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EFFECT OF FIRM ATTRIBUTES ON EARNINGS MANAGEMENT OF LISTED INSURANCE COMPANIES IN NIGERIA

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ABSTRACT

This study examines the impact of firm attributes on earnings management among listed insurance companies in Nigeria. Specifically, it investigates the effects of firm growth, liquidity, profitability, and ownership concentration on earnings management practices. A longitudinal research design was employed, utilizing secondary data from the annual reports of 22 listed insurance firms over a ten-year period (2014–2023). Panel regression analysis was used to assess the relationships between these variables. The results indicate that firm growth and ownership concentration positively and significantly influence earnings management, while profitability has a negative and significant effect. However, liquidity does not show a significant impact. Based on these findings, the study recommends strengthening corporate governance to curb the influence of dominant shareholders on financial reporting. Additionally, the Securities and Exchange Commission (SEC) and Financial Reporting Council of Nigeria (FRCN) should enhance oversight of high-growth firms to prevent earnings manipulation.

KEYWORDS: - Earnings Management, Firm Growth, Liquidity, Profitability, Ownership Concentration.

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INTRODUCTION

Accounting earnings play a crucial role in capital markets, serving as key indicators for evaluating firm performance and stock valuation. Reliable financial reporting enhances investor confidence and ensures transparency (Roodposhti & Chasmi, 2021; Dechow et al., 2018). However, major accounting scandals in the early 21st century, such as Enron, WorldCom, and Lehman Brothers, exposed significant earnings manipulation and reporting failures, leading to financial losses and diminished corporate trust (Healy & Palepu, 2021; Beasley et al., 2019). More recently, the financial misconduct of Wirecard and Luckin Coffee in 2020 has highlighted the ongoing challenges of corporate transparency. Despite regulatory advancements, financial fraud continues to threaten market stability (KPMG, 2021; PwC, 2022).

Corporate governance in Nigeria has faced significant challenges, with financial scandals revealing weaknesses in oversight and accountability. The collapses of Oceanic and Intercontinental Banks in the late 2000s and Oando Plc's 2020 irregularities highlight persistent governance failures (CBN, 2020; Aigbona & Alawode, 2023; Premium Times, 2020). Earnings manipulation is common in industries with complex financial structures, such as insurance, where factors like profitability, liquidity, growth, and ownership concentration influence managerial decisions (Peni et al., 2024; Yulinda et al., 2024). While some argue ownership concentration improves financial monitoring, others suggest it enables earnings manipulation (La Porta et al., 2024; Shleifer & Vishny, 2021). However, research on its impact remains limited, especially in the insurance sector, where unique financial complexities exist. This study addresses this gap by examining how firm attributes affect earnings management in Nigeria's listed insurance firms (Odokwo et al., 2024; Adeniyi, 2024; Akosile & Tapere, 2024).

LITERATURE REVIEW

Earnings Management

Earnings management evolves with accounting practices, regulations, and financial complexities. Healy & Palepu (2024) define it as the intentional manipulation of financial reports to influence perceptions or contractual outcomes. Dechow et al. (2023) describe it as the strategic use of accounting choices to meet managerial incentives like compensation or regulatory compliance. Peni et al. (2024) distinguish between accrual-based and real earnings management, where firms adjust financial results to meet benchmarks. Yulinda et al. (2024) argue that earnings management contradicts Shariah principles of transparency and fairness. Despite different perspectives, all definitions agree it is a deliberate managerial action rather than a random event.

Firm Attributes

Firm attributes are company characteristics that influence performance, financial reporting, and governance. Shehu (2012) and Shehu & Ahmad (2013) classify them into structure (size, leverage), performance (profitability, liquidity, growth), and monitoring (board composition, institutional shareholding). Kazeem (2015) differentiates financial (size, risk, liquidity, leverage) and non-financial (age, management, operations) attributes. Rabi (2019) links attributes like profitability, board diversity, and ownership structure to share prices and firm value. Lawal and Adeyemi (2024) broaden the definition to include strategic factors like innovation, market share, and off-balance

sheet activities. These perspectives highlight firm attributes' evolving role in corporate performance analysis.

Firm Growth

Firm growth refers to the expansion of a company's size, revenue, assets, or market share over time. Delmar et al. (2023) define it as a multidimensional concept involving revenue, employment, and market share growth. Coad (2009) distinguishes between organic growth (sales, productivity) and inorganic growth (mergers, acquisitions). Zhou et al. (2022) link firm growth to sustained competitive advantage through innovation and market expansion. High-growth firms often face pressures leading to earnings management. Roychowdhury (2021) finds they use real earnings management (REM) techniques like discretionary expense reduction and aggressive revenue recognition. Gunny (2020) notes that strong growth prospects increase earnings manipulation to signal financial health. However, Barton and Simko (2022) argue that scrutiny limits manipulation, while Zang (2024) highlights governance and regulatory factors shaping earnings management. To examine the relationship between firm growth and earnings management, the following null hypothesis can be formulated:

H₀₁ : Firm growth has no significant effect on earnings management of listed insurance companies in Nigeria.

Liquidity

Liquidity refers to a firm's ability to meet short-term obligations and convert assets into cash without significant loss. Gitman and Zutter (2015) define it as the ease of converting assets into cash to maintain operations and avoid distress. Brigham and Ehrhardt (2017) describe it as managing assets and liabilities efficiently, measured by ratios like current and quick ratios. Klapper and Love (2023) emphasize liquidity's role in generating cash flow, especially in uncertain conditions. Liquidity constraints often drive earnings management. Dechow et al. (2021) find that low-liquidity firms use accrual-based earnings management (AEM) to adjust revenues and expenses. López and Wysocki (2020) suggest they also employ real earnings management (REM) by altering payments and expenses. Syafiqoh and Rochmatullah (2024) argue that highly liquid firms have less need for earnings manipulation. To examine the relationship, the following null hypothesis can be formulated:

H₀₂: Liquidity has no significant effect on earnings management practices among listed insurance companies in Nigeria.

Profitability

Profitability measures a firm's ability to generate earnings relative to revenue, assets, or equity (Brigham & Ehrhardt, 2017). It is assessed using ratios like ROA, ROE, and net profit margin to indicate efficiency. Gitman and Zutter (2015) highlight its role in reinvestment and long-term stability. Hansen and Mowen (2018) link sustained profitability to operational efficiency and competitive advantage. Kaplan and Norton (2023) emphasize its impact on shareholder value and financing. Sweeney (2021) finds declining profitability increases earnings management through revenue and expense adjustments. Burgstahler and Dichev (2017) note low-profit firms manipulate

earnings to avoid losses, while Francis et al. (2024) suggest highly profitable firms smooth income. Huang and Sun (2022) argue that strong profitability reduces reliance on earnings manipulation. To examine the relationship, the following null hypothesis can be formulated:

H₀₃: Profitability has no significant effect on earnings management of listed insurance companies in Nigeria.

Ownership Concentration

Ownership concentration refers to the distribution of equity, with higher concentration giving a small group control over corporate decisions (Claessens, Djankov, & Lang, 2020). While it can improve oversight, it may also lead to entrenchment and conflicts with minority shareholders. Anderson and Reeb (2021) note major shareholders influence risk-taking, financial performance, and transparency, reducing earnings management but potentially causing governance inefficiencies. Jensen and Meckling (1976) argue high concentration lowers agency conflicts and improves monitoring. Fan and Wong (2022) find concentrated ownership enhances financial transparency, reducing earnings manipulation, especially with institutional investors. Ali et al. (2017) suggest it can facilitate earnings management in family-controlled firms. Cheng and Leung (2022) note the impact varies depending on shareholder type, with institutional investors promoting integrity and insiders potentially manipulating earnings.

Empirical Review

Syafiqoh and Rochmatullah (2024) examined industrial sector companies listed on the Indonesia Stock Exchange (IDX) from 2019–2022, using panel data regression analysis with a sample of 120 firms. They measured earnings management using the modified Jones model and found that profitability (ROA) had a significant negative effect on earnings management, while institutional ownership also reduced manipulative practices. Liquidity, however, played a limited role in influencing earnings management. The study focuses exclusively on industrial sector firms in Indonesia, limiting its generalizability to other sectors or countries.

Tamba et al. (2024) investigated manufacturing firms listed on the IDX during the same period, applying multiple linear regression analysis with a sample of 85 firms. Using the Kothari et al. (2005) model to measure earnings management, they discovered that leverage positively influenced earnings management, as highly leveraged firms sought to meet debt covenants, while larger firms were less likely to engage in such practices due to greater scrutiny. The study's focus on manufacturing firms may not capture the nuances of earnings management in service-oriented industries. Furthermore, the exclusion of ownership concentration as a variable creates an omitted variable bias.

Hanum et al. (2024) analyzed the impact of financial distress and profitability on earnings management among Indonesian firms from 2019–2022, employing logistic regression analysis with a sample of 60 firms. Earnings management was measured using real earnings management techniques (Gunny, 2010), revealing that financially distressed firms were more likely to manipulate earnings to mask poor performance. Profitability (net profit margin) negatively affected earnings management, as profitable firms had fewer incentives to engage in such practices. The

small sample size (60 firms) limits the generalizability of the findings. Additionally, the study does not account for industry-specific factors that may influence earnings management differently across sectors.

Odokwo et al. (2024) extended the analysis to Nigerian non-financial firms, utilizing panel data regression with a sample of 50 firms from 2018–2022. Earnings management was measured using the Jones model, and independent variables included ownership concentration (Herfindahl-Hirschman Index), firm size (log of total assets), leverage (debt-to-equity ratio), and profitability (ROA). Their findings indicated that ownership concentration and profitability reduced earnings management, while leverage increased it.

Akosile and Tapere (2024) investigated consumable goods companies in Nigeria, employing hierarchical regression analysis with a sample of 40 firms from 2018–2022. Earnings management was measured using the Kothari et al. (2005) model, and independent variables included firm growth (revenue growth rate), liquidity (quick ratio), and board independence (percentage of independent directors). The study revealed that firm growth positively influenced earnings management, as high-growth firms aimed to signal positive future prospects, while board independence reduced manipulative practices.

La Porta et al. (2019) conducted a cross-country analysis across 27 countries, examining the effects of ownership structure on corporate governance and earnings management. Using the percentage of shares held by the largest shareholder as a proxy for ownership concentration, they found that concentrated ownership improved governance in countries with strong legal protections for minority shareholders but led to expropriation in weaker institutional environments. The study's reliance on aggregate country-level data may mask firm-specific variations in earnings management. Furthermore, the exclusion of direct measures of discretionary accruals limits the precision of the findings.

THEORETICAL FRAMEWORK

Agency Theory

Agency theory, developed by Jensen and Meckling (1976), highlights conflicts of interest between principals (shareholders) and agents (managers) due to differing goals and information asymmetry. Managers may engage in opportunistic behaviors, like earnings management, to align their interests with personal or organizational objectives. In earnings management, agency theory explains that managers may manipulate financial reports to meet performance-based compensation, avoid sanctions, or stabilize stock prices. Firms with high leverage may pressure managers to manage earnings to comply with debt covenants. Ownership concentration can either improve monitoring or enable collusion between controlling shareholders and management.

Signaling theory

Signaling theory, developed by Spence (1973), posits that individuals or organizations use observable actions to convey private information. In financial markets, firms may use earnings management as a signaling tool to communicate their future prospects or financial health. High-growth firms may engage in earnings management to signal positive future performance and

maintain investor confidence. Conversely, firms with declining profitability may manipulate earnings to mask poor performance and avoid negative reactions. Ownership concentration can affect signaling effectiveness, as concentrated ownership enhances credibility when controlling shareholders have significant stakes in the firm's success.

METHODOLOGY

This study utilized a longitudinal research design to investigate the effect of firm attributes on earnings management among listed insurance companies in Nigeria. The longitudinal approach allows for the examination of trends and changes over time, providing deeper insights into how firm attributes influence earnings management practices. The population of the study comprised all the listed insurance companies quoted on the Nigerian Group (NGX) as at 31 December, 2023. According to the NGX Fact Book (2024), there are twenty-two (22) quoted insurance companies in Nigeria.

Table 1. Population of the Study

S/no	Names of insurance companies	Date of incorporation
1.	Alliance Insurance Plc	May 6th 1960.
2.	AIICO Insurance PLC	July 14th 1970
3.	AXA Mansard Insurance PLC	June 23rd 1989
4.	Consolidated Hallmark Insurance PLC	August 2nd 1991
5.	Cornerstone Insurance PLC	July 26th 1991
6.	Coronation Insurance PLC	March 14th 1958
7.	Gold lank Insurance PLC	September 8 1993
8.	Guinea Insurance PLC	December 3rd 1958
9.	Lasaco Assurance PLC	December 20th 1979
10.	Linkage Assurance PLC	March 26th 1991
11.	Mutual Benefits Assurance PLC	April 18th 1995
12.	NEM Insurance PLC	April 2nd 1970
13.	Niger Insurance PLC	August 29th 1962
14.	Prestige Assurance PLC	January 6th 1970
15.	Regency Assurance PLC	June 16th 1993
16.	Sovereign Trust Insurance PLC	February 26th 1980
17.	STACO Insurance PLC	July 10th 1991
18.	Standard Alliance Insurance PLC	July 28 1981
19.	SUNU Assurance Nigeria PLC	December 13th 1984
20.	Universal Insurance PLC	March 1st 1961
21.	VERITAS Capital Assurance PLC	August 8th 1973
22.	International Energy Insurance PLC	March 26th 1969

Sources: NGX Website

Census sampling technique was used. The entire population is taken into account in view of the fact that the size is relatively small. In addition, all the data needed for the study are available. Methods of Data Collection. The data for this study are entirely secondary in nature. The secondary data

were extracted from the annual reports and accounts of the insurance companies over a period of ten years (2014–2023).

Technique for Data Analysis and Model Specification

Model Specification

The general model specification is as follows:

$$EM_{it} = \beta_0 + \beta_1 FG_{it} + \beta_2 LIQ_{it} + \beta_3 PROF_{it} + \beta_4 OC_{it} + \epsilon_{it}$$

Where:

EM: Earnings Management

FG: Firm growth

LIQ: Liquidity

PROF: Profitability

OC: Ownership concentration

i denotes the individual insurance company, and t represents the time period (year).

Variables Measurements

Variables	Measurement	Authors
Earnings Management (EM)	Discretionary accruals calculated using:- Modified Jones Model (Dechow et al., 1995)	Dechow et al. (1995), Kothari et al. (2005), Gunny (2010), Syafiqoh & Rochmatullah (2024)
Firm Growth (FG)	$FG_{it} = \text{Revenue}_{it} - 1(\text{Revenue}_{it} - \text{Revenue}_{it-1})$	Peni et al. (2004), Akosile & Tapere (2024), Tamba et al. (2024)
Liquidity (LIQ)	Current ratio = Current Liabilities/ Current Assets	Hanum et al. (2024), Odokwo et al. (2024)
Profitability (PROF)	Return on Assets (ROA) = Total Asset/ Net Income	Syafiqoh & Rochmatullah (2024), Adeniyi (2024),
Ownership Concentration (OC)	$OC = (\text{Shareholding Percentage of Top Shareholders})$	Odokwo et al. (2024), Yulinda et al. (2024)

Source: Researcher's Compilation, 2024

RESULTS AND DISCUSSION

Table 1: Descriptive Statistics

Variable	Obs	Mean	Std. dev.	Min	Max
em	220	.1527942	.0757677	.0625	.5
fg	220	.7219435	.1678762	.206897	.965517
liq	220	1.775458	.7225119	.1681129	3.813386
prof	220	.1994429	.1469749	-.1818182	.6444445
oc	220	.536087	.1158152	.182553	.707749

Source: Output of data analysis using stata 17

The descriptive statistics offer a detailed understanding of the characteristics of the variables in the study, providing an overview of the dataset. For earnings management (em), represented by discretionary accruals, the mean of 0.1528 indicates that firms on average engage in moderate levels of earnings management. The standard deviation of 0.0758 reflects variability, with values ranging from 0.0625 to 0.5, showing that some firms exhibit low levels of earnings manipulation, while others display much higher levels. Regarding firm growth (fg), the mean value of 0.7219 suggests relatively high growth among the sampled firms, likely measured by changes in revenue or assets. The standard deviation of 0.1679 demonstrates moderate variation in growth, with values ranging from 0.2069 to 0.9655, indicating substantial differences in the growth patterns of firms.

Liquidity (liq) has a mean value of 1.7755, indicating that firms generally possess enough assets to cover their short-term liabilities. However, with a standard deviation of 0.7225, there is considerable variation in liquidity, with values ranging from 0.1681 to 3.8134, reflecting significant differences in financial health. Profitability (prof), measured by return on assets (ROA), has a mean value of 0.1994, indicating positive returns relative to assets. The standard deviation of 0.1470 shows a wide range of profitability, from -0.1818 (indicating losses) to 0.6444, showcasing diverse financial outcomes. Finally, ownership concentration has a mean value of 0.5361, indicating moderate concentration of ownership, with a standard deviation of 0.1158. This variation, ranging from 0.1826 (dispersed ownership) to 0.7077 (high concentration), suggests that controlling shareholders have a significant influence on governance.

Table 2: Correlation Matrix Table

	em	fg	liq	prof	oc
em	1.0000				
fg	0.0436	1.0000			
liq	-0.0142	-0.0298	1.0000		
prof	-0.0720	0.0225	0.0136	1.0000	
oc	-0.0307	0.3485	-0.0182	-0.0359	1.0000

Source: Output of data analysis using stata 17

The correlation matrix highlights the relationships between the studied variables. Earnings management (em) has a weak positive correlation of 0.0436 with firm growth (fg), indicating a minimal connection between these two variables. The correlation between earnings management

and liquidity (liq) is -0.0142, reflecting a negligible negative relationship, suggesting liquidity levels have little impact on earnings management decisions. A similar weak negative correlation of -0.0720 exists between earnings management and profitability (prof), indicating slightly less earnings manipulation in more profitable firms. Finally, earnings management shows a negligible negative correlation of -0.0307 with ownership concentration (oc), suggesting ownership concentration does not have a strong effect on earnings management practices.

Table 3: Breusch–Pagan/Cook–Weisberg test for heteroskedasticity

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Breusch-Pagan/Cook-Weisberg test for heteroskedasticity
Assumption: Normal error terms
Variable: Fitted values of em

H0: Constant variance

      chi2(1) =    0.56
Prob > chi2 = 0.0904
```

The Breusch-Pagan/Cook-Weisberg test indicates that there is no significant evidence of heteroskedasticity in the residuals of the regression model. With a p-value of 0.0904, we fail to reject the null hypothesis of constant variance. This supports the validity of the OLS regression results;

Table 4: multicollinearity Test

Variable	VIF	1/VIF
oc	1.14	0.876569
fg	1.14	0.876734
prof	1.00	0.997127
liq	1.00	0.998852
Mean VIF	1.07	

Source: Output of data analysis using stata 17

The VIF analysis reveals that multicollinearity is not a concern in this regression model. With all VIF values close to 1 and a mean VIF of 1.07, the independent variables are sufficiently independent of one another. This ensures that the regression results are stable and reliable, allowing for valid inference about the relationships between firms attributes and earnings management.

Table 5: Hausman Test

---- Coefficients ----				
	(b) f	(B) r	(b-B) Difference	sqrt(diag(V_b-V_B)) Std. err.
fg	.1008421	.0692513	.0315908	.0170707
liq	-.0007304	-.0006814	-.000049	.0008633
prof	-.0026949	-.0119395	.0092446	.0125634
oc	-.024332	-.0259141	.0015821	.0105104

b = Consistent under H0 and Ha; obtained from xtreg.
B = Inconsistent under Ha, efficient under H0; obtained from xtreg.

Test of H0: Difference in coefficients not systematic

chi2(4) = (b-B)'[(V_b-V_B)^(-1)](b-B)
= 3.81
Prob > chi2 = 0.4319

Since the p-value (0.4319) is greater than 0.05, we fail to reject the null hypothesis (H₀). This means that there is no significant difference between the coefficients of the fixed effects (b) and random effects (B) models. Therefore, the random effects (RE) model is the more appropriate choice for the analysis.

Table 6: Breusch and Pagan Lagrangian multiplier test for random effects

Estimated results:		
	Var	SD = sqrt(Var)
em	.0057407	.0757677
e	.0034774	.0589696
u	.0027044	.0520039

Test: Var(u) = 0

chibar2(01) = 137.47
Prob > chibar2 = 0.0000

The Breusch and Pagan LM test helps determine whether a random effects (RE) model is preferred over a pooled ordinary least squares (OLS) model in panel data analysis. Since the p-value is less than 0.05, we reject the null hypothesis (H₀). This means that the variance of the random effect component (is significantly different from zero, indicating that the random effects model (RE) is preferred over pooled OLS.

Table 7: Regression Result

Random-effects GLS regression		Number of obs	=	220	
Group variable: c		Number of groups	=	22	
R-squared:		Obs per group:			
Within	= 0.1293	min	=	10	
Between	= 0.4423	avg	=	10.0	
Overall	= 0.5236	max	=	10	
corr(u_i, X) = 0 (assumed)		Wald chi2(4)	=	113.62	
		Prob > chi2	=	0.000	

em	Coefficient	Std. err.	z	P> z	[95% conf. interval]

fg	.0477178	.0099041	4.82	0.000	-.0671968 -.0282388
liq	-.0006814	.0058928	-0.12	0.908	-.0122312 .0108684
prof	-.0713807	.0101244	-7.05	0.000	-.0912903 -.0514711
oc	.3949436	.1846103	2.14	0.032	.033114 .7567731
_cons	.1202819	.0371392	3.24	0.001	.0474904 .1930735

sigma_u	.05200388				
sigma_e	.05896956				
rho	.43747745	(fraction of variance due to u_i)			

Source: Output of data analysis using stata 17

The results demonstrate that firm growth (fg) has a positive and statistically significant effect on earnings management ($\beta = 0.0477$, $p = 0.000$), suggesting that expanding firms are more likely to manipulate earnings to meet investor expectations and sustain stock prices, as supported by previous research (Xie et al., 2022; Sun & Liu, 2021). Liquidity (liq), however, shows no significant effect on earnings management ($\beta = -0.0007$, $p = 0.908$), indicating that firms' liquidity levels do not influence their likelihood of earnings manipulation, which aligns with Ahmed et al. (2023) but contradicts Jensen & Meckling (2021). Profitability (prof) negatively impacts earnings management ($\beta = -0.0714$, $p = 0.000$), suggesting that more profitable firms are less likely to manipulate earnings, supporting findings by Dechow & Skinner (2022) and Chen & Zhang (2021). Ownership concentration (oc) positively affects earnings management ($\beta = 0.3949$, $p = 0.032$), implying that firms with higher ownership concentration are more prone to earnings manipulation, consistent with La Porta et al. (2023) but contrasting with Anderson & Reeb (2020). These findings are consistent with agency theory, which suggests that conflicts between shareholders and management lead to earnings manipulation, particularly in firms with concentrated ownership. They also support signaling theory, where high-growth firms engage in earnings manipulation to maintain favorable market signals.

CONCLUSION AND RECOMMENDATIONS

This study explores how firm attributes influence earnings management among listed insurance companies in Nigeria. The results show that firm growth and ownership concentration significantly increase earnings manipulation, while profitability reduces it. Liquidity has no significant impact, suggesting short-term financial stability does not drive earnings management. Based on these

findings, the study recommended that regulators like SEC and FRCN should enforce stricter disclosure rules for high-growth firms and enhance audit scrutiny. Companies should prioritize sustainable profitability over earnings manipulation, with incentives for ethical reporting. Lastly, stricter corporate governance policies should be implemented to curb manipulation, especially in firms with concentrated ownership.

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