjusted R-squared** | 0.460071 | **S.D. dependent var** | | 57662531 |
| **S.E. of regression** | 54681901 | **Akaike info criterion** | | 38.52741 |
| **Sum squared resid** | 1970000000 | **Schwarz criterion** | | 38.65589 |
| **Log likelihood** | -1344.459 | **Hannan-Quinn criter.** | | 38.57844 |
| **F-statistic** | 3.575729 | **Durbin-Watson stat** | | 0.954378 |
| **Prob(F-statistic)** | 0.018451 | | | |

Furthermore, with a coefficient of 50174738 and a p-value of 0.0079, the size of the company is found to have a substantial positive effect on DPLLs. This implies that, all things being equal, larger enterprises engage in more EM than smaller firms. Financial performance, on the other hand, is found to be adversely connected to DPLLs, with a coefficient of -95389934 and a p-value of 0.7705. The overall model is statistically significant, as indicated by the F-statistic of 3.575729 and the p-value of 0.018451. The Durbin-Watson statistic value of 0.954378 indicates that the residuals have no substantial autocorrelation, which is a desired attribute of regression models. Overall, the findings imply that fees and allowances, as well as company size, are relevant factors to examine when investigating EM practices in businesses. Thus, hypothesis three is rejected because NEDs fees and allowances were found to have a significant effect on the EM practices of the banks analysed. As a result, it is concluded that NEDs fees and allowances have a positive and significant effect on EM practices, in line with objective three. This resonates with the findings of Alkebsee et al. (2021) who found a positive association between the compensation of audit committee members (usually NEDs) and accrual EM in the organisation. **$H0_4$:** Chairman compensation do not significantly affect EM practices in the Nigerian financial sector.

Table 6 shows the findings of a regression analysis that evaluated the effect of chairman compensation on EM practices (as measured by DPLLs) while adjusting for firm size and financial performance. According to the findings, chairman compensation is positively associated to DPLLs with a coefficient of 521.9653, but has insignificant effect on EM practices (p-value > 0.05). The r-squared value of 0.11 further demonstrates the minimal effect of chairman compensation on EM practices, since it accounts for only 11% of the variation in EM practices in the firms studied. As a result, $H0_4$ is not rejected by the study. Furthermore, with a coefficient of 44711918 and a p-value of 0.0243, the size of the organisation is revealed to have a substantial positive effect on DPLLs. This implies that, all things being equal, larger enterprises engage in more EM practices than smaller firms. Financial performance, on the other hand, is found to be adversely associated to DPLLs, with a coefficient of -111000000 and a p-value of 0.7711. The entire model is statistically significant, as indicated by the F-statistic of 3.710447 and the p-value of 0.015959. Thus, in accordance with objective four, chairman compensation is found to be positively but insignificantly associated with EM practices on the Nigerian banking sector. This is an innovation in this study as

most previous studies lump up the chairman compensation with other non-executive compensation.

**Table 6** Chairman Compensation and EM Practices

| Variables | Coefficient | Std. Error | t-Statistic | Prob. |
|---|---|---|---|---|
| **Chairman_compensation** | 521.9653 | 369.0391 | 1.41439 | 0.1622 |
| **Financial_performance** | -1.11E+08 | 3.80E+08 | -0.29215 | 0.7711 |
| **Firm_size__log_of_total_asset** | 44711918 | 19378931 | 2.307244 | 0.0243 |
| **C** | -4.09E+08 | 1.75E+08 | -2.33475 | 0.0228 |
| **R-squared** | 0.150157 | **Mean dependent var** | | 20454556 |
| **Adjusted R-squared** | 0.109688 | **S.D. dependent var** | | 58814798 |
| **S.E. of regression** | 55495485 | **Akaike info criterion** | | 38.55935 |
| **Sum squared resid** | 1.94E+17 | **Schwarz criterion** | | 38.69097 |
| **Log likelihood** | -1287.738 | **Hannan-Quinn criter.** | | 38.61143 |
| **F-statistic** | 3.710447 | **Durbin-Watson stat** | | 0.995131 |
| **Prob(F-statistic)** | 0.015959 | | | |

Table 7 shows a panel regression analysis of the combined association between directors' compensation (made up of executive directors' compensation, NED fees and allowances, post-employment benefits) and EM practices (proxy by DPLLs) while table 4.8 shows a panel regression analysis of the combined association between all compensation variables (made up of executive directors' compensation, NED fees and allowances, post-employment benefits and chairman renumeration) and EM practices (proxy by DPLLs).

**Table 7** Association between Directors' Compensation and EM Practices

| Variables | Coefficient | Std. Error | t-Statistic | Prob. |
|---|---|---|---|---|
| **Executive_compensation_** | -0.602506 | 25.50236 | -0.023625 | 0.9812 |
| **Fees_and_allowances_** | 71.92195 | 44.19251 | 1.627469 | 0.0109 |
| **Post_employment_benefits_** | 59.97578 | 34.59426 | 1.733692 | 0.0885 |
| **C** | -3967852 | 18759172 | -0.211515 | 0.8333 |
| **R-squared** | 0.084558 | **Mean dependent var** | | 21424761 |
| **Adjusted R-squared** | 0.035517 | **S.D. dependent var** | | 62063142 |
| **S.E. of regression** | 60951035 | **Akaike info criterion** | | 38.75338 |
| **Sum squared resid** | 2.08E+17 | **Schwarz criterion** | | 38.893 |
| **Log likelihood** | -1158.601 | **Hannan-Quinn criter.** | | 38.80799 |
| **F-statistic** | 1.724219 | **Durbin-Watson stat** | | 0.982934 |
| **Prob(F-statistic)** | 0.172454 | | | |

Table 8 shows that when executive compensation is combined with other compensation variables, it has a positive impact on EM practices. This shows that, when combined with other compensation variables, higher levels of executive compensation may be related with higher levels of EM. This is not the case, however, when executive compensation is evaluated as a separate component influencing EM practices where a negative association is observed just like in the studies of Moses et al. (2020); Zhou et al. (2016) and Mohamed (2020).

**Table 8** Association between All Compensation Variables and EM Practices

| Variables | Coefficient | Std. Error | t-Statistic | Prob. |
|---|---|---|---|---|
| **Chairman_renumeration** | 925.3696 | 642.8662 | 1.439443 | 0.1565 |
| **Executive_compensation** | 15.05638 | 30.74089 | 0.489783 | 0.6265 |
| **Fees_and_allowances** | 9.736657 | 65.63858 | 0.148337 | 0.0827 |
| **Post_employment_benefits** | 58.58008 | 37.0506 | 1.581083 | 0.1204 |

| | | | | |
|---|---|---|---|---|
| **C** | -2.20E+07 | 2.67E+07 | -0.82325 | 0.4144 |
| **R-squared** | 1.15E-01 | **Mean dependent var** | | 23568802 |
| **Adjusted R-squared** | 0.041022 | **S.D. dependent var** | | 65782741 |
| **S.E. of regression** | 64419329 | **Akaike info criterion** | | 38.88931 |
| **Sum squared resid** | 1.99E+17 | **Schwarz criterion** | | 39.07519 |
| **Log likelihood** | -1025.567 | **Hannan-Quinn criter.** | | 38.96079 |
| **F-statistic** | 1.56E+00 | **Durbin-Watson stat** | | 1.072791 |
| **Prob(F-statistic)** | 0.201242 | | | |

This highlights the importance of considering other factors when examining the relationship between executive directors' compensation and EM practices as executive compensation is attached to other compensation and benefits. This indicates that other compensation variables, such as NEDs fees and allowances, post-employment benefits may influence the relationship between executive directors' compensation and EM practices. The practical implication of the positive coefficient for executive directors' compensation when combined with other compensation variables on EM practices is that there may be a link between higher levels of executive directors' compensation and a greater propensity for EM practices. This suggests that executives may be motivated to manipulate earnings in order to increase their compensation, or that higher levels of executive directors' compensation may lead to greater pressure to meet or exceed earnings targets as recorded in the findings of Saona et al. (2019) and Zheng (2020).

## 5. CONCLUSION

The study was able to find evidence of EM practices in the studied listed banks in Nigeria as DPLLs was both positive and negative but never zero, which shows that both income increasing and income decreasing EM practices were carried out in these banks. Although, more banks carried out income increasing EM, the value of the largest income decreasing EM is higher than the largest income increasing EM suggesting that some banks try as much as possible to reduce their profits towards achieving various objectives as found out in Zheng (2020). The study found that executive directors' compensation, post-employment benefits and chairman compensation have an insignificant effect on EM practices while NEDs compensation (fees and allowances) have a significant effect on EM practices. All compensation variables except executive directors' compensation were found to have positive effect on EM practices of the studied banks which shows that regulating compensation of directors should be a focus for regulatory agencies. This is in line with the Agency Theory which proposes a distortion of reports on organisations performance if the agents (directors) are rewarded based on performance.

This finding highlights the importance of careful monitoring and oversight of compensation arrangements for directors particularly in the context of financial reporting and EM practices. Companies should ensure that their compensation policies and practices are designed to incentivise ethical behaviour and discourage EM practices and should establish clear guidelines and monitoring procedures to prevent and detect any potential manipulation of financial results.

In line with the study findings, the following recommendations were made:

- The focus should move from scrutiny of only chairman compensation and include the totality of NEDs compensation.
- Guidelines for mandatory disclosure of all directors' remuneration should be instituted.
- There should be more stringent policies against EM practices to reduce the incidence of bank failures.

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