

Gusau Journal of Accounting and Finance, Vol. 2, Issue 2, April, 2021



Gusau Journal of Accounting and Finance (GUJAF)

Vol. 2 Issue 2 April, 2021 ISSN: 2756-665X

A Publication of
Department of Accounting and Finance,
Faculty of Management and Social Sciences,
Federal University Gusau, Zamfara State –Nigeria

FIRM ATTRIBUTES AND EARNINGS MANAGEMENT OF LISTED DEPOSIT MONEY BANKS IN NIGERIA: DOES DIVIDEND PAYOUT MATTERS?

Mansur Lubabah Kwanbo, PhD

Department of Accounting
Faculty of Management Sciences, Kaduna State University
lubakwanbo@kasu.edu.ng

Chijioke Anyalewechi

Department of Accounting, Kaduna State University
chijiokeanyalewechi@gmail.com

Abstract

Most Nigerian banks are known to pay dividend to investors, despite been characterized with high non-performing loan, dwindling financial performance, increased tax liability and weak internal control system. The objective of this study to find out whether dividend payout influences earnings management of listed deposit money banks. Specifically, the research also examined whether profitability, tax rate, firm size and internal control system are functions of earnings management of Nigerian listed deposit money banks. The sample is a census of the population of 14 listed deposit money banks. Quantitative data were extracted from the financial statements of these listed deposit money banks for the period under review and multiple regressions was the technique of analysis used. Robustness test (heteroscedasticity and multicollinearity) were carried out to establish model reliability. Findings revealed that Dividend payout influences earnings management of deposit banks at <5% significant level and based on the finding; the study concludes that banks that payout dividend regularly are constrain to manage earnings opportunistically. The study recommends that banks should comply and sustain CBN directives on thresholds as a prerequisite for dividend payment as this will significantly inhibit earnings management practices.

Keywords: Dividend Payout, Profitability, Tax rate, Firm size, Internal Control System

1. Introduction

The importance of dividend policy cannot be over emphasized. It is indeed the underpinning factor for other financial policies of a company. Dividend decisions influences fund flows to investors and investment (Jahanzaib, Ali and Sadiq, 2012). It is pertinent to note that, for some decades now banks in Nigeria habitually paid dividends to their shareholders without essentially retaining

earning to grow investment or capital against risks involve in operations. An aggressive policy was mostly adopted by these banks to influence increase in share prices and also meet the demand for more cash by higher level management (Egwuatu, 2019).

Besides these facts, some banks had huge non-performing loans that eroded their capital adequacy. Nkurmah, Ofori, Anaba, and Serwa, (2018) evidenced that a higher non-performing loan affects total asset value, dividend payout to shareholders and liquidity position of banks. Similarly, Alhadab, and Al-own (2017) documented that banks manipulate their loan loss provision to report inflated earnings, and this negatively affects banks' current and future performance. As mentioned earlier, Nigerian banks pay out a larger amount of their profits, notwithstanding their high risk profile, low liquidity position, high rate of non-performing loan and the requisite to build pliability through adequate capital cushions (Central Bank of Nigeria, 2018).

Consequently, CBN restricted payment of dividend by banks whose capital adequacy ratio is below the threshold set by it (CBN, 2019). As a result, some banks could not pay dividend in 2018. It is important to state here that the action taken by CBN was only a re-enforcement of the restriction issued in 2014. This implied that these banks could have paid dividend to investors if the restriction was not enforced. Meaning, in order to sustain steady dividend payment, banks have to maintain and enhance their profit. Jahanzaib, Ali and Sadiq (2012) established that in condition of inconsistent earnings such as losses or much bigger profits, the management tends to smooth their earnings to report profit to pay dividend. In the same vein, Nigerian banks with high non-performing loans that eroded their capital adequacy could still pay dividend. This is why Akinbor and Ibanichukwu (2012) empirically concluded that Nigerian banks practice earnings management to boost the market value of their shares. Furthermore, Ahmed, Mohammed and Adisa, (2014); Ali, (2015) established that banks in Nigeria actually use loan loss provisions to manage earnings.

But Uwuigbe (2017) evidenced that the disclosure of accounting information by banks in Nigeria do not reveal they practice earnings management. Then, Farouk and Isa (2018) extracted accounting information from the financial statements of banks and used Chang, Shen and Fang (2008) model of conventional banks to empirically proof that banks in Nigeria use loan loss provision to practice

earnings management. Additionally, the literature has shown that earnings management is a function of several other conditions like profitability, tax rate, size and internal control system. Doyle, Ge and McVay (2007), Kothari, Leon and Wasley (2005) provided evidence that companies with low profit are more inclined to manage earnings.

Additionally, profitability is a determinant to paying company income tax. Hepworth (1953) proved that tax is one of the several reasons that make management to smooth earnings. This implies that the lower the profit the lower the tax rate and vice-versa. However, Nigerian tax laws requires companies to pay 30% of the higher of taxable profit and dividend paid. Lin, Thaker and Khaliq (2018), Pandey and Mansuri (2017), Arif and Akbar (2013) established that tax rate influences dividend payout of firms. More so, Aini, Takiah, Pourjalali and Teruya (200), Watts and Zimmerman (1990) contend that size of a firm determines earnings management; larger firms might have more reasons to manage earnings than smaller firms.

In the same vein, governance mechanisms are reflected as the tools of the control environment component of the internal control system. The board of directors is considered an effective governance mechanism when it has more of independent directors (Silalahi, 2017); this attracts quality earnings (Larcker and Tayan, 2016). It is important to again reiterate here that before the CBN policy on the payment of dividend to be based on satisfying the capital adequacy threshold stretching from a 10% for local banks to a 15% minimum for Nigerian banks with an international outlook. Most Nigerian banks are known to pay dividend to investors, despite been characterized with high non-performing loan, dwindling financial performance, increased tax liability and weak internal control system. This is why since 2014 the CBN has been up and doing in restricting banks with these characteristics from paying dividends. Specifically, in 2017 Union, Unity and Wema Banks were restricted.

This kindled the interest that informed the objective of this study to examine whether dividend payout, profitability, tax rate, size and internal control system are functions of earnings management of Nigerian listed deposit money banks? This study is motivated by the fact that banks are part of the financial system that fundamentally drives economic progress of Nigeria. More so, they are a composite of listed companies that contribute a significant amount of revenue

realized by the Federal Inland Revenue Services FIRS which contributes to financing the national budget.

This research offers proof and contributes to bridging the existing gap on the dearth of studies on listed deposit money banks as most studies like (Aladwan; Nguyen and Bui, 2019; Jungandi, Mulyan; Ahmad, Advani and Kanwal, 2018; Khanna; Srikanth and Prasas, 2015, Moghri & Galogah, 2013, Moradzadehfard, Babaie; He, Lilian, Zaiats; Aurangzeb, Dilawer; Jahanzab, Ali and Sadiq, 2012, Liu; Anf, Abrar, Khan, Kayani, Sha; Mohammad, Wasiuzzaman and Zaini, 2011, Shah, Yuan & Zafar, 2010, Edelstein, Liu and Tsang, 2009; Savov, 2006) examined dividend policy and earnings management in financial sector. Secondly, to the best of the researchers' knowledge, the few Nigerian studies documented, examined non-financial listed companies (Ayunku and Timepere, 2020; Ibrahim, Bala, Garba; Ajide and Aderemi, 2014).

Thirdly, other few studies that examined the banking sector (Ahmed, Mohammed and Adisa, 2014; Yahaya, Kutigi and Mohammed 2015; Jayeola, Taofeek and Toluwalase, 2017) relied on a model that is not financial sector based to measure earnings management. Interestingly few that used financial sector based models settled for models that were suitable for interest based financial institutions (Ali, (2015) that adopted Beatty, Hong, and Adam, (2002) and Farouk, Isa, (2018) adopted Chang, Shen, and Fang, (2008). This study relies on Ben Othman and Mersni (2014) model that is suitable for interest and non interest based financial institution as they provided evidenced that banks discretion on loan loss provision are similar for interest and not for interest based.

The CBN will find the findings of this study as empirical evidence that supports its policy efforts on using thresholds to direct payment of dividends in the banking sector. Also, the security and exchange commission SEC will take into account the findings of this study as evidence of their concern and support for quality earnings reports as earnings management practices will be greatly reduced.

This paper is in five sections. Section one is the introduction in addition to this paragraph; section two presents the concepts and theory; section three discusses the methodology that parades study's design, variables, model specification, technique of data analysis, diagnostics and robustness tests; section four shows

the findings and section five presents the conclusion, recommendation and implications.

2. Literature Review and Hypotheses Development

The manipulation of stated earnings by using precise accounting approaches to attain steady and foreseeable business results. Earnings management a deliberate yardstick used by management to report that the business is doing well. In order to avoid negative net income banks, seek income smoothing (Bortoluzzo Sheng, and Gome, 2015; Bornemann, Kick, Memmel, and Pfingsten 2012). They practice smoothing to spend more to attract better outcome (Kanagaretnam, Lobo, and Yang 2005; Ahmed, Takeda and Thomas 1999). Farouk and Isa (2018); El Sood (2012); Anandarajan, Hassan and Vivas, (2003) evidence that banks use loan loss provisions to indulge in earnings management practices.

Dividend Payout (DP) is the income earned from investment paid to an investor after minusing tax from net income. The following study evidenced dividend payout influences earnings management, Aladwan, (2019); Moghri and Galogah (2013; Jahanzaib et al., (2012) Liu (2011); Edelstein, Liu and Tsang, 2009). Particularly with lower information asymmetry dividend policy determines earnings management Nguyen & Bui, 2019v; He, Lilian, Zaiat, and Zang (2012). However, the studies of Ajide and Aderemi 2014; Aurangzeb and Dilawer, 2012; Savov (2006) evidenced that dividend payout has no influence on earning management.

Profitability (PR) is when all expenses or expenditure and claims are absorbed by a firm's income. Some studies evidenced that low profit influences earnings management Alhadab, and Al-own, (2017); Kothari, Mizik and Roychowdhury, 2016; Cohen and Zarowin, 2010; Doyle, Ge & McVay, (2007) Lee, Li, and Yue (2006); Kim, Liu, and Rhee (2003), while others studies evidenced it is not (De Angelo, Ardekani, Nejat and Hashemijo, 2012) De Angelo and Skinner, (1994).

Firm Size (SZ) is the total current and noncurrent assets truly owned by a firm. Findings of Jahmani and Niranjana (2015) showed that the size of a firm relates significantly to earnings management. Furthermore, studies of Aini, Takiah, Pourjalali, and Teruya, (2006) established that the larger the firm the more interested in managing earnings. Kim, Liu, and Rhee (2003) evidenced that larger firm considers the implication of earnings management on their reputation but smaller firms manage earnings to avoid reporting losses. However, Gu, Lee and

Rosett, (2005), evidenced that size of a firm does not attract earnings management.

Tax Rate (TR) is a specific amount deducted from net income of a firm and remitted to the Federal Inland Revenue Services FIRS on a preceding Year basis. Edelstein et al., (2009) established that tax rate influences earnings management by companies manipulating profit to pay less tax.

Internal Control System (ICS) is the responsibility of management to ensure all governance mechanism, procedures and policy are adequately supported towards safeguarding as far as practicable the financial and human resources of the company in order to provide the reasonable assurance that financial statements produced by the system are free from material errors, misstatements and distortions. Robust internal control system reduces the cost of managing earnings by directors (Fan, Zhang and Liu, 2013; Fang, Sun, Jin; Hongxing, Jin, Yuna; Jia, Liu, and Jones, (2011). The findings of Jahmani and Niranjan (2015); Chan, Farrell and Picheng, (2008) revealed that a weak internal control system attracts earnings management and the possibilities of intentional and unintentional errors in accounting information (Hagerty; McDonald and Francis, 2005; Ashbaugh-Skaife, Collins, Kinney; Doyle, Ge, and McVay, 2007). It is imperative to note here that the control environment of the ICS houses the board of directors. Studies have shown that where the board is not independent real earnings management can be practiced Luo and Jeyraj, (2019) and Mahboub, (2017).

2.1 Empirical Review

2.1.1 Dividend Payout and Earnings Management

The following studies Srikanth and Prasas, 2015; Nguyen and Bui, 2019; Aladwan, 2019), had a common objective of investigating whether dividend payout can influence earnings management. Furthermore, these studies relied on secondary data and regression technique to evidence that dividend payout influences earnings management. Srikanth & Prasas examined 142 nonfinancial firms on Karachi stock exchange for the period 2009-2014 while Nguyen and Bui had a study period of 2010-2016 to examine 390 Vietnam companies and Aladwan examined 15 Jordan companies for the period 2008-2015. The current study differs from these studies by examining listed deposit money banks for the period 2010- 2019. Hence, this study hypothesized that:

H₁: Dividend Payout relates significantly to earnings management of listed deposit money banks in Nigerian.

2.1.2 Profitability and Earnings Management

Studies of Arif and Akbar, 2013; Pandey and Mansuri, 2017; Lin, Thaker and Khaliq, 2018 established that profitability can predict earnings management. These studies employed quantitative data and used regression technique to document their findings. While Arif and Akbar studied 174 nonfinancial companies on the Karachi stock exchange for the period 2005-2010, Pandey and Mansuri examine 12 listed Indian companies for the period 2003-2012 and Lin, Thaker and Khaliq sampled 30 listed property companies in Malaysia for the period 2010-2016. This study also uses quantitative data to establish findings from the perspective Nigerian listed deposit money banks. Therefore, this research hypothesized that:

H₂: Profitability relates significantly to earnings management of listed deposit money banks in Nigerian.

2.1.3 Firm Size and Earnings Management

Studies of Kothari, Leon and Wasley, (2005) settled for a 552, 521 firm year observation from financial reports of companies for the period 1959-1998, Aini, Takiah, Pourjalali, & Teruya, (2006) examined companies on Kuala Lumpur stock exchange for the period 1995-1999 and Jahmani and Niranjani, (2015) researched 180 listed US firms for the period 2012-2014, while Mohammad, Wasiuzzaman, Morsali, & Mzaini, (2018) studied 350 firms in Malaysia for a period of 2008-2009. These studies had a common objective of determining whether the size of a firm explains earnings management and so they based their epistemological position on post positivism paradigm that is quantitative data base. They used regression as the technique of analysis to present findings that revealed firm size influences earnings management. Thus, this study hypothesized that:

H₃: Firm Size relates significantly to earnings management of listed deposit money banks in Nigerian.

2.1.4 Tax Rate and Earnings Management

To establish whether tax rate can explain earnings management Arif and Akbar, (2013) examined 174 nonfinancial firms in Pakistan for the period of 2005-2010. The authors extracted accounting information from the financial statements of

these companies and used regression as the technique of analysis to evidence that tax rate influence earnings management. The current study used a study period of 2010 -2019 to examine listed deposit banks in Nigeria.

Hence, this research hypothesized that:

H₄: Tax Rate relates significantly to earnings management of listed deposit money banks in Nigerian.

2.1.5 Internal Control System and Earnings Management

The study of Chen, (2016) investigated whether internal control system can constrain earnings management by depending on a 4116 firm year observations. Data were extracted from the financial statements of listed companies on china stock exchange for the period 2010-2013 and regression was relied upon as a technique of analysis. Findings revealed that a robust internal control system influenced earnings quality by constraining earning management. The current study presents similar findings using listed deposit money banks in Nigeria for the period 2010-2019. Thus, this study hypothesized that:

H₅: Internal Control System relates significantly to earnings management of listed deposit money banks in Nigerian.

This study is underpinned by the dividend signaling theory (Bernheim and Wantz, 1995) the theory is an offshoot of Ross, (1977) signal theory. From accounting perspective, Ross theory implies that information asymmetry is the basis for financial decisions signaled to stakeholders particularly investors. From the finance perspective, the theory shows that increase in dividend payout signals financial prospects of a company's increase in its stock price. In a nut shell, Ross originally posits that managers with inside information use their choice of capital structure to signal information to the stock market that the company will have adequate cash flows to service debt. In that regard dividend signaling theory shows that increase in dividend payment increases stock prices and investors seeking ever increasing dividend will be attracted to companies like that. This implies that with information asymmetry bank directors can report managed earnings that can sustain dividend payout which increases their stock value. That is why despite decline in liquidity, high risk and rate of non-performing loans dividends are paid by deposit money banks in Nigeria.

3. Methodology and Data

The epistemological position of this study is the post positivist paradigm. The choice of this philosophy is influenced by the fact that quantitative data and existing theory were relied upon to establish the findings of this study. In this regard, the study extracted data from the financial statements of all the 14 listed deposit money banks on the Nigerian Stock Exchange as at December, 2018 making it a census sampling. The secondary nature of the data for this study makes the design a historical research approach and covers the period 2010 to 2019. The choice of this period is greatly influenced by the intervention of CBN in the banking sector regarding dividend payout and capital adequacy. The technique of data analysis is the multiple regressions, the choice of using the technique is tied down to the fact that it can aid the prediction of relationship among the study variables.

3.1 Variable Measurement and Model Specification

This study has earnings management as its dependent variable and it is measured using loan loss provision of banks by adopting Ben Othman and Mersni, (2014) Model. The choice of this model is influenced by the fact the model recognizes the different category of banks in Nigeria; interest based known as conventional; non-interest based known as Islamic and interest based with non-interest or Islamic window.

$$LLP_{it} = \beta_0 + \beta_1 NPL_{it-1} + \beta_2 \Delta NPL_{it} + \beta_3 \Delta TL + \epsilon_{it}$$

Where:

LLP_{it} = total loan loss provision LLP for bank i at the year t , deflated by beginning loans.

NPL_{it-1} = the beginning balance of non-performing loan for bank i at the year t deflated beginning loans.

ΔNPL_{it} = change in the value of non-performing loan for bank i at the year t , deflated by beginning loans.

ΔTL = change in the value of total loan, for bank i at the year t , deflated by beginning loans.

ϵ_{it} = the absolute residual of the model is considered the Discretionary loan loss provision DLLP and it is used to measure EM. Table 3.1 is a presentation of variable measurement.

Table 1: Variables Measurement

Acronym	Nature	Measurement	a priori expectation
Earnings Management EM	Dependent Variable	Absolute value of Residuals Ben Othman & Mersni, (2014)	
Dividend Payout DP	Independent Variable	the ratio of total dividend payment to total profit after tax (Okoro1 et al., 2018, Kuzucu, 2015)	+
Profitability PR	Independent Variable	the ratio of profit before tax & interest to total asset (Sheikh, Naz, and Abbas, 2016)	+
Size SZ	Independent variable	the natural logarithms of total asset value (Gusni, 2017, Yusof and Ismail, 2016) , Almenifi, 2018)	+
Tax Rate TR	Independent variable	the ratio of current year tax to profit before tax (Arif and Akbar, 2013, Lin et al., 2018)	+
Internal control system's control environment ICS	Independent Variable	Number of independent directors to total number of directors on the board Htay, Said and Salman, 2013	+
$DLLP_{it} = \beta_0 + \beta_1 DP_{it} + \beta_2 PR_{it} + \beta_3 SZ_{it} + \beta_4 TR_{it} + \beta_5 ICS_{it} + \epsilon_{it}$			

Source: Author's Measurement, 2020

4. Discussion of Findings

4.1 Descriptive statistics

The table below describe the nature of the data obtained from the variables of the study.

Table 2: Descriptive Statistics

Variables	Mean	Std. Dev	Min	Max
EM	0.505	0.529	-0.475	5.040
DP	0.358	0.792	0.721	6.073

PR	0.014	0.268	-0.107	0.066
SZ	20.94	0.911	18.83	22.83
TR	0.151	0.215	-1.002	0.814
ICS	0.541	0.152	0.3	.475

Source: STATA Output, 2020

In the above table, the descriptive statistics reveals on the average a 50% earnings management practice of banks. This is because the mean of EM shows 0.505 with minimum and maximum values of -0.4745 and 5.040 respectively. Averagely the dividend payout of banks is at 36Kobo and payment to shareholder's ranges from between 72Kobo to above ₦6 as shown in the table 0.358, 0.721 and 6.073 are the mean, minimum and maximum values respectively. Profitability PR of banks has a standard deviation of 0.268 with minimum value of -0.107 and maximum value of 0.066. This implies that banks profit lies between yearly losses 107 million of Kobos to only a maximum of 6% profit because on the average bank profit is 0.014 which is 14 million Kobos only. The table shows that on the average listed deposit money banks size is over ₦20 billion and the size of these banks ranges between more than ₦18 billion to ₦22 billion, this is described in the table as 20.94, 0.911, 18.83 and 22.83 as mean, standard deviation minimum and maximum values respectively. Averagely the tax rate of listed deposit money banks is 15% and the internal control system of these banks has on the average 5 independent directors, which ranges between 3 to 5 approximately.

Table 3: Correlation Matrix

Variable	EM	DP	PR	SZ	TR	ICS	VIF	TV
EM	1.0000							
DP	-0.5088	1.0000					2.1000	0.4770
PR	-0.2189	0.2769	1.0000				2.9500	0.3385
SZ	-0.1911	0.4758	0.5208	1.0000			3.5400	0.2822
TR	-0.4612	0.5450	-0.3065	0.3327	1.0000		4.1400	0.2414
ICS	-0.4253	0.5449	-0.1073	0.6047	0.8096	1.0000	5.1000	0.1959

Source: STATA Output, 2020

Table 3 shows the extent of the relationship between all the variables in the regression model. The result reveals no correlation between the independent variables and the dependent variable. However, this does not affect the positive relationship between the variables as shown in table 3. A further check for collinearity as a robustness check using the variance inflation factor (VIF) and

tolerance value (TV) reveals the absence of multicollinearity as all variance inflation factors are below 10 and tolerance values are below 1.0.

4.1 Regression Analysis and Discussion

Table 4: Summary of Regression Result

Variables	Coefficient	T-Values	P-Values
DP	-0.1425	-2.1800	0.0310
PR	-1.1340	-6.9500	0.0000
SZ	0.1428	7.8800	0.0000
TR	-0.5092	-3.0500	0.0030
ICS	-0.7842	-4.3200	0.0000
Constant	-1.9052	-5.9000	0.0000
R2			0.4853
F-Sta			131.8900
F-Sig			0.0000
Mean VIF			3.5700
Heteest			0.1500
Het-Sig			0.7027
Hausman			33.4800
Hausman-Sig			0.0000

Source: STATA Output, 2020

Table 4 presents the result of the Multicollinearity test where it revealed the mean VIF as 3.5700, while as earlier mentioned all the VIF's and tolerance values were consistently less than 10 and 1. This implies that multicollinearity is not a problem (Cassey & Anderson, 1999). More so, the result obtained from the heteroscedasticity test is not significant from the probability value of 0.7027 which indicate that the panel element was homoscedastic. However, for the fact that it is a panel data, the test for fixed and random effect were still conducted. In addition, the result obtained from the Hausman specification test conducted indicates, that the probability value is less < 0.05 which suggested the use and subsequent interpretation of fixed effect model in favor of the random effect.

The cumulative R² (0.4853) which is the multiple coefficient of determination gives the proportion or percentage of the total variation in the dependent variable as explained by the independent variables jointly. Hence, it signifies 49% of total

variation in earnings management of listed deposit money banks (DMBs) in Nigerian is caused by the collective effort (interaction) of dividend payout, profitability, size, tax rate and internal control system. The (F) statistics which represents the Fisher's statistics with value of 131.8900 which is significant at 1% indicates that the firm specific characteristics model is fit. In addition, it also implies that for any change in firm specific characteristics variables used in this study, the earnings management of these DMBs will be directly affected. The probability value of (0.000) of the F-statistics which is significant at 1% implies that there is 99.9 percent likelihood that the association among the two extreme variables (dependent and independent) are not due to mere chance and as such the independent variables (dividend payout, profitability, size, tax rate and internal control system) reliably predict the earnings management of listed Deposit Money Banks in Nigeria.

The result revealed that dividend payout has a t-value of -2.1800 with regression coefficient of -0.1425 which is statistically significant at 5% level. This implies that dividend payout has significant and negative effect on the earnings management (EM) of listed deposit money banks (DMBs) in Nigeria. However, the result is not surprising because the prior expectation is that firm's that payout dividend regularly will be constrain to manage earnings opportunistically. This is because a large proportion of the after tax profit is shared outside within the shareholders, leaving an insignificant portion as retained earnings. Similarly, board of directors sometimes in an effort to monitor manager's opportunistic behavior and curb unwanted earnings management do pressured management to payout dividend to shareholders. However, this finding gives evidence of accepting the first alternative hypothesis of the study which says; there is significant effect between dividend payout and earnings management of listed deposit money banks (DMBs) in Nigeria. This finding is in line with the studies of Aladwan, (2019); Moghri and Galogah (2013); Jahanzaib et al., (2012); Liu (2011); Edelstein, Liu and Tsang, (2009); Nguyen and Bui, (2019); and He, Lilian, Zaiat, and Zang (2012).

Results on table 4 shows that profitability has a t-value of -6.9500 and a coefficient beta value of -1.1340 with a significant p-value of 0.000. This indicates that for every 1% increase in the profitability of listed deposit money banks (DMBs) earnings management reduce by one point. This is expected as it only confirms that the effort to reduce manipulations by banks is quite insignificant considering the value. This result serves as a sufficient evidence of

accepting hypothesis two of this study which states that profitability significantly relates to earnings management of listed deposit money banks in Nigerian. This supports the position of Alhadab, and Al-own, (2017); Kothari, Mizik and Roychowdhury, (2016); Cohen and Zarowin, (2010); Doyle, Ge and McVay, (2007) Lee, Li, and Yue (2006); Kim, Liu, and Rhee (2003).

The study result shows that size has a t-value of 7.8800, coefficient value of 0.1428 which is statistically significant at 1% level. This signifies that size positively and statistically influence earnings management (EM) of deposit money banks (DMBs). This implies that for every 1% increase in the size as represented by the natural log of total asset of DMBs, the earnings management (EM) will also increase significantly by the coefficient value. This is not surprising considering the fact that a significant proportion of bank's asset is represented by loans (facility) which is a major avenue of earnings management by banks. However, this finding serves as an evidence of accepting hypothesis three which states that size significantly relates to earnings management. This supports the findings of Jahmani and Niranjana, (2015); Aini, Takiah, Pourjalali, and Teruya, (2006); Kim, Liu, and Rhee (2003).

The result of tax rate reveals a t-value of -3.0500 and a beta value of -0.5092 with a probability value of 0.0030. This shows that for any 1% increase in tax rate, earnings management of banks are reduced significantly. The p-value signifies that tax rate is another factor that influences earnings management of deposit money banks to pay less tax. This result confirms the earlier result presented for profitability. Hence, this finding provides adequate reasons of accepting the fourth alternative hypothesis of the study which states that tax rate significantly relates to earnings management. This finding is in line with Edelstein et al, (2009).

In order to test the hypothesis that says internal control system has significant impact on earnings management of listed deposit money banks (DMBs). The regression result gives a t-value of -4.3200 with a beta coefficient of -0.7842 which is significant at 1% significance level. This shows that for every increase in the number of independent directors on the board of banks, their earnings manipulations reduce significantly. This further indicates that, the stronger the internal control system, the less convenient managers were opportune to engage in unwanted earnings management. Based on this result, the fifth alternative hypothesis is accepted. This is in line with the findings of Luo and Jeyraj, (2019) and Mahboub, (2017); Fan, Zhang and Liu, 2013; Fang, Sun, Jin; Hongxing, Jin,

Yuna; Jia, Liu, and Jones, (2011); Jahmani and Niranjana (2015); Chan, Farrell and Picheng, (2008).

5. Conclusion

This study has provided empirical evidence on whether dividend payout, profitability, size, tax rate and internal control system of deposit money banks influence earnings manipulations. This research concludes that consistent huge profit, payment of dividend despite high performing loans, size and less independent directors on the board of banks is an indication of earnings manipulation, indeed dividend payout influences earnings management of deposit money banks. Theoretically this study documents that bank directors can signal shareholders and potential investors by reporting managed earnings used to sustain dividend payout. That is why despite decline in liquidity, high risk and rate of nonperforming loans dividends were paid by banks in Nigeria. This study recommends the sustainability of the CBN directives on the payment of dividend based on thresholds. Future studies should investigate whether dividend payout based on threshold can truly inhibit earnings management of banks in Nigeria.

References

- Ahmed, A., Mohammed, A.Y., & Adisa, A.O. (2014). Loan loss provision and earnings management in Nigerian deposit money banks. *Mediterranean Journal of Social Sciences*, 5(17), 49-58.
- Ahmed, A. S., C. Takeda, & S. Thomas. (1999). Bank loan loss provisions: A reexamination of capital management, earnings management and signaling effects. *Journal of Accounting and Economics*, 28, 1–25.
- Aini, A., Takhiah, M.I., Pourjalali, H., & Teruya, J. (2006) Earnings management in Malaysia: a study on effects of accounting choices, *Malaysian Accounting Review*, 5(2), 185-207.
- Ajide, F.M., & Aderemi, A.A (2014). The effect of earnings management on dividend policy in Nigeria: An empirical note. *The Standard International Journal SIJ of Transactional and Business Management*, 2(3) 1-8.
- Akenbor, C.O & Ibanichuka, EAL (2012). Creative accounting in Nigeria. *AfricanResearch Review* 6(3) 23-41.
- Akers, M.D., Giacomino, D.E. & Bellovary, J.L. (2007). Earnings management and its implications. *The CPA Journal*, 77 (2007), 64-68.

- Ali, I.L. (2015). Do banks in Nigeria manage earnings through loan loss provisions? *Research Journal of Finance and Accounting*, 6(9), 106-112.
- Aladwan, M (2019). Accrual based and real earning management association with dividends policy the case of Jordan. *Italian Journal of Pure and Applied Mathematics*, 41, 691-707
- Alhadab, M. M & Al-own, B (2017). Earnings management and banks performance: evidence from Europe. *International Journal of Academic Research in Accounting, Finance and Management Sciences* Vol. 7(4), 134-145
- Anandarajan, A., Hassan, I., & Vivas, A. L. (2003). The role of loan loss provisions in earnings management, capital management, and signaling: The Spanish experience. *Advances in International Accounting*, 16, 45-65.
- Ardekani MA, Nejat Y. & Hashemijo, M (2012). Acquisition, earnings management and Firm's Performance: Evidence from Malaysia. *Journal of Business Studies Quarterly*, 4(1), 91-110.
- Arif, A., & Akbar, F. (2013). Determinants of dividend policy: A sectoral analysis from Pakistan. *International Journal of Business and Behavioral Sciences*, 3(9), 16-33.
- Arif, A., Abrar, A., Khan, A.M., Kayani, F., & Shah, A.S (2011). Dividend policy and earnings management: An empirical study of Pakistan listed companies. *Information Management and Business Review*, 3(2), 68-77.
- Ashbaugh-Skaife, H., Collins, D., & Kinney, W. (2007). The discovery and reporting of internal control deficiencies prior to SOX-mandated audits. *Journal of Accounting and Economics*, 44(1-2), 16-192.
- Aurangzeb, A & Dilawer, T (2012) Earnings management and Dividend Policy: Evidence from Pakistan Textile industry. *International Journal of Academic Research in Business and Social Sciences*, 2 (10), 362-372.
- Ayunku, P.E, & Timepere, E.T (2020). Real earnings management and dividend payout among nonfinancial institution in Nigeria. *Asian Journal of Economics, Business and Accounting*, 14(1), 39-54
- Baker, H., & Powell, G. (1999). How corporate managers view dividend policy, *Quarterly Journal of Business and Economics*, 38 (2), 17-35.
- Ben Othman, K. & Mersni, H. (2014). The use of discretionary loan loss provisions by Islamic banks and conventional banks in the Middle

- East region: A comparative study. *Studies in Economics and Finance*, 31(1), 106-128.
- Bernheim, B.D & Wantz, A.(1995). A tax based test of dividend signaling hypothesis. *The American Economic Review*, 85(3), 532-551.
- Beatty, E., Hong, Z., & Adam, M.B. (2002). Corporate Insurance and Debt: The Case of China. *Journal of Applied Corporate Finance*, 21(1), 87-89.
- Bornemann, S., Kick, T., Memmel, C., & Pfingsten, A. (2012). Are banks using hidden reserves to beat earnings benchmarks? evidence from Germany. *Journal of Banking and Finance*, 36(8), 2403-2415.
- Bortoluzzo, A. B., Sheng, H. H., & Gome, A. L. P. (2015). Earning management in Brazilian financial Institutions. *Revista de Administração*, 51 (2), 182-197.
- Chang, R. D., Shen, W. H. A., & Fang, C. J. (2008). Discretionary loan loss provisions and earnings management for the banking industry. *International Business & Economics Research Journal*, 7(3), 9-20.
- Chan, K C. Farrell, B. R. & Picheng, L. (2008). Earnings management of firms reporting material internal control weaknesses under section 404 of the sarbanes-oxley act. *Auditing Journal of Practice & Theory*, 27(2), 161-179.
- Chen, T. (2016). Internal control, life cycle and earnings quality: An empirical analysis from Chinese market. *Open Journal of Business and Management*, 4(2), 301-311.
- Cheng, Q, Warfield, T & Ye, M. (2011). Equity incentives and earnings management: Evidence from the banking industry. *Journal of Accounting, Auditing and Finance*, 26 (2), 317-349.
- Cohen, D. A., & P. Zarowin (2010). Accrual-based and real Earnings management activities around seasoned equity offerings. *Journal of Accounting and Economics*, 50(1), 2-19.
- Dechow, P., Ge, W. & Schrand, C. (2010). Understanding earnings quality: a review of the proxies, their determinants and their consequences. *Journal of Accounting and Economics*, 50 (2010), 344-401.
- DeAngelo, H., DeAngelo, L. & Skinner, D.J. (1994). Accounting choice in troubled Companies. *Journal of Accounting and Economics*, 17(1-2), 113-143.
- Doyle, J.T., Ge, W. & McVay, S. (2007). Accruals quality and internal control over financial reporting. *The Accounting Review* 82(5), 1141-1170.

- Doyle, J., Ge, W. & McVay, S. (2007). Determinants of weaknesses in internal control over Financial reporting and the implications for earnings quality. *Journal of Accounting Economics*, 44, 193-223.
- Edelstein, R., Liu, P.P & Tsang, D. (2009). Real management and dividend payout signals: A study for USA real investment trust. www.ire.nus.edu.sg/rem. Accessed May, 2020
- Egwuatu, P (2019). Nine Banks scale CBN's dividend hurdle, four fail. www.financialvanguard.com. Accessed May, 2020.
- El Sood, H. A. (2012). Loan loss provisioning and income smoothing in USA banks pre and post the financial crisis. *International Review of Financial Analysis*, 25, 64 -72.
- Farouk, M.A., Isa, M.A., (2018). Earnings management of listed deposit banks (DMBs) in Nigeria: A test of Chang, Shen & Fang (2018) Model, *International Journal of Finance and Accounting*, 7 (2), 49-55.
- Fang, H., Sun, H. & Jin, Y. (2009) Corporate identity, external audit and the Voluntary Disclosure of internal control. *Accounting Research*, 10, 44-52.
- Fan, J., Zhang, D. & Liu, Q. (2013) Internal Control, Auditor Industry Expertise, Accruals and Real Earnings Management. *Accounting Research*, 4, 81-87.
- Gu, Z., Lee, C.W.J. & J.G. Rosett, (2005) What determines the variability of accounting accruals? *Review of Quantitative Finance and Accounting*, 24, 313- 334.
- Hagerty, J. (2005). Fannie Mae is cited for 'deficiencies: Regulator sets for conditions to correct internal controls; Office of Compliance created. *Wall Street Journal*, May 9, page. A.3.
- Hepworth, S.R. (1953). Smoothing periodic income. *The Accounting Review*, 1, 32- 39.
- He, W., Lilian, NG., Zaiats, N & Zhang, B. (2012). Do dividend signal earning manipulation? www.ccf.org.cn/cicf/2012/. Accessed May, 2020.
- Ibrahim, I., Bala, H. & Garba, J (2014). Impact of earnings management on dividend policy of listed nonfinancial companies in Nigeria. *Accounting Frontier* 17(2) 20-37.
- Jahanzab, H., Ali, A., Sadiq, T (2012) Earnings management and dividend policy: Empirical evidence from Pakistan listed companies. *European Journal of Business and Management* 4(1) 83-90.
- Jahmani, Y & Niranjana, S (2015). Earnings management, weak internal control and firm size. *Accounting and Taxation*, 7(2), 51-64.

- Jayeola, O., Taofeek, A.O., & Toluwalase, A.O. (2017). Audit quality and earnings Management among Nigerian listed deposit money banks. *International Journal of Accounting Research*, 5(2), 1-5.
- Jungandi, M.T., & Mulyana, R.A., (2018). The influence of creative accounting and other factors to dividend payout ratio. *Jurnal Bisnis Dan Akuntansi*, 20(1), 51- 58.
- Jia, W., Liu, L & Jones, F. (2011). Firm value and earnings management after internal control weakness remediation. *International Journal of Business Research*. 11(5), 22-34.
- Kanagaretnam, K., Lobo, G. J., and Yang, D. (2005). Determinants of signaling by banks through loan loss provisions. *Journal of Business Research*, 58(3), 312- 320.
- Khanna, M (2015). Earnings management and dividend policy of Indian companies. *International Journal of Multidisciplinary Research and Development*, 2(1), 352-356
- Kim, Y., Liu, C., & Rhee, S. G. (2003). The Effect of Firm Size on Earnings Management. *Working paper*, College of Business Administration the University of Hawaii.
- Kothari, S.P. Leone, A.J. & Wasley, C.E. (2005). Performance matched discretionary accrual measures. *Journal of Accounting and Economics*, 39, 163-197.
- Kothari, S. P., Mizik, N., and Roychowdhury, R. (2016) Managing for the Moment: The Role of Earnings Management via Real Activities versus Accruals in SEO Valuation. *The Accounting Review*, 91, 559-586.
- Larcker, D., & Taya. B. (2016). Corporate governance matters: A closer look at organizational choices and their consequences. 2nd edition. US: Pearson Education.
- Lee, C., Li, L. & Yue, H. (2006). Performance, Growth and Earnings Management. *Review of Accounting Studies*, 11 (2-3), 305-334.
- Lin, O. C., Thaker, H. M. T., & Khaliq, A. (2018). The determinants of dividend payout: Evidence from the Malaysian property market. *Iqtishadia Jurnal Kajian Ekonomi Dan Binis Islam*, 11(1), 27-46.
<https://doi.org/10.21043/iqtishadia.v10i2.2863>

- Liu, N (2011). The role of dividend policy in real earnings management. Accounting Dissertations, page 9
www.scholarwork.9su.edu/accountancymss. Accessed May, 2020
- Luo, J. & Jeyaraj, S.S. (2019). Board characteristics and earnings management: Empirical analysis of UK listed companies, *European Journal of Accounting, Auditing and Finance Research*, 7(5), 27-54
- Mahboub, R., (2017). Main determinants of financial reporting quality in the Lebanese banking sector. *European Research Studies Journal XX (4B)*, 706- 726.
- McDonald, I. & Francis, T. (2005). AIG to restate over four years to fix errors; Move will reduce net worth of giant insurer by \$2.7 Billion; Range of accounting issues grows. *Wall Street Journal*, May 2, page C.1.
- Moghri, A.E., & Galoghah (2013). Effects of earnings management on dividend policy: evidence from Tehran stock exchange. *World of Science Journal I(14)* 58-65.
- Mohammad, W.M., Wasiuzzaman, S., & Zaini, R.M. (2011). Panel data analysis of the relationship between earnings management, bank risks, loan loss provision and dividend per share. *Journal of Business and Policy Research*, 6(1), 46-56.
- Moradzadehfard, D.M and Babaie, S.H (2012). An empirical investigation in Tehran stock exchange listed companies. *Research Journal of Business Management*, 6(4), 144-152.
- Nguyen, T.T.N and Bui, P K (2019). Dividend policy and earnings quality in Vietnam. *Journal of Asian Business and Economic Studies* 26(2), 301-312
- Nkrumah, E. N. K., Ofori, D. N., Anaba, O. A., & Serwah, A. L. (2018). Determinants of Dividend Policy among Banks listed on the Ghana stock exchange. *Research Journal of Finance and Accounting*, 9(4), 11–19.
- Pandey, N. S., & Mansuri, B. B. (2017). An empirical analysis on determinants of dividend policy of fmcg sector in India. *International Journal of Economics, Commerce and Management*, V(7), 267–288.
- Ross, S.A (1977). The determination of financial structure: The incentive signaling structure. *Bell Journal of Economics* 8, 23-40.
- Savov, S (2006). Earnings management investment and dividend payments. Working paper. University of Maheim, Germany.
- Silalahi, T. (2017). Determinants of financial reporting accountability and its implication on financial reporting quality: An empirical study of financial

- statement in North Sumatra Province, Indonesia, *International Journal of Economic, Commerce and Management* V(3), 159-172.
- Shah, A.S.Z., Yuan, H. & Zafar, N. (2010). Earnings management and dividend policy an empirical comparison between Pakistani listed companies and Chinese listed companies. *International Research Journal of Finance and Economics*, 35, 2010.
- Srikanth, P., Prasad, M.N (2015). Earnings management and dividend policy: Empirical evidence from India. *Nitte Management Review*, 9(1), 14-30.
- Uwuigbe, U (2017), Disclosure quality and earnings management of selected Nigerian Banks. *Journal of Internet Banking and Commerce*, 22(8), 1-12.
- Watts, R.L. and Zimmerman, J.L. (1990). Positive accounting theory: a ten year perspective. *The Accounting Review*, 65(1),131-156.
- Yahaya, O.A., Kutigi, U.M., & Mohammed, A. (2015). International financial reporting standards and earnings management behaviour of listed deposit Money Banks in Nigeria. *European Journal of Business and Management*, 7(18), 70-81.