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ANALYSIS OF THE EFFECTS OF GOVERNMENT POLICIES, CORPORATIONS' MAGNITUDE AND PROFITABILITY LEVEL ON REAL, ACCRUAL AND HOLISTIC EARNINGS MANAGEMENT

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ABSTRACT: *This study critically analyses the nexus between political regimes/government policies, corporations' magnitude and profitability level and accrual, real or holistic earnings management among corporations in Nigeria. With this objective, a sample of 1173 observations was collected from 51 corporations for 23 years from 1999 to 2021. Adopting the ex-post-facto design, three hypotheses formed three models analysed with the manova and mvreg. The result showed that political regimes/government policies are evidently statistically significant and determine the extent to which corporations engage in either accrual, real or holistic earnings management. It further showed that corporation magnitude (corpmagt) influence is negative and statistically significant across all the dependent variables; accrual earnings management (accrmgt), real earnings management (realmgt) and holistic earnings management (hoengmgt) while corporation profitability level (cproflev) is positive to accrmgt and negative to both realmgt and hoengmgt. In line with the aforementioned result, it was recommended, amongst others, that CEOs and shareholders of corporations should tighten their supervisory roles by carefully scrutinising all management actions with respect to their reporting policies, choice of accounting treatment and full disclosure.*

KEYWORDS: Corporation Magnitude, Corporation Profitability Level, Political Regime/Government Policies, Profitability Re-Engineering, Holistic Earnings Management Model (HEMM).

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INTRODUCTION

All business organisations established under the enabling law or Act in Nigeria, except very few, which are Not-for-Profit, are established with profitability as the ultimate goal. Change in political administrations varies directly with orchestrated government policies and could affect business operations and outcomes adversely or favourably notwithstanding the magnitude of the corporation and its operations, all corporations strive to make positive impacts that translate to improved and better financial performance.

Financial performance, as a measure of the overall well-being of the corporation, is of paramount interest and serves as an attraction domain in accessing the business operations of any corporation by its stakeholders; managerial, investors and regulatory stakeholders alike. The performance of any corporation, as can be deduced from its financial statement, whether faithfully represented or window dressed (re-engineered), may be partly dependent on its profitability level, magnitude and/or the business policy as structured by the country's political administration.

Unfaithful representation, according to Efenyumi (2023), as cited in Efenyumi and Okwudibe (2023), does not only affect earnings quality but also affects stakeholders' decision-making. The study further affirmed that low earnings quality is proportional to high earnings management and vice visa. Whenever earnings are managed, the financial report has not been faithfully represented and, as such, has been window dressed (i.e. profitability re-engineering). Earnings management could be done through manipulating accruals, manipulating real (business) activities and/or holistic (accrual and real) earnings management (Darmawan, Sutrisno & Endang, 2019; Acar & Coskun, 2020; Jeroh & Efenyumi, 2022; Roychowdhury, 2006).

Studies in the non-financial sector, such as Obeidat (2021), Attia, Ismail and Mehafdi (2022) and Putra, Erlina and Rujiman (2023), have researched profitability and leverage and how they relate to real earnings management; others, such as Inda and Dade (2018) and Gajdosikova, Valaskova and Durana, (2022) investigated profitability and accrual earnings management proxied by the discretionary accruals of the Jones and the modified Jones models while the few in the banking/financial sector used the Discretionary Loan Loss Provision (DLLP) as metrics for measuring earnings management with a variable such as profitability, leverage, liquidity, firm size for the scope of less than ten (10) years without considering political policies as it may affect corporation performance that would stimulate profitability re-engineering.

More so, previous studies examined the effects of profit and other corporate attributes on either real or accrual manipulation without attempting a combination of both the real and the accrual earnings management with the aid of a holistic and comprehensive earnings management approach. With the above thoughts, this study would objectively evaluate the extent to which corporation profitability level, corporation magnitude and political policies (internal and external factors) influence corporations to engage in accrual earnings management, real earnings management and/or holistic earnings management.

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EMPIRICAL REVIEW AND HYPOTHESES DEVELOPMENT

Profitability is the numerical end result of corporate management policies and decisions, and that higher ROA suggests better corporate performance that engenders maximisation of profitability levels; If it is where the principal demands of maximising profits as in agency theory and managers are hopeful of bonus incentives, most probably, the managers indulge in the practices of earnings management (Oktasari, 2020).

According to Uwalomwa, Uwuigbe and Okorie (2015), the larger the magnitude of the corporation, the higher the probable affinity to misrepresent business outcomes, deploy and overstate earnings considering their operations intricacies and complexity of identifying overstatement. However, the result of Ibrahim, Adamu, Uthman & Abba (2022) found a significant negative relationship with the magnitude of the corporation. It concluded that larger corporations are more prone to investors' and regulatory authorities' scrutiny than smaller corporations, smaller corporations are more likely expected to engage in earnings management to avoid reporting losses and low profitability than larger corporations.

In 2018, Cudia and Dela Cruz investigated how earnings management was carried out in Philippine Stock Exchange in the year 2014 with 54 firms using the modified Jones model and found that firm size is not a strong determinant of earnings management, unlike cash flow, leverage and profitability and concluded that corporations with low profitability level are more likely to engage in earnings management; recommended that financial expertise should be considered in board constitution not mere numbers while Inda and Dade (2018) examining how Profitability and firm size relate with earnings management while managerial ownership moderated for from 2012 to 2016 with a sample of 60 companies listed in Indonesia Stock Exchange (IDX) reported that profitability positively affects earnings management unlike firm size that negatively affects earnings management but their research did not relate to us if profitability and size-controlled for political policies of the government would make any difference.

According to Rahmah and Iskandar (2021), who analysed the effect of profitability and financial risk on earnings management for 4 years from 2015 to 2018 with the 3 largest Indonesian provider companies on IDX using multiple linear regression reported their findings that profitability level and financial risk impact positively on earnings management while the empirical study of Widiasmara and Saputri (2021); profitability leverage and free cash flow on earnings management (Discretionary Accruals) for 6 years from 2013 to 2019 on 86 companies from in IDX using MRA techniques found that leverage and free cash flow influenced earnings management, while profitability does not affect earnings management, however, their works could not tell us if an increased scope of twenty (20) years and beyond would prove otherwise or affirm the hitherto result.

Furthermore, the works of Mulia and Setiawati (2023) which studied the effect of tax planning, firm size and profitability on earnings management with 19 firms from 2019 to 2021 in IDX using multiple regression and the modified Jones model discretionary accruals found that tax planning have a substantial effect on earnings management, while firm size and profitability effect on earnings management is very inconsequential while Putra, Erlina and Rujiman (2023) studied Leverage, and Profitability on Earnings Management in banking sub-sector companies listed on the Indonesia Stock Exchange with 30 firms from 2017 to 2021 using multiple linear regression, found that Board of Commissioners has positive but immaterial; and the trios of

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Audit Committee, leverage and profitability have negative and inconsequential effect on earnings management but their study could not confirm that a holistic earnings management approach (a combination of accrual and real activities manipulation) would affirm the same result if controlled for political policies of varied government administrations.

According to Efenyumi, Nwoye and Okoye (2022), Agency theory sets the context for aligning the interests of all parties involved in governing the firm, with the ultimate objective of increasing shareholder value. It provides the theoretical framework to explain the motives and reasons why reported earnings could be influenced because the focus is on investigating how specific key corporate characteristics influence financial accounting issues associated with corporate management's behaviour that leads to the determination of the corporation's earnings management or profitability re-engineering. Thus, this study draws on agency theory to develop hypotheses:

Ho_1: Corporation Magnitude, Corporate Profitability Level and Varied Government Policy do not significantly influence the Accrual Earnings Management of Listed Corporations in Nigeria.

Ho_2: Corporation Magnitude, Corporate Profitability Level, and Varied Government Policy do not significantly influence the Real Earnings Management of Listed Corporations in Nigeria.

Ho_3: Corporation Magnitude, Corporate Profitability Level, and Varied Government Policy do not influence the Holistic Earnings Management of Listed Corporations in Nigeria significantly.

Conceptual Framework of the Study

Based on the introductory background, which encompasses the problem statement and objective of the study and theoretical framework, and the speculated hypothesis of the study, a conceptual research framework can be made as follows:

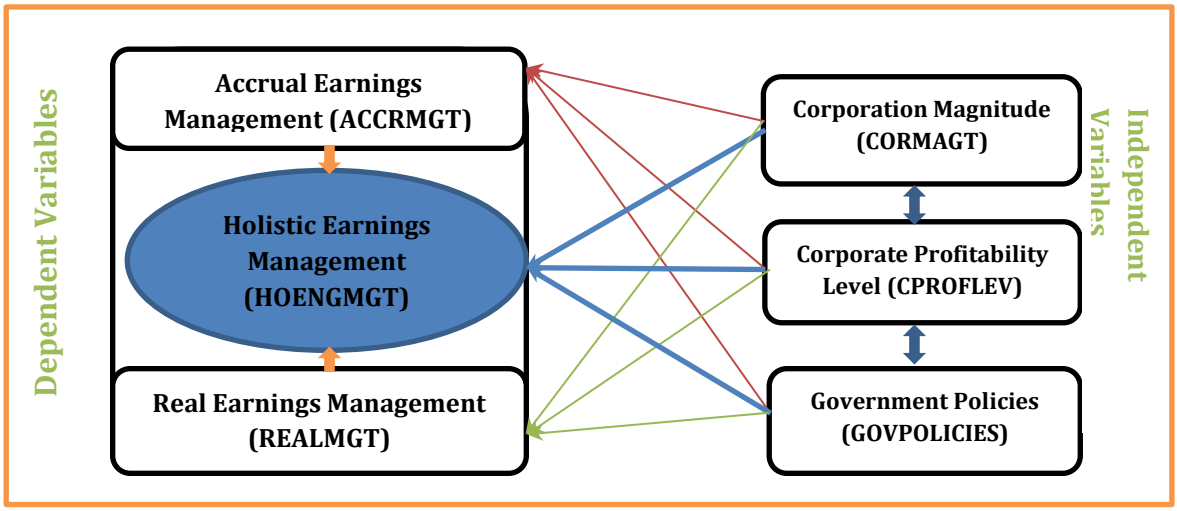

Figure 1: Conceptual Framework for the Study

Source: Conceptualised by the Researcher (2023)

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METHODS AND MODELS

The data for this research being secondary and sourced from annual reports of firms for 23 years from 1999 to 2021, it adopted the ex-post facto research design. Using judgmental sampling, 51 non-financial corporations existing before 1999 when Nigeria began civil rule were selected out of the 107 as of December 2021.

Variables Description and Definition

Table 1: Variables Description and Definition

Variable	Description	Measure	Definition
DEPENDENT	Accrual Earnings Management	**ACCRMGT**	The PMM by Kothari et al., (2005), measured discretionary accruals (DACC), by scaling down total accruals by the lag of total assets
	Real Earnings Management	**REALMGT**	The model of Roychowdhury (2006), measured abnormal cash flow, abnormal production cost and abnormal discretionary expenses
	Holistic Earnings Management	**HOENGMGT**	The HEMM developed by Jeroh and Efenyumi (2022)
INDEPENDENT	Corporation Magnitude	**CORPMAGT**	Logarithm of firm's market capitalization in Naira
	Corporation Profitability Level	**CPROFLEV**	Earnings after tax divided by Total Assets (ROA)
	Government Policies	**GOVPOLICIES**	Dummy variables: 1(Abubakar Regime), 2(Yaradua Regime), 3(Jonathan Regime), 4(Buhari Regime), and 5(Obasanjo Regime) as per no of years served
Source: Field work, 2023			

Model Specification

The Multivariate Multiple Regression model used in testing the speculated hypothesis of this study was as follows:

$$ACCRMGT_{it} = \beta_0 + \beta_1 GOVPOLICIES_{it} + \beta_2 CORPMAGT_{it} + \beta_3 CPROFLEV_{it} + \varepsilon_t$$ **……..Eqn.1**

$$REALMGT_{it} = \beta_0 + \beta_1 GOVPOLICIES_{it} + \beta_2 CORPMAGT_{it} + \beta_3 CPROFLEV_{it} + \varepsilon_t$$ **……..Eqn.2**

$$HOENGMGT_{it} = \beta_0 + \beta_1 GOVPOLICIES_{it} + \beta_2 CORPMAGT_{it} + \beta_3 CPROFLEV_{it} + \varepsilon_t$$ **……..Eqn.3**

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ANALYSIS, RESULT AND DISCUSSION

Summary of Descriptive Statistics

Table 2: Summary of Descriptive Statistics

Variables	Obsvtn	Maean	Stnd Dvtn	Min Value	Max Value
Dependent					
ACCRMGT	1173	-0.00269	0.18682	-1.22363	1.99705
REALMGT	1173	-0.00275	0.45647	-4.32949	1.83915
HOENGMGT	1173	-0.00661	0.05401	-4.50010	3.64726
Categorical					
GOVPOLICIES	1173	3.73913	1.18803	1	5
Independent					
CORPMAGT	1173	6.72762	0.92253	4.70420	9.62050
CPROFLEV	1173	3.17625	24.1077	-179.917	180.267

Source: Researchers Computation (2023) – Stata 13.

As reflected in Table 2 above, there were 1173 corporation-year observations during the 23 years (1999 to 2021). Also striking are the mean values of the accrual, real and holistic earnings management measured by ACCRMGT, REALMGT and HOENGMGT, respectively, with conforming standard deviations of 0.18682, 0.45647 and 0.05401. The Stnd Dvtn for the dependent variables shows that the sampled corporations follow incongruent tendencies with a deviation of 18% and 45% for accrual and real while about 5% for holistic in terms of earnings management. The categorical variable, GOVPOLICIES, had a mean of 3.74 on a scale of 5 and a standard deviation of 1.18, implying that the average level of dispersion from the average value of a number of years of political dispensation resulting in government policies for the sampled corporations during the period is about 1.2%. With the mean and Stnd Dvtn of the independent variables, CORPMAGT and CPROFLEV, being 6.73, 3.18 and 0.9 and 24, respectively revealed that on the average of 6.73, there was a dispersion of 0.9% in market capitalization used in measuring corporation magnitude while a dispersion of 24% around a mean value of 3.18 implies a divergent trend among sampled corporations in Nigeria.

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Correlation Analysis

Table 3: Correlation Analysis

	ACCRMGT	REALMGT	HOENGMGT	GOVPOLICIES	CORPMAGT	CPROFLEV
ACCRMGT	1.0000					
REALMGT	0.2770	1.0000				
HOENGMGT	0.4986	0.8986	1.0000			
GOVPOLICIES	-0.0068	0.0156	0.0145	1.0000		
CORPMAGT	-0.0404	-0.0911	-0.0930	-0.0033	1.0000	
CPROFLEV	0.0522	-0.0633	-0.0606	-0.0058	-0.1033	1.0000

Source: Researchers Computation (2023) – Stata 13.

The highest coefficient, as revealed by Table 3, between the categorical and independent variables is 0.0522; a value below the stipulated threshold of 0.8 (see Efenyumi & Okoye, 2023, Efenyumi, Okoye & Nwoye, 2022, Efenyumi & Okoye, 2022) suggesting that our specified model is fit and does not have multi-collinearity issues. We further confirmed this position with the results of the Lawley and Jennrich mvtest correlation matrix for compound symmetric and across samples (chi2(14) = 1285.85; Prob>chi2 =0.0000) and (chi2(40) = 86.22; Prob>chi2 =0.0000) respectively.

Multivariate Basic Assumption Tests

The study went further to test for multivariate normality and homogeneity, and they confirmed that the multivariate model did not only pass the Doornik-Hansen Normality test (chi2(12) = 9995.686; Prob>chi2 =0.0000) but also confirmed the homogeneity of the five (5) group means from GOVPOLICIES, the categorical variable as shown below:

	Statistics	F(df1,	Df2)	= F	Prob>F	
Wilks' Lambda	0.9775	20.0	3861.5	1.33	0.1471	a
Pillai's trace	0.0226	20.0	4668.0	1.33	0.1491	a
Lawley-Hetelling trace	0.0230	20.0	4650.0	1.33	0.1452	a
Roy's largest root	0.0180	5.0	1167.0	4.19	0.0009	u

e=exact, a=approximate, u=upper bound on F

Source: Researchers Computation (2023) – Stata 13

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HYPOTHESES ANALYSIS AND DISCUSSION

The study carried out the MANOVA and the MVREG analyses in testing the hypotheses.

The Multivariate Analysis of Variance (MANOVA)

The **manova** will reveal the extent to which equations (eqns 1-3) if taken together, are statistically significant in terms of the F ratios and P values for the multivariate benchmark, which are Wilks' lambda (**W**), Lawley-Hotelling trace (**L**), Pillai's trace (**P**), and Roy's largest root (**R**).

Table 5: Result of MANOVA

Number of Obsvtn = 1173							
W = Wilks' lambda				L = Lawley-Hotelling trace			
P = Pillai's trace				R = Roy's largest root			
Source	Statistic	Df	F(df1,	df2)	= F	Prob>F	
Model	W 0.9654	6	18.0	3292.8	2.31	0.0013	a
	P 0.0352		18.0	3498.0	2.31	0.0013	a
	L 0.0359		18.0	3488.0	3.32	0.0013	a
	R 0.0252		6.0	1166.0	4.91	0.0001	a
Residual		1166					
corpmagt	W 0.9909	1	3.0	1164.0	3.58	0.0136	e
	P 0.0091		3.0	1164.0	3.58	0.0136	e
	L 0.0092		3.0	1164.0	3.58	0.0136	e
	R 0.0092		3.0	1164.0	3.58	0.0136	e
cproflev	W 0.9846	1	3.0	1164.0	6.05	0.0004	e
	P 0.0154		3.0	1164.0	6.05	0.0004	e
	L 0.0156		3.0	1164.0	6.05	0.0004	e
	R 0.0156		3.0	1164.0	6.05	0.0004	e
govpolicies	W 0.9878	4	12.0	3079.9	1.20	0.2783	a
	P 0.0123		12.0	3498.0	1.20	0.2790	a
	L 0.0124		12.0	3488.0	1.20	0.2775	a
	R 0.0102		4.0	1166.0	2.97	0.0186	u
Residual		1166					
Total		1172					

e=exact, a=approximate, u=upper bound on F

Source: Researchers Computation (2023) – Stata 13

From table 5 above showing the result of the multivariate analysis, the p-values for each of the four multivariate tests (W, P, L, and R), are 0.0013, 0.0013, 0.0013 and 0.0001 respectively indicating that the model is statistically significant at 5%. Table 5 further revealed that the multivariate tests for each of the independent variables, corporation magnitude (corpmagt) and

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corporation profitability level (cproflev) are statistically significant at 5% except the categorical variable government policies, which is a measure of effects of different political administrations (govpolicies) used to reflect the extent of variation across the model.

The Multivariate Regression (MVREG)

The **mvreg** will indicate the coefficients, standard errors, t statistic and p values for each of the independent and the categorical variables holding first gov policies constant in each part of the model is displayed in the table below:

Table 6: Multivariate Regression Result

Equation	Obs	Parms	RMSE	"R-sq"	F	P
Accrmgt	1173	7	.1869194	0.0041	.7982962	0.5713
Realmgt	1173	7	.4538225	0.0166	3.285798	0.0033
hoengmgt	1173	7	.5370422	0.0162	3.202244	0.0040
	Coef	Stnd Err.	T	P>| t |	[95% Conf.	Interval]
Accrmgt						
corpmagt	-.007287	.005969	-1.22	0.222	-.018998	.004424
cproflev	.000376	.000228	1.65	0.099	-.000071	.000824
govpolicies						
2	.000602	.030264	0.02	0.984	-.058776	.059981
3	.001160	.028675	0.04	0.968	-.055101	.057421
4	-.004332	.028281	-0.15	0.878	-.059820	.051155
5	-.001954	.027778	-0.07	0.944	-.056456	.052548
_cons	.046616	.047886	0.97	0.331	-.047338	.1400569
Realmgt						
corpmagt	-.047127	.014492	-3.25	0.001	-.075560	-.018693
cproflev	-.001442	.000554	-2.60	0.009	-.002529	-.000356
govpolicies						
2	-.095881	.073479	-1.30	0.192	-.240046	.048284
3	-.036692	.069620	-.053	0.598	-.173288	.099903
4	-.016352	.068664	-0.24	0.812	-.151071	.118366
5	-.042197	.067444	-0.63	0.532	-.174523	.090129
_cons	.358304	.116264	3.08	0.002	-.130194	.586412
hoengmgt						
corpmagt	-.049945	.017150	-2.91	0.004	-.083593	-.016298
cproflev	-.001636	.000655	-2.50	0.013	-.002922	-.000350
govpolicies						
2	-.080485	.086953	-0.93	0.355	-.251086	.090117
3	.008254	.082387	0.10	0.920	-.153389	.169898
4	.035210	.081255	0.43	0.665	-.124213	.194632
5	-.023851	.079812	-0.30	0.765	-.180443	.132740
_cons	.342418	.137584	2.49	0.013	.072479	.612356

Source: Researchers Computation (2023) – Stata 13

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From the first section of the table 6 above, the p-values for the individual univariate models are 0.5713, 0.0033 and 0.0040 for the accrual earnings management (accrmgt), the real earnings management (realmgt) and the holistic earnings management (hoengmgt) respectively reporting that while the accrmgt is only significant at 50%, the realmgt and the hoengmgt are statistically significant at 5%. Furthermore, the table showed that the six predictor variables explained 0.4%, 2% and 2% of the variance in the outcome variables accrual earnings management (accrmgt), the real earnings management (realmgt) and holistic earnings management (hoengmgt), respectively.

Analysing the influence of the independent variables on the dependent variables, we observed that corporation magnitude (corpmagt) influence is negative and statistically significant across all the dependent variables; accrual earnings management (accrmgt), real earnings management (realmgt) and holistic earnings management (hoengmgt) while corporation profitability level (cproflev) is positive to accrmgt and negative to both realmgt and hoengmgt. Worth mentioning is holding the first political regime/government policies constant. All the other coefficients for political regimes/government policies are evidently and statistically significant.

While all the govpolicies are negative with realmgt implying that selected corporations reduce real earnings management across various political regimes/government policies. Reporting govpolicies 2 and 3 are positive except for govpolicies 4 and 5 with accrmgt is an indication that selected corporations gradually applied accrual earnings management across various political regimes/government policies 2 and 3 but reduced the application of accrual earnings management across various political regimes/government policies 4 and 5. With govpolicies 2 being negative evidently reported that selected corporations did not apply holistic earnings management in Regime 2 but gradually applied hoengmgt in Regime 3 and massively in Regime 4 but rescinded its application in Regime 5.

Thus, a unit change in government policies in regimes 2, 3, 4 and 5 is associated with: 0.000602, 0.001160, -0.004332 and -0.001954 change in applying the accrual earnings management among the selected corporations; -0.095881, -0.036692, -0.016352 and -0.042197 change in applying the real earnings management among the selected corporations and -0.080485, 0.008254, 0.035210, and -0.023851 change in applying the holistic earnings management among the selected corporations. This, however, is a cursor that the inclusion of the categorical variable GOVPOLICIES into the Model is pivotal to the result being more significant, rejecting the null hypothesis {F(12, 1166) = 6.06); (Prob > F = 0.0004)} depicting that the various political regimes/government policies in Nigeria greatly influence the degree of management of earnings.

CONCLUSION

Driven by the thoughts that a combination of corporations' external and internal factors have a significant influence on the extent of application of earnings management, this study critically analyses the nexus between political regimes/government policies, corporations' magnitude and profitability level and accrual, real or holistic earnings management among corporations in Nigeria. The study, therefore, concludes that the various political regimes/government policies in Nigeria do not only influence the degree of earnings management but also determine to a large extent the corporation magnitude and profitability level, which together significantly

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influence the extent to which listed corporations apply either accrual (accrmgt), real (realmgt) or holistic earnings management (hoengmgt).

RECOMMENDATIONS

In line with results from this study's analysis, it is therefore recommended as follows:

1. Regulatory bodies in Nigeria ranging from CBN, SEC to the FRCN should exercise conscious efforts in monitoring the activities of corporations as it relates to earnings management to protect investors and restores confidence in financial reporting by management.
2. CEOs and shareholders of Corporations should tighten their supervisory roles by carefully scrutinizing all management actions with respect to their reporting policies, choice of accounting treatment and full disclosure.

SUGGESTIONS FOR FURTHER STUDIES

The findings of the present study offer opportunities for further investigations. Therefore, future researchers could investigate the following areas of study:

1. This study draws on data from the non-financial sector of listed firms in Nigeria only. Thus, future research could use data from the financial sector of listed firms in Nigeria and/or both financial and non-financial
2. Studies can also be carried out using other measures of corporation characteristics such as Return on Equity (ROE), using a log of total assets to measure corporation magnitude etc.
3. Other studies can measure the mediating role of other corporations' attributes, introducing other control variables.

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