

Management Entrenchment, Firm Characteristics and Earnings Management of Conglomerate Companies in Nigeria

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Abstract: *Sometimes the rivalry between shareholders and management is an indication of the level of entrenchment within the corporate environment. Managers are believed to routinely manipulate earnings to mislead shareholders about their company's actual economic outlook or performance. As a result, the study investigated the impact of managerial entrenchment, firm characteristics and earnings management of conglomerate companies in Nigeria. Employing the ex-post facto research design, the data was gathered from a secondary source of the 6 listed conglomerate companies for the 11 years running (2008-2018). As an indicator for managing earnings of a corporation, the study employed discretionary accruals and applied the adjusted Jones model. The result showed that management entrenchment and firm characteristics have impacted on multinational firms' earnings management in Nigeria. Specifically, from the conglomerate's entrenchment proxies, CEO's tenure has a positive and significant impact on earnings management (coff. =1.062821, p-value =0.0367) and management entrenchment as measured by CEO's shareholding has a negative and insignificant effect on earnings management (coff. =-6252391, p-value = 0.4090) while firm size, profitability and leverage indicated a significant and positive impact on earnings management (coff. = 0.124587, p-value = 0.0000; coff. = 0.006647, p-value = 0.0431 and coff. = 0.032065, p-value = 0.0000). The study, therefore, recommended among others that management should reduce the debt in their capital structure in order to improve their companies' value and their capital structure should be majorly financed by equity rather than debt and reduce CEOs' tenure to minimise earnings management practices.*

Keywords: *Entrenchment; managerial behaviour; earnings management; discretionary accruals; conglomerates*

Introduction

Over time, there has been a controversial issue to deal with in the corporate world where the managers serve as an agent to carry out the daily business activities of the business on behalf of the shareholders and take value-maximising decisions. Because of their individualism and their opportunism, there is a conflict of interest as executives acting as shareholder agents indulge in conduct that provides them a financial advantage to shareholders' detriment, and take measures which do not optimize shareholders' interests (Jensen & Meckling 1976; Jensen 1986; Vihi, Abu & Iortima 2019).

This self-interest is perpetuated based on the extent to which the managers can wheel their power in the organization which is often referred to as management entrenchment. Management entrenchment constitutes one of the most controversial forms of disagreement between shareholders and executives, which has a long-established history of agency analysis literature (Jensen & Meckling,

1976). Evidence has shown that entrenchment can aggregate with Chief Executives owning a large shareholding in their company's equity (Matta & Beamish, 2008; McClelland & O'Brien, 2011).

On the other hand, the entrenchment of the CEO affords them the prerogative to devise, execute and pursue the outcomes of policies that benefit the company. In order to misinform the shareholders on the company's real economic performance, managers often smooth the earnings. Managers' manipulation of earnings via real-life distortion of activities or accounting statistics, tends to reduce earnings precision; increases the risks and confusion for individuals outside the organization, and is likely to produce asymmetry in information handling and reduces investment effectiveness. In addition to concealing the real performance of the company, earnings management masks the actual process of earnings growth and business revenues that is valuable to predict the company's future success (Ewert & Wagenhofer, 2011).

The CEO's power was also linked to supporting individual programs, frequently at the expense of shareholders (Stulz, 1988). CEOs in high power have a greater capacity to resist oversight of the board of directors, audit committee, shareholders and, ultimately, market control as they are the main figure for financial information development and monitoring. Kim and Gu (2005), Barber, Ghiselli & Deale (2006), and Guillet, Kucukusta & Xiao (2012) suggest that the compensation of the CEO is associated with the financial performance of the firm and motivated by the importance of earnings figure.

Nevertheless, a contrasting but less established study source has arisen in the literature on organization theory that argues that under some conditions, the entrenchment of the Chief Executives aligns managers' priorities with those of shareholders. Management entrenchment as argued in Fabrizio, Juan and Jordi (2017), results in earnings management practices that are less detrimental to the value or performance of the entity. It stems from the belief that well-established Chief Executives (CEOs) can exploit the earnings less opportunistically because they are more concerned about future success than CEOs who are not well-entrenched or well-established. Entrenched CEOs thus are more likely to use the flexibility implicit in accruals and organizational actions to advise stakeholders on future performance, and not at the detriment of declining performance.

The specific corporate characteristics are different accounting details recorded by the organization in its financial statements for a given financial year, which is capable of triggering a message to several owners of the business about its results, because the financial statements are used by CEOs to represent the economic reality of any company. (Stainer, 2006). Earnings, as a line item is a very interesting feature in financial reporting, however, managers are believed to manipulate earnings in order to achieve their purpose; which is a concern for stakeholders. Given the importance of earnings, executives are involved in the reporting and must better manage their earnings for that purpose (Sukeecheep,

Yarram & Farooque, 2013). Thus, in terms of increasing its utility, they can, therefore, improve the positive and negative aspects of financial reporting by adjusting accounting earnings.

However, after a string of business defaults and frauds (e.g. Enron, Tyco & WorldCom), financial statements became dubious, which led to a hindrance to growth in productive capital markets. Investors in Nigeria frequently claim that financial performance information is either inaccessible or, if given, manipulative (Shehu, 2011), and of course, there are far fewer observers or analysts on the Nigerian market than those on the industrialized economy. Consequently, it is becoming increasingly important to understand how the financial statement is controlled and prepare to ensure that the quality of financial statements is not compromised (Daghsni, Zouhayer & Mbarek 2016).

The overarching purpose of this research is to evaluate earnings management from the dimension of both management entrenchment and company characteristics, while the specific goals are to; investigate the effect of management entrenchment and assess the effects of company characteristics on earnings management of conglomerate firms in Nigeria. This research has the potential to enhance the perspective of investors on an entity's earnings management. The scope of this study is based on six (6) listed conglomerate companies in Nigeria. The period covered was from the year 2008-2018.

Literature Review

Managers have a specific role to play in organizing the operations of inputs and in enforcing agreements negotiated with inputs, with the aim of making the best decision among alternatives. The management entrenchment process is described by Pigé (1998); Aymen & Boutheina (2017) as a process allowing the managers (CEOs) to free themselves from control by the board, audit committee or even by the shareholders of the company. It can be inferred from this description of entrenchment that managers could be running the business in a

way that goes against the maximization of firm value. Shleifer and Vishny (1997) argue that executives are striving to make different investment acquisitions dependent on their knowledge and experience to deepen the company's image and to make dismissal quite very costly to the organisation. In essence, it offers them more lucrative bonuses, major benefits, perquisites and more independence in management. Managers that are entrenched become irreplaceable in a manner without which the organization will fail. Thus, an executive has an incentive to invest the company resources in properties that have a better value than the best-managed option (Fama, 1980).

Social success will, however, be improved by convergence, as managers' involvement in social activities can be perceived as a tactic helping them to build strong relations with other stakeholders to counteract control mechanisms (Surroca & Tribo 2008). If ownership and control are separated within a corporation, expenses, in the form of agency cost come from the business. Nevertheless, the expense of the business decreases if equity within the organization rises when CEOs pay for a greater proportion of the company's share. Peculiarities of the companies in which managers operate differ, hence, a consideration of the characteristics of each company is imperative.

Firm characteristics are the behavioural patterns of company's operation which enable them to achieve their objectives throughout the period of their operations, therefore Company's characteristics vary from one business entity to another and they can be determined based on the relevant information disclosed on financial statements for a particular accounting period (Stainer, 2006). Similarly, firm characteristics can also be defined as certain advantages that a company enjoyed over its competitors in the market for the period of operation (Abdullahi, 2016). There are wide varieties of information disclosed in the financial statement of business entities that serve as the predictors of the firm's quality of accounting information and performance (Lang & Lundholm, 1993). Based on previous studies, availability of data and its

relevance to the socio-economic environment of Nigeria, three independent variables are selected as proxies for the firm's characteristic reporting (Chen & Jaggi, 2007). The variables used in this study include firm size, leverage, and profitability (Dogan, 2013; Mohammed & Usman, 2016; Owolabi & Obida, 2012; Salehi, 2009; Shehu & Ahmad, 2013).

In recent discussions on organizational deficiencies in unethical behaviour (Uwuigbe, 2013), earnings management remains an important topic. As such Alsharairi and Salama (2012) described income management, in compliance with the GAAP, as manageable activities which seek to influence the accrual-accounted portion of the reported income upwards or downwards as driven by the information knowledge and economic consequences associated with this phase. In addition, Rahman, Moniruzzamán and Sharif (2013) suggested that the earnings management consists of accounting or accrual control strategies, chosen by company management to meet the planned levels of income, under the constraints of the appropriate stakeholders and the limits of generally accepted accounting principles (GAAP). Nevertheless, WorldCom and Enron's accounting crises also changed the paradigm on earnings management to an opportunistic view. In this sense, executives manage earnings for private purposes rather than the shareholders' interests (Watts & Zimmerman, 1986; Subramanyam, 1996; Hao & Yao, 2010; Jiraporn, Miller, Yoon & Kim, 2008). In fact, the modified Jones model was the better predictor for earnings management as inferred by Chen, Chen, Lobo and Wang's (2011) study.

Using the agency theory which was developed by Jensen and Meckling (1976), agency relationship was defined as a form of contract between the company's owners and managers. Agencies theory is seen as one of the oldest ideas of management literature and economics (Mitnik, 2011; Wasserman, 2006), with the work on residual claims and decisions made by Fama and Jensen (1983). The activities of the company have been split into two groups, namely decision-management and decision-control, in which

agents are the main players in the process. Decision-making and decision-making are identical in non-complex businesses, but both occur in complex ones. In these complex organizations, the problem with agencies occurs in the decision-making process of management, since the decision-makers who introduce and execute the company's decisions are not the true bearers of the rich consequences of their decisions. They argued that these issues are important for the company's sustainability to be managed. The interesting statement about the disparity in risk tolerance between agent and principal was made by Grossman and Hart (1983) which clarified that the principal is influenced by the performance of the Executive, which is the agent. The level of effort of the agent influences the performance of the organizations in which the principal wants the agents to improve their efforts. The principal should, therefore, threaten the actions of the agent with a reasonable payment structure such as the cost of contracting (perquisites) and the charge for oversight (by employing an auditor).

The compensation system is influenced by the agent's vulnerability or information content approach to management, and if the agent is risk-neutral, no reward problem occurs. This theory confirms that managers entrench themselves to protect their job, increase their remuneration and incentives. The situation where the owners (principals) engage another (agent) to manage the affairs of their business in their interest, although the managers (agent) are to work in the interest of the owners, nevertheless, there arises a conflict of interest in the short term and long-term goals of the organization. The agency costs are cost incurred when professional managers are to run the companies on behalf of the shareholders these include monitoring cost (employing an auditor); bonding cost (incentives packages) and other agency costs. For the long-term gain of the incentive scheme, managers formulate a method of consolidating and neutralizing the systems of influence exerted by the owners or shareholders, which in this case, is the principal, so that he or she can provide more personal advantage within the organization

(Institute of Chartered Accountant of Nigeria, ICAN 2014).

Fabrizio, *et al.* (2017) examined managerial entrenchment and earnings management. The study argues that the firm's owners can also benefit from an improved entrenchment that allows executives fewer short-term financial reporting targets for control of their earnings. The study found out that these effects of entrenchment on earnings management are only present for firms domiciled in Delaware. Kamran and Attaullah (2014) examined the impact of corporate governance and ownership structure on earnings management practices and estimated discretionary accruals from the perspective of Jones' (1991) model; Dechow, Sloan, & Sweeney's (1995) modification of Jones' model; Kasznik (1999); and the performance-matching Jones' model by Kothari, Leone, & Wasley (2005). The results indicate a monotonous rise in the discretionary accrual with the share of ownership of the executives, their wives, children, and other families of an entity. The correlation between earnings smoothing and management entrenchment which evaluated Fudenberg and Tirole's (1995) forecasts, which established a model in which managers smoothly earnings were attributed to fears regarding job security, was analyzed by Francios and Zhan (2004). Data from the study endorse their propositions. The study reveals that businesses whose executives are more entrenched have a lower level of smooth earnings, *ceteris paribus*, depending on the connection between accruals and cash flow. Extensions provide further insight into both the incremental accruals and investor customers' position in the correlation between smoothing and entrenchment. Jonathan and Olivier (2014), using panel data collected between 2003-2011, focused on the performance consequences of manager entrenchment and employed Generalized Least Squares (GLS) method. The study indicates that family-owned companies with higher entrenchment scores perform better and are more likely to be responsible for the organization's management working. This view was also subscribed to in Sobhy, Ehab & Hussain (2017). As illustrated in French companies listed in SBF 120, Moussa,

Rachdi and Ammeri (2013) reviewed the entrenchment of governance administrators using discretionary accruals, seniority and the attributes of their directors. The research has shown that management board leads to managers' oversight and the estimation of management's entrenchment effect remains statistically significant for all company performance metrics.

Furthermore, Aziatul, Nur and Zuraidah (2015) investigated earnings management as an analysis of opportunistic behaviour, monitoring mechanism, and financial distress. The research applied the 2005 Kothari Model for measuring earnings management and the outcome of the study provided a helpful explanation for the relationship among variables, thereby providing regulators with appropriate views to tightening the rules and regulatory regulations, in order to encourage public trust in the reliability of financial reporting. Dean, Bulent and Christopher (2000) posited that firm characteristics are essential determinants of a firm's performance as well as its success in business. Lee and Choi (2002) have noted that the company's characteristic such as size affects the propensity of a company to manage its earnings and therefore believed that smaller businesses are likely to manipulate their earnings more often than larger companies to avoid disclosing losses.

Nigeria's proprietary concentration and earnings management activity of listed conglomerates has been investigated in Shehu & Jibril (2012). The study proxied earnings management using the modified Jones (Dechow, Sloan & Sweeney, 1995) model. Using 30 firm-year paneled observations, we estimated panel OLS and controlled for fixed or random effects. The result showed a major adverse link between proprietary concentration and earnings control activities. Richardson (2000) discusses these claims and argues that the degree of earnings management rises as the asymmetry ratio of the information increases; a strong result has been shown to check this relationship. The research shows that, where there is a high degree of information asymmetry, accounting parties who are involved do not have access to necessary data to discourage accounting

abuse, so that administrators can use their discretion as information asymmetry rises to manipulate the reported earnings. However, these studies failed to include management entrenchment as one of their variables. The variables used to measure this in the study are the CEO's tenure and the CEO's shareholding.

Based on the arguments raised, the study hypothesizes the following:

H₀₁: Management entrenchment variables do not have a significant impact on earnings management in Nigeria conglomerate companies.

H₀₂: Firm characteristics do not have a significant impact on earnings management in Nigeria conglomerate companies.

On *a priori*, management entrenchment and firm characteristics variables are expected to have a positive impact on earnings management of conglomerate companies in Nigeria.

Methodology

This study adopted the ex-post facto research design. The target population and sample size of this study consisted of six (6) conglomerate companies in Nigeria. Secondary data derived from annual reports and accounts of the conglomerate companies were utilized in the study. Descriptive statistics and correlation analysis were used as an analytical tool while the variance inflation factor was carried out to detect multicollinearity. The model below was formulated for the study:

$$EMT=f(MEN, FCH, \mu)$$

Where:

EMT = Earnings management (measured by DAC)

MEN = Management Entrenchment (measured by CTE, CSH)

FCH = Firm Characteristics (measured by FS, PFT, LEV)

Regression model specified for the purpose of this study is:

$$DAC_{it} = \beta_0 + \beta_1 CTE_{it} + \beta_2 CSH_{it} + \beta_3 FS_{it} + \beta_4 PFT_{it} + \beta_5 LEV_{it} + \beta_6 BDS_{it} + \mu t$$

Where:

- DAC = Discretionary Accruals
- CTE = CEO’s Tenure
- CSH = CEO’s Shareholding
- FS = Firm Size
- PFT = Profitability
- LEV = Leverage
- BDS = Board Size (control)
- Subscript ‘it’ indicates panel data
- μ = Stochastic error term that captures unobserved variables

This research used discretionary accruals as a surrogate for earnings management analogous to many previous reports, such as Norman, Takiah and Mohd (2005); Sarkar, Sarkar and Sen (2008); Shen and Chih (2007); Chalevas and Tzovas (2010); Joubert and Fakhfakh (2012); Callao, Jarne and Wróblewski (2019); and Alzoubi (2019); Sukeecheep et al. (2013). The foregoing expression describes discretionary accrual (TACC):

$$TACC_i = NDAC_i + DAC_i$$

Where: non-discretionary accruals (NDAC) and discretionary accruals (DAC) makes up TACC.

Although there are two models (modified Jones model and performance-matched model) for computing TACC, the modified Jones’ model will be used because it is the most common method used in accounting research (Dechow, Sloan and Sweeney, 1995; Kothari, Leone and Wasley, 2005).

Modified Jones Model

Under this model, the total accruals $TACC_{i,t}$ for firm *i* is the difference between net income before tax and extraordinary items (EARN) and net operating cash flows (OCF) as expressed in equation (1).

$$TACC_{it} = EARN_i - OCF_I \dots\dots\dots (1)$$

The computed total accruals $TACC_{it}$ in equation (1) will be added in equation (2) as stated below.

$$\frac{TACC_{i,t}}{A_{i,t-1}} = \alpha_1 \left(\frac{1}{A_{i,t-1}} \right) + \alpha_2 \frac{(\Delta REV_{i,t} - \Delta REC_{i,t})}{A_{i,t-1}} + \alpha_3 \frac{PPE_{i,t}}{A_{i,t-1}} + \epsilon_{it} \dots\dots\dots (2)$$

where:

- $TACC_{i,t}$ = company *i* in year *t* total accruals
- $A_{i,t-1}$ = lagged total assets by 1 year
- $\Delta REV_{i,t}$ = sales revenue for company *i* in year *t* measured in terms of change
- $\Delta REC_{i,t}$ = Net Receivables for company *i* in year *t* measured in terms of change
- $PPE_{i,t}$ = Company *i* in year *t* for Property Plant and Equipment
- ϵ_{it} = Error term (Non-discretionary accrual)
- $\alpha_1, \alpha_2, \alpha_3$ = parameters industry-specific attributes

Two dimensions of entrenchment were used (CEO’s tenure and CEO’s shareholding) as the variables for measuring management entrenchment. Previous studies such as Fabrizio, Juan and Jordi, (2017); Jonathan and Olivier, (2014); Fredrickson, Hambrick and Baumrin (1988) claims that early weakness arises if the CEO’s tenure is less than or equivalent to three years. Within three years, CEOs begin to gain authority and become more entrenched. The study thus creates a dummy vector that takes value 1 if it takes longer than 3 years to keep CEOs and 0 if not.

Three dimensions of firm characteristics were used (firm size, profitability, and leverage) as the variables for measuring firm characteristics, as it has been proved in literature Dogan, (2013); Roodposhti & Chashmi, (2010). Natural logarithm of a firm’s total assets to measure the firm size (Lee & Choi, 2002). Profitability is measured using the return on asset which is calculated as profit before interest and tax divided by total assets to generate revenues and leverage was measured as the ratio of firms’ total debt to equity as it has been proved in literature Salehi, (2009); Roodposhti & Chashmi, (2010). Board size was used as a control variable. Board size was measured using the natural logarithm of total board members

Table 1. Descriptive Statistics

Variables	DAC	CTE	CSH	FS	PFT	LEV	BDS
Mean	-234054.3	0.476190	0.008495	40599129	3319340.	38204792	5.904762
Maximum	13096251	1.000000	0.164016	95707797	10940804	1.90E+08	15.00000
Minimum	-7900912.	.000000	0.000000	1178421.	-3476859.	1351966.	4.000000
Std. Dev.	4915454.	0.511766	0.035639	33600119	4390303.	44582226	2.467889

Source: Author's Computation (2019)

(Mian & Salat, 2018; Daghsni, Zouhayer & Mbarek, 2016).

Results

Descriptive Statistics

The results show that the average discretionary accrual is -234054.3. This implies that on average, the sampled firms manage accruals downward. Discretionary accruals ranged from -7900912 to 13096251 with a standard deviation of 4915454. The average value of CEO's Tenure for the six conglomerate companies is 0.476190 which shows that some CEOs does not stay up to 3 years before they are changed (since those that spend more than 3 years were coded to 1 and those that spend less than 3 years were coded 0). The average value of the CEO's Shareholding is 0.008495 with a standard deviation of 0.035639 and a maximum of 0.164016. The biggest size of the six conglomerate companies used in this research is ₦95,707,797 with an average of ₦40,599,129 and a variation of ₦33,600,119. On average, the six conglomerate companies make ₦3,319,340 profit over the period under study. The maximum profit of the six conglomerate companies was ₦10,940,804. The mean of leverage is ₦38,204,792 while its standard deviation and minimum values are ₦44,582,226 and ₦1,351,966

Table 2. Correlation Matrix

	DAC	CTE	CSH	FS	PFT	LEV	BDS
DAC	1	.000	.000	.041	.000	.028	-.021
CTE		1	.913**	-.075	.193	-.010	-.064
CSH			1	-.115	.228	-.034	-.109
FS				1	-.045	.137	.220
PFT					1	.169	-.023
LEV						1	.058
BDS							1

** . significant relationship at p-value<0.01 (2-tailed), * . significant relationship at the p-value<0.05 (2-tailed).

Source: Author's Computation (2019)

respectively. As revealed in Table 4.1, the average size of the board of the six conglomerate companies is 5.904762 with a spread of 2.467889. Board has a size of minimum and maximum of 4 and 15 respectively as evidenced by the six conglomerate companies.

Test for Multicollinearity

The correlation matrix presented in Table 2 reveals the relationship between the dependent metrics and the independent variables. The table also shows the level of association between independent variables themselves. The values were extracted from the Pearson correlation of two-tailed significance.

A further investigation into possibility of the existence of multicollinearity among the regressors is carried out through the variance inflation factors (VIF) test. The result of the investigation is presented in Table 3. Table 3 depicts the VIF and its inverse (technically called tolerance) for all the independent variables. By the rule of thumb, any variable whose VIF is greater than 10 is highly collinear and vice versa. From Table 3, all the variables have VIFs that are lesser than 10 which imply that they are not collinear.

Table 3. Variance of Inflation and Tolerance

Variable	Tolerance	VIF
CTE	0.156	6.398
CSH	0.116	8.626
FS	0.939	1.066
PFT	0.168	5.952
LEV	0.163	6.135
BDS	0.139	7.194

Source: Author's Computation (2019)

Model Estimation Results

In Table 4, the t-value for management entrenchment as measured by CEO's Tenure (CTE) is 38.05773 and a coefficient of 1.062821 with a probability value of 0.0367. This signifies that management entrenchment as measured by CEO's Tenure is significant (5%) and positively related to earning management using conglomerates firms in Nigeria Bourse. Thus, a unit increase in management entrenchment as measured by CEO's Tenure will increase earnings management of conglomerates firms by 1.062821 while The CEO's Shareholding showed a t-value of 5.077327 and a coefficient having a propensity of 0.4090. This appears to mean the shareholding of CEOs does not impact the earnings management of conglomerate companies in Nigeria substantially. The size of the firm has a t-value of 8.094089, a coefficient of 0.124587 and a probability ratio of 0.0000. It can also be inferred that at one percent significance level, business size correlates

Table 4. Regression Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	354018.6	113398.1	3.121911	0.0027
CEOs Tenure	1.062821	0.027927	38.05773	0.0367
CEOs Shareholding	- 6252391.	0.010712	5.077327	0.4090
Firm Size	0.124587	0.015392	8.094089	0.0000
Profitability	0.006647	0.008390	3.792301	0.0431
Leverage	0.032065	0.006280	5.105562	0.0000
BDS	0.031227	0.003120	10.00992	0.0187
R-squared	0.764123	Mean dependent var	-6.11E-10	
Adjusted R-squared	0.460766	S.D. dependent var	3962004.	
S.E. of regression	784776.2	Akaike info criterion	30.07635	
Sum squared resid	4.00E+13	Schwarz criterion	30.29769	
Log likelihood	-1075.749	Hannan-Quinn criter.	30.16447	
F-statistic	29.07764	Durbin-Watson stat	1.630043	
Prob(F-statistic)	0.000000			

Source: Author's Computation (2019)

positively with Discretionary Accruals of conglomerate businesses in Nigeria while also sustaining a significant influence on earnings management practices. It implies that a unit increase in Firm size will increase earnings management of conglomerates companies in Nigeria by 0.124587. Profitability shown in Table 3 with a t-value of 3.792301 and a coefficient of 0.006647 has a p-value = 0.0431. In essence, profitability is fundamentally important and it has a positive effect on conglomerate firms' earnings management in Nigeria. This suggests that the rise in profitability would lead to an increase in multinational firms in Nigeria's earnings management.

In addition, the t-value for leverage was found to be 5.105562 and a 0.032065 coefficient with a p-value of 0.0000. This means leverage is significant and positively related to conglomerates' earnings management practices in Nigeria at 1% significant level. This implies that for a unit increase in leverage, the Earnings management of conglomerates firms will increase by 0.032065 and in the same vein, board size which is the control variable showed a t-value of 10.00992 and a coefficient of 0.031227 with a p-value of 0.0187. This signifies that board size has positive and significant impact earnings management.

Cumulatively, in Table 3, the F-statistic of 29.07764 reveals that the research model is well designed, and the significance of

0.000000 p-value can further support this, demonstrating that the cumulative impact management entrenchment and firm characteristics 1% is significant. This implies that management entrenchment and firm characteristics have strongly and significantly impacted on earnings management. The coefficient of determination (R^2) of 76% explains that variation in earnings management which is jointly accounted for by management entrenchment and firm characteristics has been combined in explaining earnings management of conglomerate companies in Nigeria.

Discussion of Findings

In compliance with the objectives, this study has been able to examine and analyze management entrenchment, conglomerate firms' business characteristics and earnings management in Nigeria. After a thorough empirical investigation of the relationship between the managerial entrenchment variables and earnings management, it was established that managerial entrenchment impacts earnings management. This supports the finding of Roodposhti and Chashmi (2010); Hashim and Devi (2008); Fabrizio, *et al* (2017) which revealed that more and less entrenched managers differ in their earnings management behaviour. Specifically, a positive association emerged between management entrenchment as measured by CEO's Tenure and earnings management. This supports the result of Jonathan and Olivier (2014) which revealed that the longer the management entrenchment as measured by the CEO's tenure, the harder it is to dismiss the manager and the higher the chance of earnings management. Management entrenchment as measured by CEO's shareholding on the other side showed a negative connection with the management of earnings. Result is in line with Fabrizio *et al* (2017) who found a negative link between management entrenchment and the opportunistic use and abuse of actual activities and accruals.

Regarding firm characteristics, the study's evidence shows that the company's size and earnings management have been related positively. This is reinforced by the observation of Laura and Cristina (2014);

Uwalonma, Uwuigbe and Okorie (2015), that company size is a business attribute that gives a propensity to manage earnings, Leverage was found to have a significant and positive influence on conglomerate firms' earnings management in Nigeria. This positive association is in support of the research result of Shehu and Jubril (2012); Moussa, *et al* (2013); Irawati, Marlina & Sipayung (2019) that the higher leverage increases the possibility of earnings management. Furthermore, profitability has a positive relationship with earnings management which indicates that if current profit is high, managers would engage in the management of their earnings if they want their firms to survive amidst the worries of staying afloat with dwindling cash flow of the company as corroborated by Aziatul, *et al* (2015).

Board size is positively and significantly related to earnings management. This positive association is in support of the research result of Aded, Al-Attar, and Suwaidan (2012); Vihi, Abu and Iortima (2019) which revealed that the board composition is the only attribute that has a significant relation with earnings management which may lead to distortion in reported financial reports thereby eroding investors' confidence of their investment. Also, the finding of this study is in support of the sample of quoted Nigerian banks which was used by Shehu (2011) to create positive relations between the board size and quality of financial reporting.

Conclusion

This study examined the influence of conglomerate firms' management entrenchment, company characteristics, and earnings management in Nigeria. In light of the above, the study concludes that management entrenchment and firm characteristics influence earnings management. The study recommends that the board of directors of conglomerate companies should reduce the CEO's tenure to minimise earnings management practices. Besides, the management should reduce the debt in their capital structure in order to improve their companies' value and their capital structure should be majorly financed

by equity rather than debt. Similarly, management should invest its excess cash so as to avoid mismanagement of earnings. This is because idle cash (profit) could be easily manipulated.

This study has not explored the socio-cultural dimension of managerial entrenchment. A socio-cultural perspective could be explored in a comparative study of Nigeria and other African countries and/or countries in developed economies. In exploring this dimension, studies could use contextual variables such as the strength of the regulatory system or infrastructure. This can be hinged on the argument that Africa markets suffer from the weak regulatory environment (CFA Institute Research Foundation, 2019; Agyemang, Gatsi, Ansong & McMillan, 2018) which managers that are well entrenched can exploit. It could be proposed that entrenchment is more pronounced in weak regulatory environments than in stronger ones and *vice versa*.

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